Development Co-operation Report 2024

TACKLING POVERTY AND INEQUALITIES THROUGH THE GREEN TRANSITION



OECD

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Preface

The proportion of the global population living in extreme poverty declined after the Sustainable Development Goals were launched, from 10.8% or 787 million people in 2015, to 8.4% or 689 million people in 2019. The COVID-19 pandemic was a setback for further progress, and based on the current trajectory, 7.0% of the world population, nearly 575 million people, will still be living in extreme poverty in 2030. In parallel, the impacts of climate change will disproportionately fall on the most vulnerable, and threaten to push an additional 132 million people into extreme poverty.

Development assistance, as a stable and reliable source of financing for developing countries, has a key role to play, in accelerating progress in poverty reduction and development, supporting climate adaptation, and leveraging the green transition to support resilient, sustainable and inclusive growth.

Both Official Development Assistance (ODA) and climate finance for developing countries have reached record levels despite significant pressure on public budgets. Preliminary figures show that total ODA reached USD 223.7 billion in 2023, setting a record for the fourth consecutive year. Climate finance from official bilateral and multilateral sources reached USD 115.9 billion in 2022, surpassing the USD 100 billion pledge for the first time.

The OECD *Development Co-operation Report 2024* provides recommendations for targeted policy actions to optimise the contributions of this financing for sustainable development:

- Boosting the effectiveness of available financing by better integrating poverty reduction and climate in programme design and evaluation;
- Building capacity in developing countries' tax systems to enhance domestic resource mobilisation;
- Expanding skills development opportunities for women to increase their participation in labour markets and their ability to participate in and benefit from the green transformation; and,
- Fostering inclusive labour markets and decent work conditions by supporting labour formalisation and collective bargaining rights.

The OECD is uniquely positioned to help align development policy's support for poverty reduction and climate action by drawing on expertise from across the organisation. Our ability to collect and analyse data, promote inclusive dialogue, and develop best practices and standards, can assist development partners to identify, implement and monitor policy innovations aimed at improving the effectiveness and efficiency of development cooperation.

At the Summit for a New Global Financing Pact in 2023, countries committed to ensuring that no country should have to choose between addressing climate change and addressing poverty reduction or other development challenges. The Paris Pact for People and Planet – 4P – Secretariat, hosted by the OECD, is one example of mobilising the OECD's full range of expertise to support countries in translating commitments into action to advance climate action and sustainable development.

The OECD Development Co-operation Report 2024 underscores this integrated approach, providing actionable recommendations where development co-operation policy can make a significant impact for a more resilient, inclusive and sustainable future.



Mathias Cormann,
OECD Secretary-General

Foreword

For more than 60 years, the Development Co-operation Report has brought new evidence, analysis and ideas to the Development Assistance Committee (DAC) and the international community more broadly, shaping policy reform and behaviour change, and promoting best practices in development co-operation. Each year, the report analyses a fresh policy issue that is timely, relevant or challenging for development co-operation policy and finance.

Drawing on the latest research and insights from practitioners, academia and civil society experts, this 61st anniversary edition focuses on the enduring poverty and inequality reduction agendas in the context of the green transition imperative; documents the challenges confronting DAC members and other development co-operation actors as they strive to reconcile them; and proposes a number of solutions for leveraging positive synergies.

The report contains an overview and two main parts. The overview presents key messages on the opportunities and challenges for development co-operation providers to ensure official development assistance (ODA), their key policy instrument, remains fit for purpose in a rapidly changing global context. Part I highlights the urgency, scale and complexity of growing poverty and inequalities and presents policy solutions to address the situation and accelerate progress to meet SDG 1 (ending poverty) and SDG 10 (reducing inequalities). Part II focuses on policies and good practices to end poverty and reduce inequalities in relation also to policy synergies with just green transitions. The two parts contain analytical chapters by think tanks, researchers, development experts, civil society organisations, political leaders and OECD teams as well as “In my view” articles by leaders in their fields.

Acknowledgements

The 2024 edition of the OECD Development Co-operation Report was prepared under the overall leadership of Pilar Garrido, OECD Director for Development Co-operation. Ida Mc Donnell, Head of the Research Unit of the Development Co-operation Directorate (DCD), provided strategic guidance and is the managing editor of the report. The report was designed and produced by a core group, including the Poverty and Inequalities team, comprised of: Eleanor Carey and Julie Seghers on concept development and co-ordination along with Isabel Davis, Harsh Desai, Carolina Guerra, Simone Hegge, Ikya Kondapolu, Olivia Lalonde, Danielle Mallon, Andrew Park, Rahul Malhotra, Frederik Matthys, and José Suárez Sarrazin. This year's reported benefitted from the collaboration of Jenny Baracaldo Fernández, Joëlline Bénéfice and Ikya Kondapolu, managing the *Development co-operation TIPs – Tools, Insights, Practices*.

Special thanks go to all the contributing authors who are named throughout the report. Authors' acknowledgements are listed within their contributions. The team is very grateful to the Directorate's management team and colleagues across DCD who contributed to conceptual development, helped identify authors and advisors, reviewed content and gave strategic advice, with a special call out to the Environment and Climate and Gender teams. Thanks also go to collaborating OECD Directorates, in particular, the Environment Directorate, OECD Development Centre, the Centre for Tax Policy and Administration, the Directorate for Financial and Enterprise Affairs, the Directorate for Employment Labour and Social Affairs, the Sahel and West Africa Club and the OECD Horizontal Project *Net Zero+: Climate and Economic Resilience in a Changing World*.

Members of the DAC and the DAC Chairman, Carsten Staur, provided direction and guidance at the conceptual and later stages of the report, notably through comments and feedback on the concept note at a formal Committee meeting in December 2023, during bilateral and collective consultations, at a multi-stakeholder workshop on preliminary findings and key themes in April 2024, and progress reports presented to the DAC in May and July 2024, through responses to the first OECD survey on DAC member approaches to targeting poverty and inequalities in development co-operation – sincere thanks for this active engagement, and support for the report's launch in July 2024.

Members of the OECD DAC's Community of Practice on Poverty and Inequalities (CoP-PI)'s core group provided extensive feedback throughout the process, including through the EU-AFD Research Facility on Inequalities' Strategic Committee meeting in April and the international conference on Inequality, Work and Nature in South Africa in November 2023 - members include representatives from Australia, Austria, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Ireland, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

We are deeply grateful to Susan Sachs for editing this year's report, to Meral Gedik and Ola Kasneci for authoring layouts and work on the manuscript, to Stephanie Coic for cover design and graphics, to Polly Meeks for research support, to Jennifer Allain for proofreading; the broader communication team Henri-Bernard Solignac-Lecomte, Joelle Bassoul, Karena Garnier, Dzidedi Azumah and Jessica Voorhees, Catherine Bremer, Anne-Lise Prigent and their colleagues in the OECD Communications Directorate, for editorial support and publishing, and financial administration by Sylvie Walter and Asier Ramirez de la Piscina.

Editorial

We feared the worst and yet the recent data on poverty has hit hard. Thirty years of progress in eradicating extreme poverty have been derailed by the Covid-19 pandemic, ensuing economic shocks and debt distress, by war and conflict, and, as predicted, by the serious effects of climate change.

Depending on who counts and how, between 700 million and 2 billion people live in extreme, absolute or multidimensional poverty in low- and middle-income countries. Poor households have insufficient assets to make a livelihood for themselves. Billions more could fall back into poverty due to uninsured exposure to illness, lack of social protection, missed education and higher cost of living.

At the same time, media images of a planet “on fire” or “drowning” underscore the urgency of climate action. By 2030, if no actions are taken, climate shocks will further exacerbate the plight of hundreds and millions of poor households living in vulnerable regions like sub-Saharan African and South Asia where extreme poverty is concentrated.

Providers of development co-operation are stepping up to the challenge, increasing their financial and technical support for green transitions in partner countries, towards low-carbon, climate-resilient economies. Likewise, they must respond to the rising costs of climate adaptation and help countries manage the disruptive risks of green transitions, including job losses in carbon-intensive and polluting sectors, or the impact of mining for critical minerals on the health and environment of local communities.

The OECD has always upheld the banner of better policies for better lives around the world, including delivering on the sustainable development goals. Our compass for getting there has not changed: to help uplift the poorest and most vulnerable, foster transparency, and hold ourselves accountable. Yet, in the face of pressing environmental challenges, our partners are asking hard questions: where is the steadfast commitment to reducing poverty and inequality? Where is the promised support amidst the escalating climate crisis? How can green transitions benefit everyone, including the poorest and most vulnerable?

As a response, this edition of the *Development Co-operation Report 2024* provides a framework for putting poverty eradication and the reduction of inequalities at the centre of all development and climate actions. True tests for members of the OECD’s Development Assistance Committee and other providers of development and South-South co-operation will be increasing the share of concessional development finance for poverty and inequality-focused sectors in the countries and regions that need it the most. This includes creating policy synergies across green transition sectors and complementary socio-economic policies, improving access to tailored financial support aligned with partners’ national plans for development and just green and energy transitions, enabling voice and agency for communities, and ensuring that human rights and environmental and social standards are rigorously upheld.

Managed well, the green transition offers transformative opportunities for sustainable, socio-economic development in low- and middle-income countries. The shift to renewable energy, green technologies, protected biodiversity, and climate-smart agriculture and infrastructure can create new jobs and enable universal access to affordable energy. This is particularly crucial in a world where, according to the International Energy Agency, 760 million people still lack access to electricity. Green technologies can stimulate job creation across various sectors, from renewable energy production to sustainable farming

and eco-friendly construction. By protecting biodiversity and promoting climate-smart agriculture, we can ensure the resilience of ecosystems that underpin so many livelihoods, particularly in rural areas.

In partner countries, providers must take better account of the inseparable links between poverty, inequality, and climate change. As the report's many examples illustrate, by addressing these interwoven challenges, they can produce climate-resilient outcomes that leave no one behind, ensuring shared benefits in the green transition. Particular attention must be paid to the impacts of energy transitions on labour markets, which can lead to new inequalities. Women, in particular, stand at a precarious juncture: because of historical disparities in education and segregation in labour markets, they are overrepresented in low-paid, informal jobs – typically in agriculture – that are the most likely to be negatively affected. A fair transition is therefore one that also pursues ambitious objectives in terms of formalising economies and redressing gender imbalances.

As development co-operation is called upon to meet an increasing number of challenges, let us reaffirm our unwavering commitment to placing poverty and inequality at the forefront of the sustainable development agenda. Supporting just green transitions that leave no one behind is not merely a moral imperative but a strategic investment in a stable, prosperous, and equitable future for all.



María del Pilar Garrido Gonzalo,

Director,

Development Co-operation Directorate, OECD



Carsten Staur,

Chair,

Development Assistance Committee

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Abbreviations and acronyms

AF	Adaptation Fund
ACET	African Center for Economic Transformation
ASEAN	Association of Southeast Asian Nations
BMZ	Federal Ministry of Economic Cooperation and Development (Germany) *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*
CIF	Climate Investment Fund
COVID-19	Coronavirus disease
CSO	Civil Society Organisations
DAC	Development Assistance Committee
DRM	Domestic Resource mobilisation
EC	European Commission
EU	European Union
FCAS	Fragile and Conflict-Affected Societies
G20	Group of Twenty
GCF	Green Climate Fund
GDP	Gross domestic product
GEF	Global Environment Facility
GPG	Global public good
IEA	International Energy Agency
IFPRI	International Food Policy Research Institute
IPRI	Indigenous Peoples Rights International
ILO	International Labour Organization
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
JETP	Just-Energy Transition Partnerships
LIC	Low-income country
LMIC	Lower middle-income country

LT-LEDS	Long-term emission development strategies
MIC	Middle-income country
MPI	Multidimensional Poverty Index
NAP	National adaptation plan
NBSAPs	National Biodiversity Strategies and Action Plans
NDC	Nationally determined contribution
NGO	Non-governmental organisation
NRGI	Natural Resource Governance Institute
ODA	Official development assistance
RBC	Responsible business conduct
RCCE	Risk communication and community engagement
SDG	Sustainable Development Goal
SIDS	Small Island Developing States
SME	Small and medium-sized enterprise
SSTC	South-South and Triangular Cooperation
TADAT	Tax Administration Diagnostic Assessment Tool
TOSSD	Total official support for sustainable development
UMIC	Upper middle-income country
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
VAT	Value-added tax
WHO	World Health Organization
WFP	World Food Programme

Executive summary

Addressing the crises of poverty, inequalities and the climate

In the wake of the COVID-19 pandemic, global rates of poverty and inequalities have increased. Recent shocks and crises have derailed 30 years of progress in eradicating poverty, and the world's poorest people and regions are disproportionately bearing the brunt and cost of climate catastrophes, losing livelihoods and savings. Climate change impacts will further entrench poverty and inequalities and drive an estimated additional 132 million people into poverty by 2030. Ending global poverty and reducing inequalities are interlinked. Now is the time to address these issues, before these goals become harder and more costly to reach in the face of impacts of climate-induced extreme weather, shifting agriculture patterns, rising sea levels, and potential mass migration between and within countries.

Keeping development co-operation focused on poverty and inequalities reduction

Official development assistance (ODA) has been responsive to emerging crises and expanded global objectives. Ending poverty and reducing inequalities, though an explicit priority in development co-operation policies and ODA allocations, vies with competing demands and other priorities for strained international development budgets. Having an agreed framework for measuring global development co-operation allocations targeting poverty and inequalities could help secure greater focus and finance for these objectives. Using the less conventional but more nuanced measure of allocations per person in extreme poverty shows that global allocations of bilateral ODA in 2022 underestimated poverty levels in least developed countries, where poverty and inequalities are concentrated, and overestimated them in wealthier middle-income countries.

Integrating climate and development action is a work in progress. The relationship between sustainable development and climate action has been limited by siloed development and climate strategies and a lack of clarity around when climate action is beneficial for key development goals and, critically, when it is not. The development co-operation sector has a rich repository of good practices, experience and insights on aligning to partners' priorities and policies and maximising synergies. It can work from these to revitalise commitments and scale up impact on poverty and inequality reduction through proven and interlocking policy solutions and innovation.

Time to recalibrate development and climate action to serve people and planet

In the changing global context, current assumptions on what it takes to address poverty and inequalities will need to adapt. Social safety nets and social protection, rural development, support for informal workers, advancing gender income equality, and designing equitable revenue generation are some of the pathways and policy solutions to systematically accelerate progress with ending poverty and reducing inequalities.

Rural development, especially by focusing on agricultural productivity and creating jobs in non-agricultural industries in rural areas, is critical. Support for informal workers can advance gender equality, and support for labour formalisation can help reduce working poverty and improve working conditions. Strengthening tax administration generates sustainable revenue for policies addressing poverty and inequalities.

Emerging lessons from climate transitions suggest that supportive policies that work for reducing poverty and inequalities are needed as a complement to policy shifts in green sectors such as energy, the environment and economic growth. Too narrow a focus on transition-specific sectors risks exacerbating existing levels of poverty and inequalities and more holistic policy approaches, targeted at where the three the goals overlap and have synergies can make a real difference. As examples, policies to promote climate-smart agriculture systems (e.g. crop diversification) can help improve crop yields, raise incomes and mitigate the effects of climate change in vulnerable regions. Social protection mechanisms can be expanded to compensate workers in sectors disrupted by green transitions.

Ways forward to tackle poverty and inequalities through the green transition

Effective action and responses demand new approaches to policies, processes and financing through development co-operation and climate finance. These fall into three broad themes. This report proposes a checklist of actions in each for the international development community:

1. **Raise ambition and focus on ending poverty and reducing inequalities with better targeting, good practice standards and updated toolkits.** Define a shared vision for ending poverty and reducing inequalities through the green transition by prioritising policy solutions for these intersecting challenges based on robust theories of change, data and evidence, and raising the ambition of poverty goals by targeting absolute as well as extreme poverty.
2. **Increase budgets, synergies, the accessibility and effectiveness of development and climate finance.** Accelerate reforms to remove constraints on developing countries' access to finance, leverage global action to resolve debt and tax-related drivers of inequalities, and implement responsible business conduct recommendations to improve social and sustainable standards in global supply chains.
3. **Champion inclusive, rights-based approaches and standards for just green transitions.** Support meaningful community participation, respect for rights and global climate justice in transition partnerships, programmes and projects, including embedding gender analysis in nationally determined contributions.

The compounding and interconnected challenges of rising poverty and inequalities and climate change offer an opportunity for international development actors to put people at the centre of the green transition and advance all poverty, equality and climate actions simultaneously. The international community comes together in 2024 and 2025 to accelerate progress in delivering Agenda 2030 – from the 2024 Summit of the Future to the Fourth International Conference on Financing for Development and the World Social Summit in 2025 – and agree on a new global climate finance goal – the "New Collective Quantified Goal" at COP29. It is crucial for development co-operation actors to show up armed with bold and solid new commitments, innovative ideas for collective action, and an appetite for reform so as to reinvigorate foundational commitments to end poverty and reduce inequalities and action for social and economic transformation for a fairer and greener future.

Overview: Recalibrating development co-operation to tackle poverty and inequalities, including through the green transition

The 2024 *Development Co-operation Report* addresses three different but connected issues: the shifting patterns of poverty and inequalities, how climate change is exacerbating both, and the potential of green transitions to serve the core mission of reducing poverty and inequalities. This overview highlights new OECD analysis and diverse political, expert, practitioner, and civil society research, data and insights. It provides policy makers with concrete ways of delivering on their commitments to improve the lives of billions while fostering green, just transitions around the world. Ways forward for development co-operation include raising its ambition and focus on tackling rising poverty and inequalities through evidence-based policy solutions, ensuring that development and climate finance are inclusive, equitable, environmentally sound, and are more effectively aligned with the overarching objectives for official development assistance to end extreme poverty and reduce inequalities.

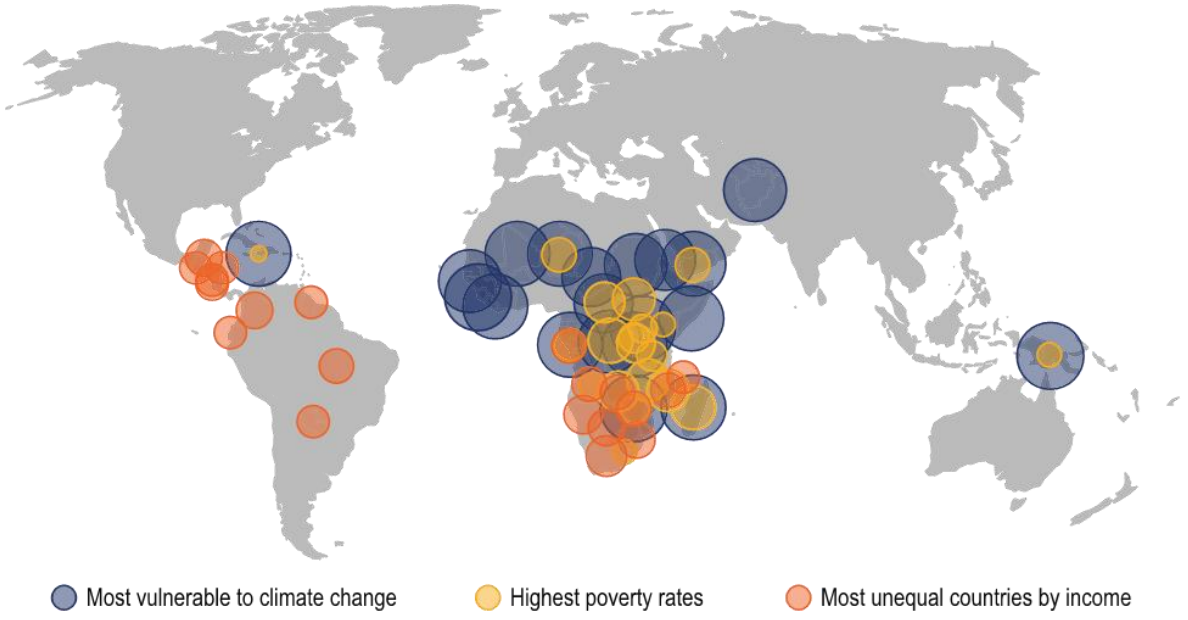
Poverty and inequalities are rising with the climate crisis

Recent shocks and crises have derailed some 30 years of progress in eradicating poverty (Yusuf et al., 2023[1]). The world's poorest people and regions are bearing the greatest brunt and cost of climate catastrophes, losing livelihoods and savings and being forced to move from their homes (World Bank, 2023[2]).

The impacts of the climate crisis and rising poverty and inequalities are cumulative, interlinked and worsening in the places where they converge (Figure 1) (World Bank, 2022[3]; IPCC, 2022[4]; Guivarch, Taconet and Méjean, 2021[5]; UN DESA, 2020[6]). The world's 46 least developed countries (LDCs), home to about 1.1 billion people, have contributed minimally to CO_2 emissions,[1] yet over the last 50 years, 69% of worldwide deaths caused by climate-related disasters occurred in LDCs (UNCTAD, 2023[7]). Conversely, the wealthiest 1% (in terms of income) produced 15% of global emissions in 2019 (Stockholm Environment Institute, 2024[8]).

Climate change impacts will further entrench poverty and inequalities and drive an estimated additional 132 million people into extreme poverty by 2030 unless appropriate action is taken (Jafino et al., 2020[9]). The recent rise in conflict and violence globally brings pessimism to the outlook (UN Secretary-General, 2024[10]). In 2022, about 40% of global extreme monetary poverty was concentrated in fragile and conflict-affected contexts, and this is likely to increase to 60% in 2030 (Yusuf et al., 2023[1]). Poverty and inequalities are root causes of fragility and instability, while conflicts themselves drive increases in poverty and inequalities, stifle economic growth, disrupt trade, and drive refugee outflows (OECD, 2022[11]; Novta and Pugacheva, 2021[12]).

Figure 1. Overlapping dimensions of vulnerability can be seen in the 20 countries with the highest poverty, income inequality and climate vulnerability rates in 2022



Notes: The size of each bubble corresponds to the values of each indicator; for example, larger yellow bubbles indicate higher poverty rates. Sizes are not comparable between indicators. Data from the ND-GAIN index, a composite of climate vulnerability and climate readiness, are from 2021. The most unequal country by income refers to the Gini coefficient; the highest poverty rates are measured at the USD 2.15 extreme poverty line.

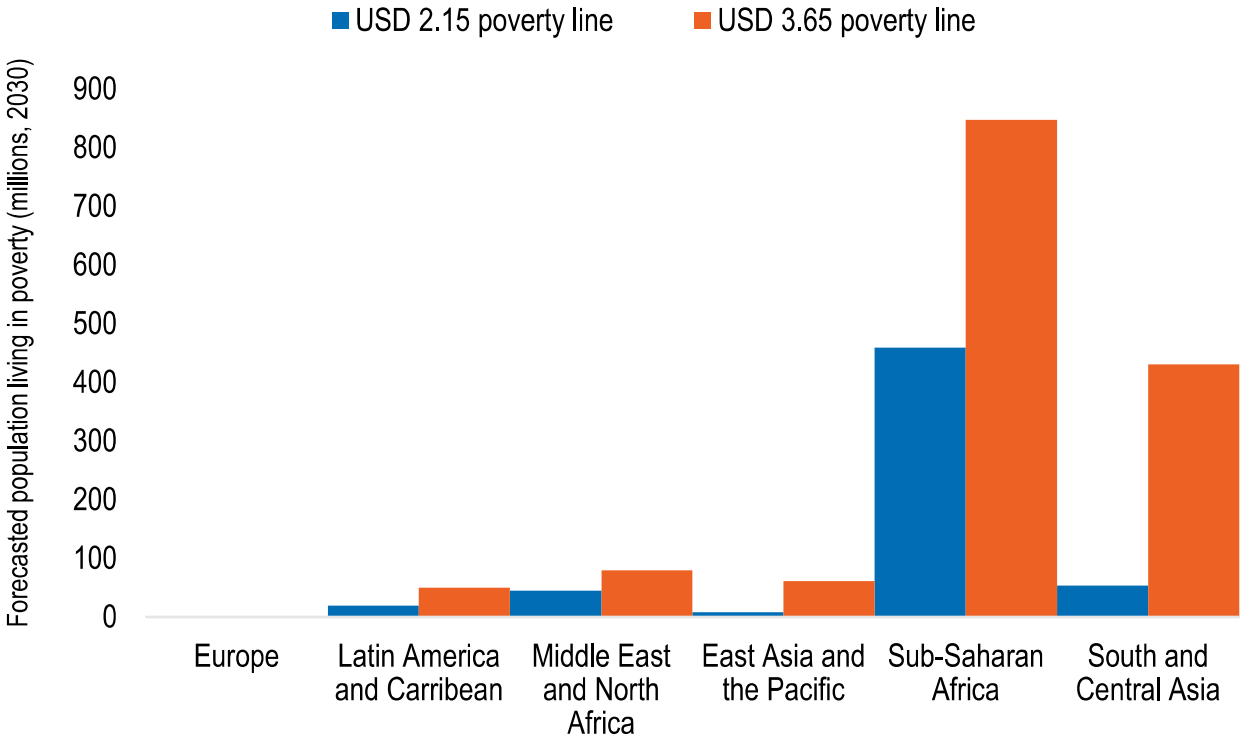
Sources: World Bank (2024[13]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ND-GAIN (2021[14]), *ND-GAIN Notre Dame Global Adaptation Initiative: Country Index* (database), https://gain.nd.edu/our-work/country-index; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org.

A pessimistic outlook for meeting Sustainable Development Goals 1 (no poverty) and 10 (reduced inequalities)

Global inequality started to rise in 2020 for the first time in a generation due to the COVID-19 pandemic (World Bank, 2022[3]), and the outlook for reversing the trend is fluid. Historical progress on between-country inequality was largely driven by the fast growth of per capita income in the People's Republic of China and other middle-income countries (MICs) (Gradín, 2024[16]; Kanbur, Ortiz-Juarez and Sumner, 2024[17]). But this is likely to rise again if average income gains for lower income economies (e.g. sub-Saharan African countries) fail to outpace income gains for middle-income economies (e.g. China and India) (See Chapter 3). Meanwhile, within-country inequality is growing and could become the dominant component of inequalities in the future, with sub-Saharan Africa being the region with the highest income inequality (See Chapter 2) (UNU-WIDER, 2023[18]).

By 2030, extreme poverty is forecasted to be largely concentrated in sub-Saharan Africa, where it is estimated that over 450 million people will be living under the USD 2.15 per day extreme poverty line and almost 850 million in absolute poverty (under USD 3.65) (Figure 2). At least a further 400 million people are forecasted to be living in absolute poverty in South Asia in 2030. Sub-Saharan Africa is also home to the largest number of people exposed to high risk from extreme weather events while African countries are the most vulnerable to climate shocks by virtue of their low income, lack of social protection and other dimensions of poverty (AUC/OECD, 2023[19]). After a decade of stagnation, growth in per capita income (World Bank, 2024[20]) will be too low over the next decade to sustain efforts to end extreme monetary poverty by 2030 and maintain gains already made, especially in sub-Saharan Africa.

Figure 2. Where will the poor live in 2030?



Notes: MENA = Middle East and North Africa; the USD 2.15 poverty line is considered extreme poverty; the USD 3.65 poverty line is considered absolute poverty.
Sources: World Bank unpublished staff estimates (2024); World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org.

Managing for the disruptive risks of green transitions

Transitions are framed in a variety of ways, with some overlap and confusion between what are termed green, climate, net zero and energy transitions. The United Nations (UN) defines green transitions as the comprehensive and systemic shift towards environmentally sustainable and climate-safe practices across various sectors (United Nations, 2022[21]). They are underpinned by the opportunity to capitalise on the climate and sustainable development crises for more long-term transformative change of societies and economies (see Olivier De Schutter's "In my view" article). More specifically, climate policies for mitigation (reducing greenhouse gas emissions) and adaptation (adapting to the intensifying impacts of climate change and building climate resilience systemically) are at the forefront of green transition objectives (OECD, 2023[22]). Policies relating to biodiversity loss, environmental degradation and the collapse of ecosystem services are increasingly considered (OECD, 2023[23]).

All transitions are inherently disruptive. The global energy transition, for example, has far-reaching repercussions: countries whose economies rely on fossil fuel extraction face the prospect of lower demand and countries producing minerals needed for clean technologies risk the negative impacts of an unregulated mining boom (see Chapter 29). Indeed, lower global demand for oil and gas in a moderate-paced energy transition could wipe out USD 8 trillion in government revenues (Prince, 2023[24]). Without supportive social and economic policy measures, there could be widespread, unplanned and abrupt job losses in carbon-intensive and polluting sectors, with nearly 78 million jobs destroyed, relocated or redefined (ILO, 2023[25]). In addition, OECD research notes that job destruction and creation as a result of energy transitions could lead to new spatial and gender inequalities (OECD, 2023[26]). Disruptive localised impacts such as the closure of fossil fuel-related industries could worsen territorial and geographical inequalities.

Political economy risks are also in play: elite capture of revenues generated by transitions are likely to exacerbate inequalities (Ahmed et al., 2022[27]; Oxfam, 2014[28]; ECLAC, 2018[29]), and vested interests and political factions within countries can thwart action. There have been extended strikes, protests and litigation against transition mineral projects in Peru, for instance (Jones Day, 2022[30]; Surma, 2024[31]), as well as in Mexico (Bnamericas, 2024[32]), Nigeria (Chinery and George-Ikoli, 2023[33]; Dairo, 2023[34]), Panama (Kahn, 2024[35]) and South Africa (Al Jazeera, 2023[36]).

The pressing need for the global green transition is complicating developing countries' ongoing fight against rising poverty and inequalities and putting increasing strain on their resources. Developing countries must pursue climate mitigation and adaptation goals on top of social and economic goals and in the context of rapid population growth and urbanisation in some regions such as Africa. One estimate suggests that in 40 years, if annual per capita emissions for Africa as a whole reach the current level of countries such as Egypt (2.5 tonnes) and Botswana (3 tonnes), the increase in CO_2 emissions on the continent would be so large as to entirely offset even a 60% decrease from today's levels in China (Goldstone, 2021[37]). The costs of climate adaptation in developing countries are substantial and increasing to between 10- and 18-times current levels of international adaptation finance (UNEP, 2023[38]).

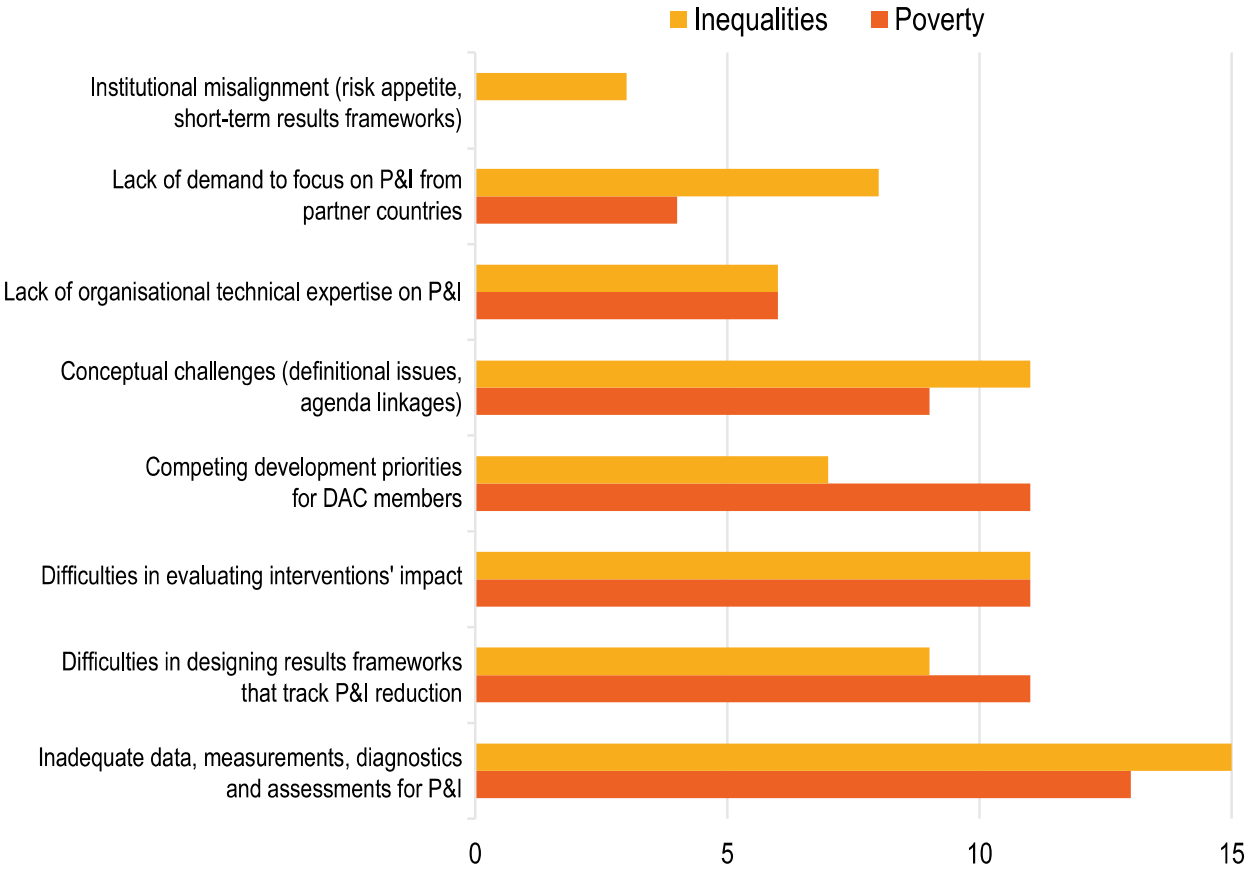
At the same time, more than half of low-income countries (LICs) and MICs are already in or at high risk of debt distress (see Chapters 2 and 3) (World Bank, 2023[39]; UNDP, 2024[40]). Not only have debt servicing levels risen dramatically, but shrinking fiscal space and smaller public budgets leave public services, social safety nets and social protection unfunded (see Chapters 2 and 3). The United Nations estimates that the average LIC and MIC have net interest payments of over 8% of government revenue in 2024 (UNDP, 2024[40]). Multilateral development banks have sought to alleviate funding constraints by providing additional loans, yet net external flows were negative in 2022. The poorest countries need new financing to close funding gaps on all levels, from delivering public services to financing climate adaptation and transition plans (see Chapter 25; (Diwan and Harnoys-Vannier, 2024[41]).

International co-operation is at risk of losing its focus on poverty and inequalities reduction

International agendas to foster a just and equitable world that leaves no one behind, highlight the core goals of eradicating poverty and reducing inequalities. These objectives feature prominently in the OECD Development Assistance Committee's (DAC) current mandate (OECD, 2024[42]) and in the latest DAC High Level Meeting communiqué, in which the DAC committed to helping partner countries manage potential trade-offs involved in reducing poverty and inequalities in the process of achieving sustainable development and net zero transitions (OECD, 2023[43]). Official development assistance (ODA) is called on to support partner countries to achieve and balance these overlapping goals. While it is not the sole resource available for LICs or MICs, and providers are not always meeting their international commitments – such as the UN target of providing 0.7% of gross national income as ODA (see Chapter 14, chapter 8 in (OECD, 2023[44]) and (OECD, 2024[45])) - ODA is a stable and predictable source of external funding for sustainable development.

Recent trends show that ODA is rising and responsive to crises (OECD, 2024[45]) even though domestic public budgets are under strain due to global health, economic and security shocks; domestic political pressures for more inward-focused and protectionist policies; and a range of other foreign and domestic demands, the most recent being increasing defence budgets (Pugnet, 2024[46]). A top challenge for development agencies is staying focused on long-term development strategies and aligning with partner country priorities while also targeting more funding for poverty and inequalities programming (see Chapters 14 and 12) (OECD, 2023[44]). In addition to navigating these pressing priorities in governmental agendas, development agencies face several challenges in translating explicit high-level commitments to reducing poverty and inequalities into programming (Figure 3).

Figure 3. Main reported challenges that may limit development co-operation's prioritisation on reducing poverty and inequalities in partner countries



Notes: The figure reflects a sample of 24 member countries. The list of challenges was provided to members for selection.
Source: OECD analysis (2024) based on a survey to DAC members on approaches to targeting poverty and inequalities in development co-operation.

The development co-operation sector has a rich repository of experience and insights around aligning policies and maximising synergies that it can work from. With enhanced knowledge sharing, development providers can leverage lessons learnt and good practices, benefit from peer learning through sharing analyses and research, and maximise collaboration to scale up impact on poverty and inequality reduction. Members' good practices show results on an array of strategic policy priorities from productive and decent employment opportunities to climate adaptation, productivity among smallholder farmers, and supporting nationwide social health protection systems. Members are also actively addressing gender-based inequalities by establishing innovative funding channels for women's rights organisations, promoting the education of marginalised girls, and implementing climate-smart agricultural programmes designed to improve the economic status of women.

However, while DAC members consider the reduction of poverty and inequalities as an explicit objective when allocating ODA, few monitor how much actually targets these objectives (see Chapter 12), and there is no common or comprehensive method for guiding and measuring ODA allocations to poverty and inequalities (see Chapter 14). Based on commonly used measures such as the relative share and volume of ODA by region and country income groupings as well as the ODA allocations to key sectors that matter for reducing poverty and inequalities as defined by SDG indicator 1.a.1,[2] ODA analysis suggests that development co-operation could better target needs arising from poverty and inequalities and relevant sectors (Box 1).

Box 1. Official development assistance allocations targeting poverty and inequalities: Key findings

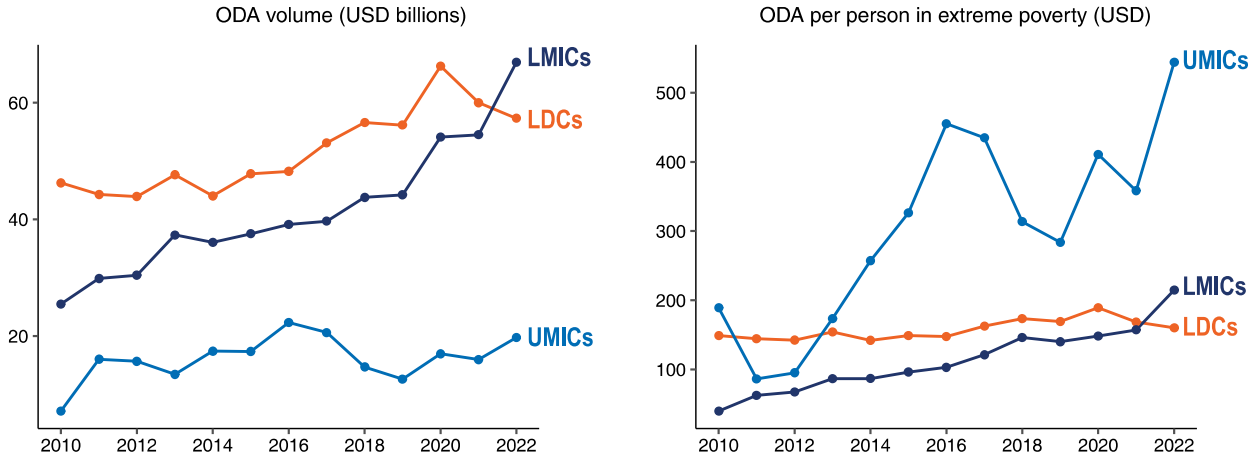
- Less than one of every ten US dollars, or 9.5%, of Development Assistance Committee (DAC) members' bilateral official development assistance went to grants for **poverty-reducing sectors** in 2022 (Sustainable Development Goal indicator 1.a.1, which tracks resources to poverty reduction programmes), amounting to USD 19.6 billion (see Chapter 14). This was a decline from the 11.5% share in 2021. Such aid has become increasingly concentrated in basic health services since the start of the COVID-19 pandemic. Low-income countries (LICs) received more poverty-reducing aid per person in extreme poverty than did middle-income countries (MICs) in 2022, and there is potential to scale up such investments for pro-poor targeting.
- A relatively small share of funding goes to proven policy solutions to reduce poverty and inequalities that are not included in Sustainable Development Goal indicator 1.a.1. The share of funding targeted to proven solutions includes the following: on average about 1% of bilateral, official development assistance (ODA) went to enhancing **social protection**, 2.5% to **justice** and less than 1% for **tax system support** (including domestic resource mobilisation) in 2021- 22; 43% of bilateral ODA went to gender, 0.11% **to labour rights** and 0.01% to **social dialogue**. Shares of aid to **gender**, **social protection** and **justice** have declined since 2020 (see Chapter 14).
- The volume of DAC members' ODA to **food security** reached a historical high of USD 15.1 billion in 2022. This represented just 7.3% of total ODA and is the lowest since 2017 (see Chapter 14) and resonates with the Brazilian G20 Presidency's timely call for political leadership and collective action against hunger and poverty in line with effective national policies and the creation of a Global Alliance to create momentum (G20 Brasil, 2024[47]). Also, in 2022, LICs received almost three times more food security ODA per person in extreme poverty than MICs, though the gap has been narrowing since 2012.
- **Taxation and tax policy** ranked last among policy areas that DAC survey respondents considered important for either poverty or inequality reduction, though tax systems play an important role in fostering equality and raising much-needed revenues for national pro-poor programmes. Only a small proportion of respondents considered this policy area to be an important target for policy coherence for sustainable development efforts (see Chapter 12).

Scope for development and climate finance to improve targeting of poverty and inequalities

Analysis of ODA volumes across country income groups shows that LDCs have generally received more ODA than lower middle-income countries (LMICs) and upper middle-income countries (UMICs). However, the trend indicates a decline in ODA to LDCs since 2020, suggesting a diminishing focus on pro-poor allocation in recent years (2020-22) (Figure 4).

To get a clearer picture of where aid is going, the measure of aid per person in extreme poverty can be more relevant and can provide a better understanding of how ODA targets the poorest than other conventional measures or proxies. Analysis using this measure shows that UMICs have received more aid per person in extreme poverty than LDCs since 2013, suggesting a waning ODA focus on poverty and inequalities. Research findings suggests that aid targeting in 2022 underestimated poverty levels in LDCs and overestimated them in MICs (Figure 4). The opposite was the case in 2012.

Figure 4. Measures matter: Aid volumes show least developed countries receive more aid, while aid per person in extreme poverty shows upper middle-income countries receive more aid



Notes: ODA: official development assistance; USD: United States dollar; LDC: least developed country; LMIC: lower middle-income country; UMIC: upper middle-income country. Group aggregates are calculated using an average of aid per person in extreme poverty across all countries in the group (for which data are available), weighted by the number of people in extreme poverty. Data on extreme poverty are unavailable for Saint Helena, Montserrat, Niue, and Wallis and Futuna, all of which are UMICs in the latest DAC List of ODA Recipients. The composition of DAC income groups varies across years, based on the countries in each group in each year.
Sources: OECD (2024[48]), *Aid (ODA) Disbursements to Countries and Regions [DAC2A] (database)*, https://data-explorer.oecd.org; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org.

Reducing poverty and inequalities is the highest overarching policy priority for development co-operation and this is generally backed by public support (see Chapter 15). However, effectively integrating these goals into development programming in practice is challenging and development agencies flag the scope for retooling to maximise impact with, for example, more dedicated guidance, common definitions, resource allocation strategies, data and monitoring. Clearly articulating thematic and sectoral priorities – such as poverty and inequalities – enables complementarity, reduces fragmentation and clarifies development provider's comparative advantage, aligning with the aid effectiveness agenda (OECD, 2023[44]). In his "In my view" article (see Chapter 13), Amitabh Behar of Oxfam International advises that every development co-operation agency should have an expert team providing support to their colleagues to factor inequality reduction into the design, implementation and evaluation of programmes. Advancing gender equality is the most prominent priority relative to other dimensions of inequality and there is a tendency to overlook reducing income inequalities, with only 11 of 24 survey respondents recognising it is a high priority (see Chapter 12). This has important implications for development impacts: inclusive, sustainable and equitable economic growth is important to reduce poverty while income inequality lessens the poverty-reducing effect of growth, especially for the poorest (see Chapter 2).

While it is challenging, development co-operation providers know they must stay focused on the mutually reinforcing agendas of achieving the SDGs and supporting green transitions. But investing in aid to facilitate the green transition and address the climate crisis will not automatically translate into reducing poverty and inequalities. Transitions need to be managed carefully so that individuals, communities, sectors and countries most affected are not left behind (OECD, 2024[49]). By embedding poverty and inequality considerations into their support for green transitions, development co-operation providers can ensure that they address both environmental and socio-economic challenges.

However, the relationship between sustainable development and climate action has been tense and uneven in development co-operation and partnerships, undercut by a lack of adequate financing, siloed development and climate strategies, and lack of clarity regarding the circumstances in which the climate action is beneficial for key development goals such as poverty and inequalities reduction – and, critically,

when it is not (see Chapter 26). Current international development and climate finance struggles to align with the interlinked and mutually reinforcing agendas of climate, development, poverty eradication and inequality reduction (see Chapter 26).

The volume of climate-related development finance is growing, and certain quality elements of climate-related development are improving such as increased support for adaptation. There are, however, mismatches between trends in financing from climate funds and national priority sectors outlined in nationally determined contributions (NDCs). Between 2016 and 2021, finance from four major climate funds increased from USD 2.7 billion to USD 3.9 billion (see Chapter 26). Support for energy-related projects decreased steadily from 49% of the entire portfolio in 2016 to 19% in 2021, but this shift did not lead to increases for adaptation-relevant sectors. Similarly, climate funds did not increase their activities in the health sector, though developing countries identify this sector as a priority for action. There is scope for climate funds to focus on adaptation-relevant sectors, both to address poverty and inequality and to adhere more strongly to country priorities and ownership as a fundamental condition of effectiveness.

International donors must address the fragmentation and proliferation of development finance overall, including finance to support climate action that now accentuates ongoing problems of "an overburdened, fragmented and mostly dysfunctional financing landscape that burdens recipient countries with significant transaction costs" as Minister Wellington Dias states in his "In my view" article (see Chapter 26) (OECD, 2023[44]; World Bank, 2022[50]). Climate funding is generally committed for specific projects and delivered to a widening array of implementing agencies. This heightens the risk of projects not being integrated with wider government processes and therefore not sustainable and also failing to create synergies. Between 2016 and 2021, the number of individual projects supported by climate finance in small island developing states increased from 670 in 2016 to 2 758 in 2021, or an average of 1 391 projects per year (OECD, 2024[51]). Aligning climate fund resources with partner countries' own development and climate priorities, strategies and management platforms can help deliver financial resources directly to improve cost-effectiveness and avoid the burdens associated with higher fragmentation.

Recalibrating the focus of development and climate action to serve people and planet

Policy makers and development co-operation actors are grappling with prioritisation questions: What are the most effective and impactful policies to invest in? Which policies and sectors are the most critical to ending poverty and reducing inequalities? How should policies be designed, adapted and implemented to respond to the increasingly urgent need to embark on green transitions while also aligning with partner priorities?

> Development co-operation and climate action are fundamentally linked. They present us with both an urgent need that we cannot ignore and an extraordinary opportunity we cannot miss.
>
> *From Simon Stiell, Executive Secretary, United Nations Framework Convention on Climate Change, "In my view" article*

Emerging lessons from OECD research on climate transitions suggest that policy shifts in core green sectors, such as energy, environment and the economy, should be complemented by supportive policies that work for reducing poverty and inequalities (see Chapter 18) and Infographic 1. This report provides

evidence and insights on proven economic, social and environmental policy solutions for ending poverty and reducing inequalities that development co-operation can bolster and help expand (see for example Chapters 2, 3, 4, 9 and 10). Many of these policies are already featured in NDCs: approximately 75% of developing countries specify that sectors related to agriculture, biodiversity and ecosystems, forestry, health, and water are priority sectors for their climate adaptation action (German Development Institute, 2022[52]).

Policy solutions for tackling poverty and inequalities and synergies with green transitions

The pace, content and priorities of green transitions are context-specific, underscoring the complexity of navigating the transition and highlighting the need for nuanced and tailored approaches. The exact combination of environmental, economic and social aspects of each country's transition will depend on pre-existing characteristics, resources and opportunities (see Chapter 18). Effective co-ordination of policies, strategies and plans across different levels is essential for achieving the joint goals of climate action, poverty eradication, inequality reduction and related priorities such as food security.

Country platforms organised around development and transition plans and implementation such as nationally determined contributions (NDCs) and just energy transition partnerships (JETPs) respect country ownership and set out individual just transition pathways (see Chapters 21, 29, and 30). By encouraging synergies and leveraging climate action, national governments also play a pivotal role in co-ordinating the investments and programmes supported by development partners (see Chapter 21). Such national-level integration can be seen in Lao People's Democratic Republic, where development of the NDC implementation plan incorporated agriculture, energy, environment, water resources and forestry sectors in view of their contribution to climate adaptation and to net zero goals (Government of Lao People's Democratic Republic, 2021[53]). Research by the International Food Policy Research Institute (IFPRI) on transitioning to food systems that are more equitable and locally accountable requires strategies designed for each country's specific political economy, policy-making environment, governance and accountability, and localised capacity development. It advises development partners to use multi-stakeholder platforms at the country level to co-ordinate climate commitments, action plans and investments, as this can ensure limited resources for development co-operation are leveraged and multiple development outcomes enhanced (see Chapter 21).

Social policy solutions

In lower income countries, the entirety of the bottom 40% of the distribution are often unemployed, underemployed or informally employed and according to Chapters by UNU-Wider, BRAC International and ILO, direct government social transfers offer the greatest potential to reduce poverty and inequality (see Chapters 3, 4, 8 and 23). Cash transfers have been highly effective in reducing poverty, as evidenced by BRAC's multidimensional programmes such as its Graduation approach and a range of successes in Latin America, Asia and Africa (see Chapter 4). According to Brazil's experience social protection, starting with cash transfers to the poorest, is the most efficient way to lift families out of poverty; it can be tied to health and education outcomes and made adaptive in response to emergencies (see Minister Dias' "In my view", Chapter 1). Expanding social transfers to the bottom 40% and beyond (in terms of either recipients or benefit amounts) can make a huge difference without even addressing the market inequality in earnings and employment, however, in low-income countries, only 21% of the poorest people receive social transfers as opposed to 73% in high-income countries (Parekh and Bandiera, 2020[54]). Increasing support to social protection can also improve its countercyclical role, which is critical to sheltering progress from periodic crises, especially in the most fragile contexts and regions most vulnerable to climate change.

BRAC's multifaceted programmes serve as a model for social protection interventions in Brazil, Ethiopia, India, Kenya and the Philippines, offering time-bound basic needs support, transfer of assets and coaching

to build resilience, with the overarching aim of supporting participants to uplift themselves out of extreme poverty. Research and evaluation also show that this approach helps households in extreme poverty withstand climate impacts (see Chapter 4). In Ethiopia, for example, Graduation interventions reduced or eliminated the negative impacts of droughts on food security, nutrition, livestock holdings and intimate partner violence (Hirvonen et al., 2023[55]). While most countries have social protection laws and policies (see Chapter 23), they are largely underfunded and need to have broader coverage to foster income growth and resilience to shocks that push people (back) into poverty (see Chapter 3) (OECD, 2023[56]).

> According to Brazil's experience social protection, starting with cash transfers to the poorest, is the most efficient way to lift families out of poverty; it can be tied to health and education outcomes and made adaptive in response to emergencies.
>
> *From Wellington Dias, Minister of Social Development and Assistance, Family, and Fight Against Hunger, Brazil, "In my view" article*

Social support and legal protection of workers' rights can usefully support the large number of workers trapped in lower-tier informal employment (see Chapter 8 and (OECD, 2024[57])). Labour formalisation (OECD, 2024[57]) and safeguarding collective bargaining rights play an important role in tackling working poverty and fostering decent work conditions (see Chapter 8). Strengthening collective bargaining also has greatly contributed to the reduction of inequalities: in Argentina, Brazil, Mexico and Uruguay, reduced inequality in labour incomes accounted for over 60% of the fall in inequality, most of which occurred among registered wage earners (i.e. formal workers) (Berg, 2015[58]).

Economic policy solutions

Strong public actions that ensure inclusive growth can manage for increased income inequality. More inclusive growth in Latin American countries demonstrates that income inequality can be reduced: since 1985, within-country income inequality in the region has declined from high levels and the income shares of the poorest 40% rose and the shares of the richest 10% fell, largely due to targeted anti-poverty and social assistance policies (see Chapters 2 and 3). Indonesia's experience of declines in both inequalities and poverty is attributable to policies on rural development, education provision and pro-poor spending that coincided with rapid economic transformation (Alisjahbana et al., 2022[59]). China's success in reducing poverty rests on three policy pillars: 1) increasing rural households' income by promoting the growth of non-agricultural jobs and industries; 2) increasing agricultural productivity; and 3) investing in rural infrastructure (see Chapter 10).

Along with inclusive growth, public policies that ensure that the direct and indirect benefits of growth are broadly distributed are essential. They also play a critical role in overcoming the causes of extreme or absolute poverty – in short not having sufficient assets to generate a reasonable income, the unequal distribution of those assets across society, and governance failures leading to uninsured exposure to stressors and shocks (including conflict) and/or macroeconomic instability. Policy choices must also be informed by a better understanding of the intertwined relationship between inequalities and ending poverty and what drives different trends in context (see Chapter 2 and 3). It is widely recognised that poverty reductions are often temporary and poorer households are vulnerable to sliding back into poverty (see

Chapters 2, 3 and 4). Engaging with these complexities is a necessary first step towards raising ambition and refocusing development co-operation.

Through the creation of new jobs, the green transition could bring opportunities for poverty reduction. The International Labour Organization (ILO, 2023[25]) projects that the shift to low-carbon and circular economies may lead to the creation of an additional 100 million jobs by 2030, including 20 million jobs through "nature-based solutions". Recent evidence suggests that employment growth in knowledge sectors and tradable services such as software engineering and communications has been a source of decent work in LMICs, unlike in high-income countries where structural transformation has been more polarising (see Chapter 3).

Reducing gender inequality in the labour force could raise real gross domestic product (GDP) by about 23% on average in emerging markets and developing economies (see Chapter 9). The most significant and robust positive correlation of women's relative access to good jobs is public social spending as a share of GDP (Arora, Braunstein and Seguino, 2023[60]). Policy makers will need to ensure that those at risk of falling behind in the transition – namely women, who, on average, have less education and upskilling and are largely segregated in the lowest paid jobs and in the informal sector – benefit in the transition economy (see Chapter 23). Even in situations where women enjoy the same opportunities as men, outcomes are still mediated by social norms around work and lack of enablers such as access to childcare (see Chapter 9 and Minister Ahmed Hussen's "In my view" article, Chapter 11). Reaching this goal requires more social spending for women, which improves access to more formal and decent jobs. Women are more likely than men to be in vulnerable employment (Lo Bue et al., 2021[61]).

Human capital formation is particularly critical when existing inequalities mean that women and informal workers are less able to seize green transition opportunities in new sectors because of the skills involved (see Chapters 3, 9 and 23) (Wu et al., 2024[62]). In Viet Nam, government policy helped overcome the motherhood penalty - a major driver of gender gaps in pay and lifetime earnings - by extending the maternity leave period, leading to increased rates of formalisation by pulling women from agricultural household work into private formal employment (Vu and Glewwe, 2022[63]).

Tax systems directly affect poverty and inequalities through their design and implementation. Analysis shows that in 2019, absent a significant increase in ODA, the average low- or middle-income country would have had to double its tax collection by 2030 to make substantial progress towards five key SDGs. How tax is raised is equally as important to poverty and inequalities as how much tax is collected. Tax administration and implementation are critical to ensuring equitable and sustainable revenue increases. However, domestic resource mobilisation through taxes takes a long time. Reforms to strengthen tax administrative capacity and taxpayer compliance will be needed, and should be supported, to lay the essential foundation for increased revenue mobilisation (see Minister Anne Beathe Tvinnereim's "In my view" article, Chapter 5). These can be done at relatively low cost in many countries (see Chapter 3) with high return. Tax simulation models, for example, can be a powerful tool to understand how proposed policy options will impact the poorest groups (see Chapters 3, 5, 6 and 19).

To significantly increase fiscal space, tax system reforms can include the following critical focus areas: improving tax enforcement and compliance to reduce revenue losses and supporting the development of local state capacities; shifting short-term focus away from large-scale registration programmes targeting low-income workers and firms and towards targeting the wealthiest; promoting tax fairness; and better ODA targeting to gaps in public sector finance. For example, improved analysis of tax data in Uganda showed that multinational corporations pay an effective tax rate that is estimated to be 20 percentage points less than the rate large domestic corporations pay and that corporate tax incentives cost the Ugandan government the equivalent of one-fifth of the annual corporate income tax (Koivisto et al., 2021[64]). The introduction of a simpler e-filing system almost doubled the number of presumptive taxpayers (see Chapter 6).

Environment and climate policy solutions

Climate adaptation policies and investments that reduce household vulnerability to climate shocks are critical for progress in poverty and equality. Inadequate insulation, lack of weatherproofing and substandard construction materials are common characteristics of poor households that are less likely to be able to rely on savings, access to credit or insurance to manage their losses of income or assets. In its climate and equity framework, the World Bank suggests prioritising, where possible, policies aimed at reducing hazards and/or vulnerability while also focusing on bringing non-climate benefits. Increasing the quality of education, building better roads to connect households to markets, improving city planning, adopting early warning and evacuation systems, and facilitating financial inclusion can all contribute to reducing a household's vulnerability (see Chapter 19).

A functioning food system that supports livelihoods is an essential safeguard against the effects of climate change. Food and agricultural systems are responsible for nearly 30% of the global greenhouse gas emissions, pointing to the importance of scaling up innovative and proven agri-food technologies and practices to fight poverty and inequalities (see Chapter 21). Climate-smart agriculture and food systems are directly relevant to the 80% of extremely poor people living in rural areas, two-thirds of whom work in agriculture (Castañeda et al., 2018[65]). These can mitigate the effects of climate change, enhance crop yields and improve incomes for farmers in vulnerable regions.

Dependence on fossil fuel generation, processing and export will determine the ability of national governments to pivot economic strategies and harness new economic models (IRENA, 2019[66]). Developing countries' investment decisions about how to produce and use energy will be the decisive factor for global efforts to reduce average global temperature increases. While their energy consumption is relatively low, it is projected that developing countries will account for the bulk of future emissions (IEA, 2021[67]). Africa holds about 60% of the world's best solar resources and 39% of global renewable energy potential (Ramalope et al., 2022[68]), but the continent and other low-income regions have largely been unable to maximise the potential of these resources due to structural barriers (see Chapter 22).

In Chapter 22, the Africa Centre for Economic Transformation shows how the transition to green energy can accelerate and reinforce economic transformation in African countries. This will enable them to diversify production and enhance export competitiveness, leverage their abundant renewable resources to fuel job creation, and use their massive carbon stocks to participate in carbon markets and increase the flow of climate finance. But achieving this transformation means increasing the continent's low 42% electricity coverage by expanding access to quality and affordable renewable energy, leveraging abundant renewable resources to build green industries that supply products globally, and combining carbon stocks with nature-based solutions.

Another policy solution is phasing out fossil fuel subsidies, which could raise an estimated USD 3 trillion per year by 2030 – and funds that could be redirected to targeted social welfare and poverty reduction as well as investment in renewable energy (see Chapter 24). Carbon taxes, for example, have limited revenue-raising potential in LICs and MICs (see Chapter 6), while fossil fuel subsidy reform can free up resources that can be redirected towards targeted support to poorer households (see Chapter 24). For example, after Sri Lanka reduced subsidies for fuel and electricity, it used the funds to instead strengthen social protection through cash transfers (IMF, 2023[69]; Rajawasam, 2024[70]).

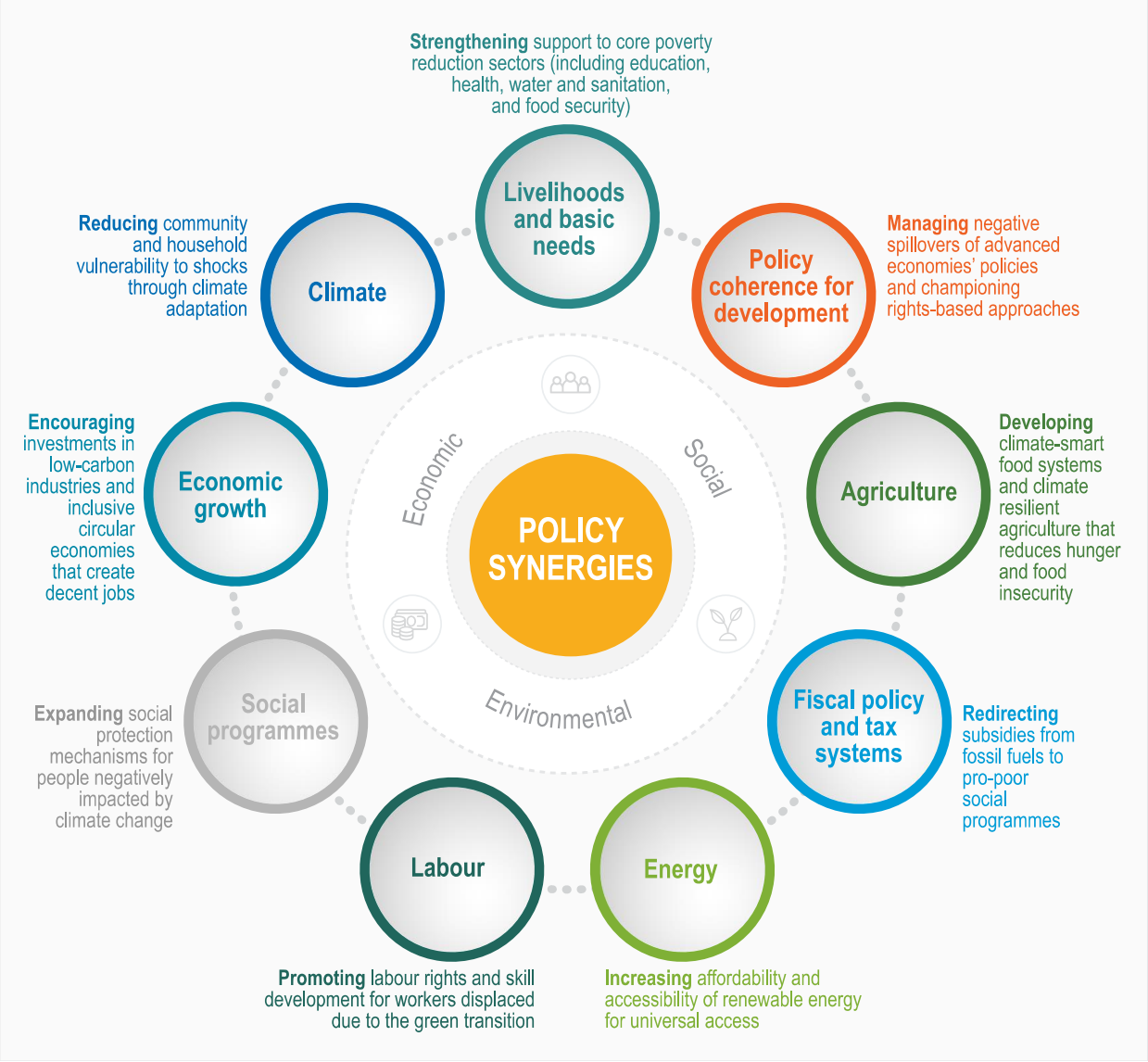
Policy coherence for development

The starting point and capacity for embarking on green transitions differ between countries (see Chapter 18, 26 and 29). Developing countries typically lack the capacity and finance to fund vast programmes like those implemented in OECD countries such as large-scale green industrial policy packages, renewable energy infrastructure, and research and innovation for clean technology (OECD, 2024[71]).

There is also a danger that new climate change policies in advanced economies will have negative spillovers on developing countries (see Chapter 18). For example, the landmark European Union initiative to tackle climate change, the Carbon Border Adjustment Mechanism, has prompted concern about its impact on trade and wage growth in some LICs and MICs, particularly in Africa (African Climate Foundation and LSE, 2023[72]). When transition pathways diverge and some countries risk being left behind, green transitions can be seen as serving national interests and driving geopolitical competition as opposed to global sustainable development (see Chapters 18 and 31), and this perception feeds into distrust of commitments to reform the international system and respond to developing countries' priorities and demands (see former President of Senegal, Macky Sall's "In my view" article, Chapter 25 and Chapter 29) (OECD, 2023[44]).

In the same vein, international co-operation can step-up efforts to prevent tax evasion, tax avoidance and profit shifting by the most profitable businesses and the richest individuals. Globally, corporations shifted less than 2% of annual profits to tax havens in the 1970s, but the share had increased to 37% by 2019, accounting for a global loss of revenue equivalent to EUR 250 billion, or one-tenth of annual total global corporate tax revenue (see Chapter 3) (Wier and Zucman, 2022[73]). In her "In my view", Minister Kristiansen Tvinnereim advises that there is demand at the global level to improve international regulations and transparency through more effective and inclusive multilateral co-operation to prevent capital flight and calls on all actors to make substantial progress in this area at the Fourth International Conference on Financing for Development in 2025 in Seville (see "In my view article, Chapter 5). Civil society and political leaders are also calling for governments to apply higher rates of income tax at the top, including by implementing property taxes and capital gains or inheritance taxes (see Minister Svenja Schulze and Amitabh Behar's "In my view" articles, Chapters 7 and 13).

Infographic 1. Examples of policy synergies relevant for ending poverty, reducing inequalities, and ensuring a just green transition



Ways forward to tackle poverty and inequalities, including through the green transition

Drawing from rich evidence and a range of contributions, this report proposes ways forward for the international development community and planned new DAC guidance for action on poverty and inequalities reduction. These fall into three broad themes: 1) raising the ambition and focus of development co-operation on poverty and inequalities; 2) increasing budgets, synergies, access to and effectiveness of finance for development and green transitions; and 3) ensuring that human rights and environmental and social standards and safeguards are upheld in green transitions. For each, a checklist of suggested actions is proposed.

1. Raise ambition and focus on ending poverty and reducing inequalities with better targeting, good practice standards and updated toolkits

Ending global poverty and reducing inequalities are urgently needed in the wake of the pandemic and the face of climate change. Accelerating progress on these goals is equally coherent with core human values on life chances, fairness, solidarity as well as the global strategic interest in achieving sustainable development and increasing climate resilience (see Chapters 2 and 4).

As discussed at the beginning of this overview, climate change will increase the frequency and severity of stressors and shocks and will have a substantial impact on the characteristics and location of poverty going forward – especially in sub-Saharan Africa and fragile and conflict affected contexts. In this dynamic context, monetary poverty lines are not necessarily the best yardstick by which to assess need or guide the tasks of ending poverty and protecting gains in poverty reduction, but they play a role in informing and guiding development co-operation priorities (see Chapter 12). The USD 2.15 a day line – extreme poverty – is used in the SDGs, and ending global poverty is often equated with ending extreme poverty at this line.[3] However, most of the world's extreme poor do not live in LICs but in LMICs, where the average national poverty line is higher and close to the absolute poverty line of USD 3.65 a day. To respond adequately, international co-operation ambitions need to focus on ending extreme poverty and absolute poverty. Raised ambitions also means putting in place policies that protect people from falling back into absolute poverty and build resilience of vulnerable households to climate-related hazards and shocks (see Chapters 2, 3, 19).

In turn, raising ambition on inequality reduction requires action across multiple dimensions: increasing the share of income accruing to the poorest parts of the population; targeting bottlenecks due to intersecting and complex patterns of exclusion and disadvantage based on dimensions such as gender, ethnicity and subnational region among others; and global income inequality – inequality between all individuals in the world.

Given its historical positive track record and continued high commitment and role in supporting poverty eradication and reducing inequalities, development co-operation has a critical role to play in revitalising global action and safeguarding its focus in the face of other shorter-term priorities and to mitigate effects of climate risks. Success will depend on setting the bar higher for better outcomes in key sectors and countries where poverty and inequalities are greatest. This requires a concerted and co-ordinated effort to clarify the principles driving ODA allocations and how they contribute to the core mission of reducing poverty and inequalities and to align policies, programming and financing to close implementation gaps (see Chapters 12, 13, 14). Development co-operation must also recognise that the scale and concentration of need are increasing and shifting, necessitating new, agile ways of working.

Suggested actions for development co-operation:

- Renew commitments to end monetary and multidimensional poverty and reduce inequalities with a more comprehensive and coherent vision fit for today's realities and challenges. Invest in

understanding the relationship between poverty and multiple forms of inequalities, their key drivers and proven policy solutions, including to sustain poverty and inequality reduction efforts in the long term.

- Develop toolkits to integrate poverty and inequality considerations within development co-operation through explicit criteria, guidelines and measures for reaching the poorest and most vulnerable households and regions. Toolkits should enable systematic use of theories of change and monitoring and evaluation; apply coherent definitions and measurement frameworks; and use innovative data and modelling to prepare and respond to complex, overlapping challenges.
- Update guidance for aligning and targeting international co-operation and finance to policies that work to end poverty and reduce inequalities.
- Map, research and mitigate against the potential negative spillovers of foreign and domestic policies on poverty and inequality reduction and green transition policies on LMICs.

2. Increase budgets, synergies, the accessibility and effectiveness of development and climate finance

Critical reforms to the international financial architecture and concerted international action are required to mobilise new resources, bridge gaps in climate and development finance, mitigate risks of global economic shocks, and alleviate the burden of debt distress on the world's poorest and most vulnerable people. Higher debt servicing and a resulting fiscal squeeze have a severe impact on the public systems that deliver poverty and inequalities reduction. New financing will be needed for the poorest countries and the international development community faces a difficult dilemma: play its countercyclical role but at the risk of mainly reimbursing other creditors and little new money entering illiquid countries or allow debt-burdened countries to fail even though those countries are not classified as insolvent (Diwan and Harnoys-Vannier, 2024[41]). More strategic and targeted global allocation of ODA should expand support for proven policy solutions which receive low levels of ODA at present (see Box 1).

The green transition constitutes more than half of the SDG investment gap, necessitating substantial investments in renewable energy generation, energy efficiency and other related technologies (see Chapter 27). At present, half of green vertical funds' resources are channelled through existing development finance institutions before reaching recipients in developing countries, missing the opportunity to uphold the development effectiveness principle of country ownership and use of country systems (see Chapter 26). Development agencies and banks are adapting to these challenges as shown by President of the Asian Development Bank, Masatsugu Asakawa in his "In my view" article, Chapter 28: "Our vision aims to reorient economic and social frameworks to foster low-carbon, climate-resilient growth that enhances prosperity and inclusion."

Private actors have an opportunity to play a crucial role in accelerating the green transition and helping redirect global efforts to combat poverty. They are vital partners in developing countries, where the private sector typically contributes 60% of GDP, 80% of capital flows and sustains 90% of jobs on average (USAID, 2021[74]; OECD, 2017[75]). Development co-operation can help leverage the role of private sector investments in the green transition and for job creation in developing countries by supporting enabling business environments, mitigating risks to private investors in developing countries and incentivising responsible business conduct (OECD, 2023[76]; 2024[77]) (see Chapter 27). Forums such as the OECD's *Initiative on Global Value Chains, Production Transformation and Development* can inform how countries build upon supporting inclusive participation to local, regional and global markets (OECD, 2024[78]).

NDCs serve as country-level climate action plans (see Chapter 30) that could be important vehicles to identify synergies and contradictions across strategies, build inclusive processes and address capacity gaps.[4] They can serve as strategic tools to simultaneously advance climate action and development goals, effectively reducing poverty and inequalities. International actors can start by bridging parallel and

fragmented climate and development landscapes and supporting countries in aligning their NDCs with development priorities, including through efforts to make the next round of NDCs more equitable and gender-sensitive, leveraging inclusive processes.

Checklist of suggested actions:

- Increase the poverty and inequality focus of total ODA portfolios and raise budgets by meeting international commitments to provide 0.7% of GNI as ODA.
- Develop and deploy better measures for poverty- and inequality-focused development and climate finance and consider setting targets or markers to guide allocations and develop shared methodologies to better monitor how ODA is targeting poverty and inequalities.
- Accelerate reforms to remove constraints on developing countries' access to climate finance such as requirements for co-financing, lack of support for developing concept notes, and long timelines and delays in processing funding applications.
- To meaningfully strengthen climate action, climate funds need to improve the availability, accessibility and delivery of their support and assess the relative weight of different instruments, particularly grants, in the total package while reducing fragmentation and proliferation of development finance overall.
- Consider ring-fencing grant funding for community-led and pro-poor interventions that are unlikely to attract private sector investment in climate funds and JETPs.
- Help scale up renewable energy development by expanding loan guarantees on clean energy projects, supporting regional collaboration and technical assistance to build capacity in project management, business development skills and management of large-scale renewable energy projects.
- Advance collective global action to resolve debt and tax-related drivers of inequalities; develop innovative finance mechanisms; and support domestic resource mobilisation over the long term by building local capacity to conduct analysis of the most effective ways to improve tax systems, support economic development, and reduce inequality and poverty.

3. Champion inclusive, rights-based approaches and standards for just green transitions

Fair, transparent and inclusive transition processes that respect the diverse values, experiences, cultural identities and heritages of different communities build public acceptance of green transitions and make transitions more practically viable and resilient (OECD, 2024[79]). Ensuring a globally just transition implies that advanced economies identify and manage the spillover effects of their climate policies on developing countries (see Chapters 29, 30 and 33).

While a just transition is conceptually broad and context-dependent, it touches on multiple dimensions of justice, including distributive (i.e. the extent to which benefits or drawbacks of transitions accrue to particular social groups, geographies, economic sectors, etc.); procedural (i.e. that the process through which transitions take place are fair, transparent and inclusive); and recognitional (i.e. that the diverse values, experiences, cultural identities and heritages of different communities are respected) (OECD, 2024[79]). In practice, just green transitions encompass the need to manage the distributional impacts of the transition, ensure benefits are shared fairly, costs are mitigated, and those negatively affected both within and between countries compensated.

Inclusive transitions will strengthen democratic processes and can increase political acceptability (see Chapters 18, 29 and 33). Support for grassroots democracy can help raise awareness of the concerns of poor and marginalised groups, consolidate democratic practices, and re-establish trust in the state (Cremaschi and Masullo J., 2023[80]). Community participation in planning and decision making also can identify local priorities and relatively low-cost interventions that would accelerate poverty and inequalities

reduction – for example, redirecting water use from decommissioned coal power plants to local populations (see Chapters 29 and 33).

Established frameworks, principles and standards agreed by UN members and by OECD countries can help protect rights in green and energy transitions. For example, adhering to the principle of free, prior and informed consent; meaningful engagement of impacted communities; and mitigation of any harms can shape green transitions in ways that are respectful of Indigenous rights and ensure appropriate benefit sharing. Indigenous peoples' rights are enshrined in the 2007 UN Declaration on the Rights of Indigenous Peoples (United Nations, 2007[81]), among other international commitments. The *UN Guiding Principles on Business and Human Rights* (UNHCR, 2011[82]) and the *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* (OECD, 2023[83]) also call on enterprises to respect the human rights of individuals belonging to specific groups or populations that are at heightened risk of marginalisation and vulnerability, including Indigenous peoples. It is estimated that 36% of the world's remaining intact forests (Fa et al., 2020[84]) and at least 24% of the above-ground carbon in tropical forests are on collectively managed lands of Indigenous peoples and local communities; up to 80% of the world's remaining biodiversity is found on Indigenous lands (Veit and Reytar, 2017[85]) (see Helena Gualinga's "In my view" article).

There are various models of collaboration and examples of productive partnerships with local communities, Indigenous peoples, and children to learn and build on (see Chapter 31 and Inger Ashing's "In my view" article). The success of these initiatives is due to positive policy frameworks for renewable energy development based on equitable benefit-sharing arrangements that respect Indigenous peoples' rights in relation to their lands and resources and their direct participation in decision making.

Suggested actions for development co-operation:

- Deliver on locally led development with support for more inclusive transition partnerships, programmes and projects, including accessible grant-based funding and capacity building for local communities and organisations.
- Apply and monitor environmental impact and gender analysis as well as indicators and data in NDCs and in all energy transition projects.
- Uphold international laws, standards and recommendations, such as the *OECD Guidelines on Responsible Business Conduct* in green, climate and energy transition partnerships and funds to help protect rights in green and energy transitions.
- Embed considerations of global climate justice in national policy coherence for development strategies and mechanisms and manage for the negative cross-border impacts of climate action policies.

Next steps

The compounding and interconnected challenges of rising poverty and inequalities and climate change offer an opportunity for international development actors to put people at the centre of the green transition and advance poverty, equality and climate actions simultaneously, creating synergies where possible. The international community will come together in 2024 and 2025 to accelerate progress in delivering Agenda 2030 – from the 2024 Summit of the Future to the Fourth International Conference on Financing for Development and the World Social Summit in 2025 – and to agree on a new climate finance target at COP29 (United Nations Climate Change, 2024[86]). It is crucial for development co-operation actors to show up armed with bold and solid new commitments, innovative ideas for collective action and an appetite for reform that reinvigorates foundational commitments to end poverty and reduce inequalities, partners' confidence that commitments will be met, and revitalises international development agendas with investments in social and economic transformation for a fairer and greener future.

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Notes

[1] In 2019, LDCs accounted for less than 4% of total world greenhouse gas emissions. See: https://unctad.org/publication/least-developed-countries-report-2023.

[2] This indicator is defined as ODA grants to basic social services (basic health and education, water supply and sanitation, and multisector aid for basic social services) and development food aid. For further detail, see: https://unstats.un.org/sdgs/metadata/files/Metadata-01-0a-01.pdf.

[3] There is also some contention over whether ending extreme poverty means zero extreme poverty, with SDG target 1.1 calling for eradicating extreme poverty everywhere by 2030 and the World Bank's goal is to reduce extreme poverty to under 3% of the global population by 2030.

[4] Countries are expected to produce a plethora of development and transition strategies and plans in response to international commitments and/or donor demands in addition to NDCs. These include national development plans, long-term low emissions strategies, national adaptation plans, national biodiversity strategies, sectoral development plans, JETP agreements and JETP implementation plans (where applicable), national targets for inclusion (e.g. gender equality targets and strategies), and voluntary national reviews.

Part I Solutions for ending poverty and reducing inequalities

1 In my view: Let's stop pointing at complexity and act now to end poverty and hunger – we already know how

Wellington Dias, Minister of Social Development and Assistance, Family, and Fight Against Hunger, Brazil

The year is 2015. Emboldened by a successful experience with the Millennium Development Goals, the world comes together behind a new set of targets. The Sustainable Development Goals (SDGs) embody the promise of a better world in which no one would live in hunger, a world that would be well on its way to achieving a dignified life for everyone while caring for and preserving our planet and environment for future generations. That same year, the Addis Ababa Action Agenda provides the blueprint for expanding and aligning financing and development co-operation to enable the SDGs.

Fast forward to 2024. On current trends, SDG 1 (no poverty) and SDG 2 (zero hunger) will be missed by wide margins. On SDG 10 (reducing inequality), the situation is even worse on many counts than in 2015: in-country inequality is growing steadily, and between-country inequality has started growing since 2020, reversing a generation's worth of progress.

Meanwhile, despite a bigger total aid envelope, the promise of the Addis Ababa Action has fizzled, leaving an overburdened, fragmented and mostly dysfunctional financing landscape as far as the fight against hunger and poverty is concerned. Resources are not reaching those most in need and rarely attain the scale required for inducing transformational change. Governments in low-income countries and lower middle-income countries are confronted with what is widely termed aid bombardment, with support for hunger and poverty interventions dispersed in thousands of small transactions – and often loosely co-ordinated projects that are difficult to scale up and which circumvent the very governments that could sustain them. At the same time, high interest rates and debt servicing are narrowing countries' fiscal space to elevate their own people and deliver on the SDGs.

...despite a bigger total aid envelope, the promise of the Addis Ababa Action has fizzled, leaving an overburdened, fragmented and mostly dysfunctional financing landscape as far as the fight against hunger and poverty is concerned.

We should ask ourselves: where did we lose our way since 2015? Where is the global partnership for sustainable development as called for in SDG 17? Why are we failing the 735 million people experiencing

actual ravaging hunger, the more than 1 billion in extreme multidimensional poverty – half of them children, and the more than 2.4 billion people facing moderate or acute food insecurity?

Yes, we already know that intersecting crises including climate change, conflict and the effects of the COVID-19 pandemic are making our situation more complex. But it is time to stop pointing at complexity and move to action. Eliminating hunger and extreme poverty is not that difficult or prohibitively expensive, and doing so can advance other SDG targets, help mitigate and avoid both current and future crises, rein in uncontrolled migration, and renew popular trust in political and democratic institutions.

We do not have to start from zero, as we in Brazil know well. Over seven decades of policies and programmes for poverty reduction and food and nutrition security in many countries have taught us what works most efficiently and effectively. Social protection, starting with cash transfers to the poorest, is the most efficient way to lift families out of poverty; it can be tied to health and education outcomes and made adaptive in response to emergencies. School meals programmes boost education, health and nutrition and, when done right, also incentivise family agriculture. Socio-economic inclusion programmes, smallholder and family farming support and extension, and climate resilience programmes for the most vulnerable communities are all investments with proven and rapid social and economic returns, and they pay for themselves many times over by building a more resilient and integrated society.

The results in Brazil speak for themselves. In just one year after, our government restored or shored up such policies that were discontinued or pared back during the previous administrations, 24.4 million people emerged from acute food insecurity in 2023, a 74% reduction from 2022 (Ministry of Social Development and Assistance, Family, and Fight Against Hunger, 2024[1]). We are confident that we can eliminate hunger in Brazil again by 2026.

Social protection, starting with cash transfers to the poorest, is the most efficient way to lift families out of poverty; it can be tied to health and education outcomes and made adaptive in response to emergencies.

While we know what has worked in Brazil and other countries – many have equally valuable lessons to share – concerted action is needed to better apply these lessons at scale around the world, gathering resources and know-how from where they are abound and channelling them to where they are most needed. This edition of the OECD *Development Co-operation Report* makes a strong case for such an approach, but the words on these pages will be wasted if not accompanied by decisive action. This is not about donors doing the work for other countries. It is about creating the minimum conditions for countries to do this essential work themselves.

To champion this approach, President Lula has proposed that a Global Alliance Against Hunger and Poverty be launched during the G20 summit in November. This alliance could enhance coherence among existing actors in support of the urgent implementation and scaling up of pro-poor, evidence-based policies to get SDG 1 and SDG 2 back on track. True engagement of OECD Development Assistance Committee members will be critical – first, to fulfil their commitments and close the development finance gap and second, to properly align those resources to the fight against hunger and poverty.

We must take this last opportunity before 2030 to better mobilise, co-ordinate and align resources to reduce fragmentation in support of government-led, evidence-based policies in the poorest countries and regions. As disheartening as the situation may appear, that better world we promised back in 2015 remains within reach. Let’s join the Global Alliance Against Hunger and Poverty!

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2 The shifting and increased complexity of global poverty and inequalities

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Arief Anshory Yusuf, Padjadjaran University, Indonesia

Ending global poverty and reducing inequalities are interlinked and urgently needed in the wake of the pandemic. Climate change and the rising costs of debt servicing in developing countries threaten to exacerbate poverty and hinder efforts to reduce inequalities. Drawing on a wide range of recent data and evidence, this chapter discusses the relevance of current poverty definitions. It reviews the complex relationship between changing levels of inequality, poverty and economic growth as well as the implications for development co-operation and national policy making. It underscores what it will take to end global poverty and reduce inequalities and the urgent necessity to do so. It concludes that the annual cost of ending poverty is not prohibitive but the price of failing to end poverty could be disastrous to billions of people.

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Key messages

- It is urgent to end poverty and reduce inequalities now before doing so becomes harder and more costly in the face of climate-induced impacts of extreme weather, shifting agriculture patterns, rising sea levels, and potentially mass migration between and within countries.
- Ending poverty and reducing inequalities will not be easy. Global poverty is split between fragile and conflict-affected situations (FCAS) where progress is difficult and non-FCAS countries and between countries where official development assistance (ODA) really matters and those where it does not.
- Economic growth and rising incomes are important, but the power of growth to reduce poverty is stronger when income inequality is low or falling; and growth may bypass the poorest sometimes, especially when income inequality is high.
- Livelihood strategies, or how income is generated, are shaped by key human, social, natural, physical and financial capital assets, the income derived from these assets, and the provision and quality of public goods.
- Effective national policies to end poverty and reduce inequalities include social assistance such as cash transfers, social insurance such as health insurance, policies that expand education opportunities, and active labour market policies.
- OECD countries should differentiate to a greater extent their partnerships between countries where ODA really matters and those where ODA is less important. In countries where ODA really matters for public service delivery, more ODA and debt relief are key. In countries where ODA is less important as share of public finance, policy coherence is essential in, for example, OECD countries' policies on trade, technical assistance, and co-financing global and regional public goods.

Why is ending poverty and addressing inequalities an urgent necessity?

Ending poverty and reducing inequalities matter for any number of well-known reasons. Some are rooted in values related to meritocracy, fairness and life chances. Others stress that ending poverty and addressing inequalities are essential for sustainable development. In the absence of countervailing forces or policies, for instance, high- or rising income inequality can potentially negatively impact long-run economic growth, health and education outcomes, and even the quality of governance – in terms of institutional quality, corruption, political participation, democracy and support for democracy. Of course, none of those effects are inevitable. They are contingent on various factors. Most important, public policy can intervene to ensure they are neutralised.

Ending poverty is closely related to inequalities. It is likely to be faster with stable or falling income inequality. Evidence shows that reducing poverty depends not only on average income growth but on changes in income inequality and the initial level of inequality (Ferreira and Ravallion, 2011[1]; Ravallion, 1997[2]). In short, the higher the initial level of income inequality, the higher the rate of growth that will be needed to achieve poverty reduction. Indeed, a decline of just 1% a year in the Gini index for each country could reduce the global extreme poverty headcount by almost 90 million people by 2030 (Lakner et al., 2022[3]).

Indeed, a decline of just 1% a year in the Gini index for each country could reduce the global extreme poverty headcount by almost 90 million people by 2030 (Lakner et al., 2022[3]).

Ending poverty and reducing inequalities are urgent intertwined tasks. The next decade and beyond are likely to be shaped by long-run stressors as well as sudden, acute shocks related to climate change and other major global factors. Cost-wise, it would be cheaper and easier to end poverty and reduce inequalities now rather than later amid climate stressors and shocks.[1] Doing so is also sensible preparation for a hotter climate. In short, it is crucial to end absolute poverty and reduce inequalities before climate change makes reducing poverty and addressing inequalities harder due to more frequent extreme weather, shifting agriculture patterns, changing sea levels, and potentially mass migration between and within countries. In fact, ending poverty and reducing inequalities may increase climate resilience (see Chapter 4) and relieve, to some extent at least, some of the pressure on people to migrate in the future.

Cost-wise, it would be cheaper and easier to end poverty and reduce inequalities now rather than later amid climate stressors and shocks.

What causes and perpetuates poverty? It's all about the assets

To better understand the urgency, it is important to consider how all people – those in poverty as well as those that are not – make a livelihood for themselves and their family or household. One's livelihood strategy, or how income is generated, is shaped by one's assets, the income derived from these assets, and the provision and quality of public goods.[2] There are five types of assets that households can hold, commonly identified as human, social, natural, physical and financial capital. A set of contextual as well as governance factors mediate the value of the assets, their accumulation (or deterioration) and income flows from them. These factors include the state and management of the macroeconomy (and thus employment opportunities), exposure to stressors and shocks, exposure to discrimination, the distribution of rights to public resources, and the set of public policies in place to support improved living standards and insure collectively against risk.[3] Governments can support the accumulation of people's assets in numerous ways, redistribute assets, and put in place insurance mechanisms against stressors and shocks.

The underlying cause of a person living in extreme or absolute poverty is simple: having insufficient assets necessary to generate a reasonable income, the unequal distribution of those assets across society, and governance failures leading to uninsured exposure to stressors and shocks (including conflict) and/or macroeconomic instability. People seek to generate or build assets to build a livelihood strategy that will lead to better outcomes. For those living near or in poverty in a rural setting, for example, where most of the extreme poor live, this may mean agricultural intensification and/or extensification, livelihood diversification, or rural-to-urban migration, for example. Public policy can help support these endeavours.

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Understanding poverty through this "assets" lens highlights the urgency to reduce both poverty and inequalities in the face of climate change. A hotter climate is likely to entail more frequent and more substantial stressors and shocks. Shocks, in turn, will erode existing assets and make asset accumulation

harder since they increase exposure to harm while the decrease in assets diminishes capacities to cope over time. Stressors and shocks also contribute to people falling (back) into poverty.

How do people escape poverty?

The answer is asset building at the household and at a societal level through public policy. An enabling environment for asset building determines if someone escapes poverty. In their empirical survey based on longitudinal data sets from low-income countries (LICs) and middle-income countries (MICs), Dercon and Shapiro (2007[4]) identified a lack of asset accumulation as the leading cause of remaining in poverty alongside contextual and governance factors such as social exclusion, discrimination, or being in remote or otherwise disadvantaged areas. On the other hand, according to the survey, falling into poverty is linked to stressors and shocks such as illness and health-related expenses, social and customary expenses (e.g. the costs of marriages and funerals), high-interest private loans, crop disease, and drought and irrigation failure. To deal even with temporary shocks, people may turn to selling assets, a strategy that may result in greater insecurity in the longer term. The COVID-19 pandemic is a perfect example of asset erosion – through distressed sales, missed education and reduced nutrition. Risk-averse strategies become more important under conditions of compound, repeat and complex stressors and shocks that will be more likely with climate change.

Climate change will increase the precarity of people living in poverty

There is no doubt that climate change will increase the frequency and severity of stressors and shocks, notably extreme weather incidents, rising sea levels, and changes in agricultural patterns and especially agricultural productivity. LICs and MICs will have greater exposure, first because these stressors and shocks will affect a higher share of their population and second because government revenues are more limited, governance less responsive and state capacity may be weaker (than in OECD countries which will face the same kind of stressors and shocks but are better placed to cope). Further, exposure to these stressors and shocks will have a substantial impact among those already living in or near poverty.

Dang, Hallegatte and Trinh's (2024[5]) detailed review of empirical studies on the impact of climate change on poverty and inequality is highly instructive. First, rising temperatures are empirically associated with increased poverty and inequality, with greater vulnerability in poorer countries and sub-Saharan Africa. High temperatures are also associated with more premature births, low birth weights, lower school attendance and poorer student performance. Second, variations in rainfall are associated with a higher likelihood of conflict and migration exacerbating poverty and inequality, and further shifts in agricultural patterns can lead to higher food prices and food insecurity, making matters worse. Cross-country empirical studies of the impact of climate change on inequality tend to find that rising temperatures lead to rising income inequality in the short term and often in the long run. The findings of single-country studies related to inequality and climate change impact are mixed. Some single-country country studies find rising inequality due to climate change. Other single-country studies do not.

What magnitude of exposure is possible? Drawing on estimates in Adom (2024[6]); Wiebe, Robinson and Cattaneo (2019[7]); CIESIN and CIDR (2023[8]); and the Centre for Research on the Epidemiology of Disasters (2024[9]), climate impacts may include the following:

- An estimated 60 million people in Africa and 500 million in Asia are at risk of sea level rises due to living in low elevation coastal areas.
- About 1.2 billion people in Africa and 4.5 billion in Asia are exposed to extreme weather due to climate change.
- In Africa, agriculture productivity losses are forecast to be in the range of 10-20% by 2050 (relative to 2008) and the number of people at risk of hunger in sub-Saharan Africa could be close to

200 million. In Asia, productivity losses in agriculture are estimated at 2-12% by 2050, and in Asia and the Pacific the numbers of people at risk of hunger could also be over 200 million.

In sum, the likely impacts of climate change mean there is a real urgency to end poverty and address inequalities. However, ambition will need to go beyond ending extreme poverty because USD 2.15 a day is a very low level of income. This income measure does not necessarily mean someone can afford good nutrition, schooling or healthcare. Ending *absolute* poverty is more ambitious but achieving this means putting in place policies that ensure people don't fall back into absolute poverty. Climate change is likely to heighten the risk of falling back into poverty. Thus, ambitions need to be higher before the consequences of climate change become more evident.

What is the scale of the task?

Ending poverty

The end of absolute poverty means that no one is living without something that is essential for a minimum standard of living. Basic needs include sufficient monetary income (SDG 1), adequate nutrition (SDG 2), access to healthcare (SDG 3), quality education (SDG 4), and access to safe drinking water and sanitation (SDG 6). This list is in line with other global attempts to define poverty in the major United Nations (UN) summits of the 1990s, such as the Social Development Summit in 1995, which ultimately influenced the Millennium Development Goals for 2015 and their successors, the SDGs for 2030, which all countries negotiated together and signed up to achieve.

...averages and numbers alone do not tell the full story of poverty.

It is important to remember that averages and numbers alone do not tell the full story of poverty as people live it and that there are limits to what the data capture. While a multidimensional conceptualisation of poverty is built into the SDGs, a participatory process across 60 countries revealed additional or hidden dimensions. Narayan et al. (2000, pp. 4-5[10]) found that people living in poverty cited not only the objective dimensions of poverty – the experience of hunger and ill health – but also the subjective dimensions, or how it feels to live in poverty, that manifest in a sense of shame, powerlessness and humiliation.

Drawing a line for poverty

When estimating poverty levels and trends, attention often turns to monetary poverty first. Monetary poverty lines at the national level are usually determined based on the amount of monetary expenditure necessary to afford approximately 2 100 calories daily, as advised by the World Health Organization, plus essential non-food items. Globally, and to compare across countries, the World Bank uses three thresholds to measure monetary poverty: USD 2.15, USD 3.65 and USD 6.85 a day per person in 2017 US dollars purchasing power parity (PPP). These three thresholds are the median of harmonised national poverty lines in LICs, lower middle-income countries (LMICs) and upper middle-income countries, respectively. Another method to measure poverty is the global Multidimensional Poverty Index (MPI), developed by the United Nations Development Programme (UNDP), and the Oxford Poverty and Human Development Initiative (OPHI), which is a composite of ten indicators of education, health, nutrition and assets.

For the purposes of this discussion, each poverty measure is labelled as follows:

- Extreme poverty refers to those living with less than USD 2.15 per day per person.
- Absolute poverty refers to those living with less than USD 3.65 per day per person (referred to as moderate poverty by the World Bank) and includes those living in extreme monetary poverty.
- Multidimensional poverty encompasses those living without basic education, or in health poverty or without basic assets or undernourished (and a household is poor if someone is deprived in more than one-third of the weighted indicators).

The USD 2.15 a day line – extreme poverty – is used in the SDGs, and ending global poverty is unfortunately often equated with ending extreme poverty at this line.[4] Here is the rub, though: most of the world's extreme poor do not live in LICs but in LMICs, where the average national poverty line is higher (the USD 3.65 line). So, the more relevant poverty threshold to where most of the world's extreme poor live (and the world's absolute poor), is the USD 3.65 poverty line. For comparison purposes, the average poverty line in high-income countries (HICs) is about USD 25 per day, though relative poverty lines rather than absolute poverty lines are generally used in HICs.

> ...people living in poverty cited not only the objective dimensions of poverty – the experience of hunger and ill health – but also the subjective dimensions, or how it feels to live in poverty, that manifest in a sense of shame, powerlessness and humiliation.

A significant question is can someone live on USD 2.15 per day? Does it buy essential goods while covering health and education costs? Indeed, extreme monetary poverty might be inadequate to portray the multidimensional nature of poverty. When the number of people in poverty across LICs and MICs is considered, the correlation between monetary and multidimensional poverty headcounts are much stronger at the USD 3.65 line than at the USD 2.15 line (Sumner and Yusuf, 2024[11]). This, too, suggests that ending absolute poverty ought to be the ambition of public policy.

The persistence of child stunting (low height or weight for their age) further illustrates why ending extreme monetary poverty may be an insufficient target. Many countries that have successfully reduced extreme monetary poverty, and may even end extreme monetary poverty by 2030, have surprisingly high levels of child stunting. For example, in some countries with extreme poverty at or below 10% in Southeast Asia, one in four or even one in three children under 5 are stunted (Sumner and Yusuf, 2024[11]). Stunting in childhood has long-run impacts on physical and cognitive development and as such hinders capacities to build up assets. Stunting is caused by a wide set of deprivations that culminate in the condition, notably poor maternal nutrition during pregnancy and poor infant nutrition in early years, repeated infections or repeated diarrhoea, and poor sanitation and hygiene. So, is monetary poverty the right way to measure poverty?

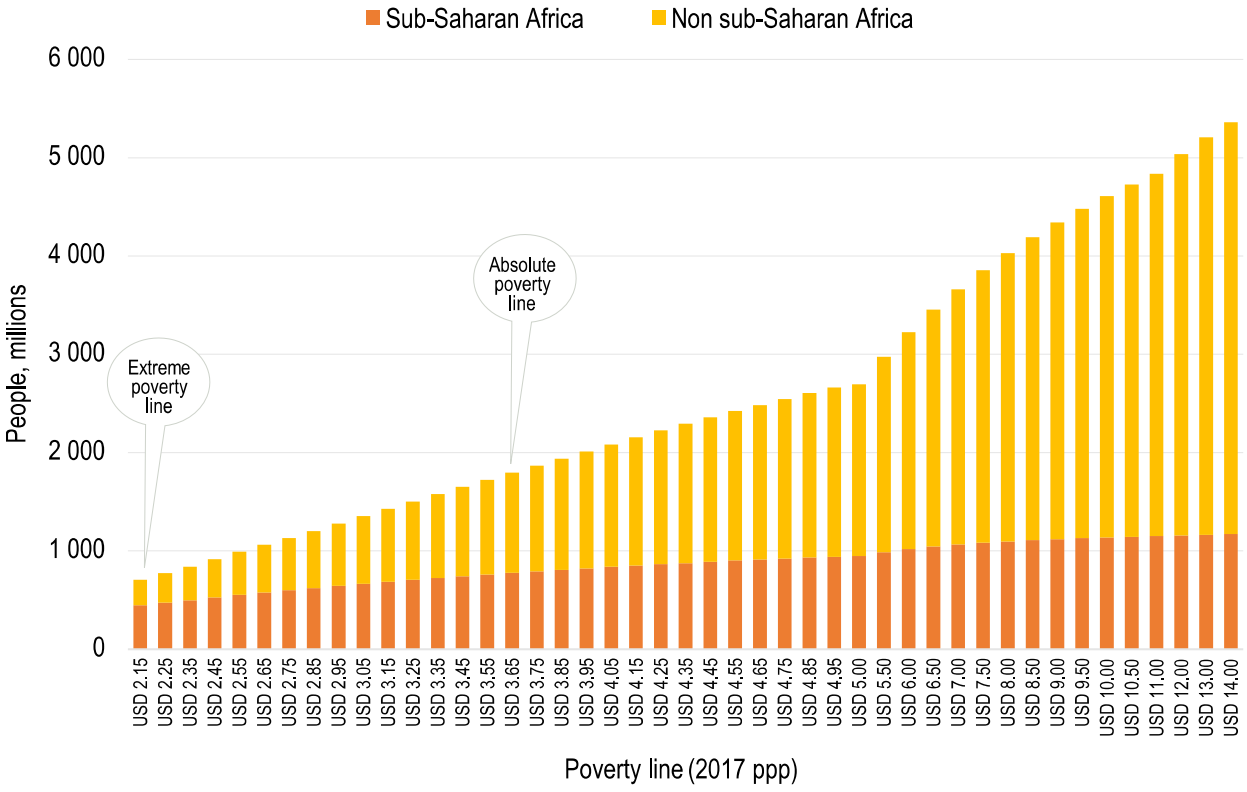
> A significant question is can someone live on USD 2.15 per day? Does it buy essential goods while covering health and education costs?

Estimating poverty trends using monetary poverty as a measure, moreover, may not fully account for likely fluctuations in levels of poverty. Being temporarily out of monetary poverty, for instance, does not imply being free of the risk of falling back in the future. People may move in and out of poverty over time, and when leaving poverty, people do not move out of poverty in one big jump to a prosperous life. Rather, the move is slow and gradual.

Indeed, insecurity is a big problem. Millions of people globally live barely above the USD 2.15 line and barely above the USD 3.65 line and are at risk of falling (back) into poverty due to stressors and shocks, as the pandemic showed (Sumner, Ortiz-Juarez and Hoy, 2021[12]). This clustering of people around the poverty lines also underlines how hypersensitive estimates of global poverty are to the precise value of the poverty line used. In fact, each increase in the USD 2.15 poverty line of USD 0.20 increases the global poverty headcount by about 150 million additional people on average (Figure 2.1). Another way to look at this is that approximately 700 million people live below the extreme poverty line of USD 2.15 – but another billion or so people live above that line of extreme poverty but still in absolute poverty (under the USD 3.65 line).

In fact, the poverty headcount rises to as high as over 5 billion people using the highest poverty line of USD 14 per person per day (Figure 2.1). This threshold is used by the World Bank in Latin America. It is associated, in longitudinal studies, with a low probability of falling into absolute poverty in Latin America, which is measured at the upper middle-income country poverty line of USD 6.85 per day (see López-Calva and Ortiz-Juarez (2014[13]) and Fernandez, Olivieri and Sanchez (2023[14])). In short, the risk of falling back into poverty diminishes to a low level only for people living on at least USD 14 per day.

Figure 2.1. Global monetary poverty headcount, 2022 (2017 PPP)



Notes: The figure was generated using PIP extrapolated and interpolated data for low- and middle-income countries with a population of 1 million or more. The most recent year available from the Poverty and Inequality Platform (PIP) is 2022.
Source: Authors' elaboration based on World Bank (2024[15]), *Poverty and Inequality Platform*, https://pip.worldbank.org/home.

An alternative to monetary poverty measures is to aggregate the basic non-monetary dimensions of poverty, as the UNDP and OPHI do annually to produce a measure of multidimensional poverty (Alkire et al., 2015[16]). Their MPI consists of ten indicators across 3 dimensions: 1) health (nutrition and child mortality); 2) education (years of schooling and attendance rate); and 3) standards of living (access to electricity, sanitation, potable water, housing, and cooking fuel type and household assets). Though the

MPI does not consider all the dimensions of poverty identified by poor people themselves in the survey by Narayan et al. (2000[10]), it portrays dimensions of poverty beyond what is possible to portray with monetary poverty measures. Compared with the approximately 700 million people living in extreme monetary poverty across the world, for instance, over a billion people live in multidimensional poverty. This is another flag that the income level at the extreme poverty line (USD 2.15) is potentially too low to be able to buy the food necessary to be nourished, and pay the costs related to schooling and healthcare. For these reasons, USD 3.65 may be a more reasonable poverty line.

Compared with the approximately 700 million people living in extreme monetary poverty across the world, for instance, over a billion people live in multidimensional poverty.

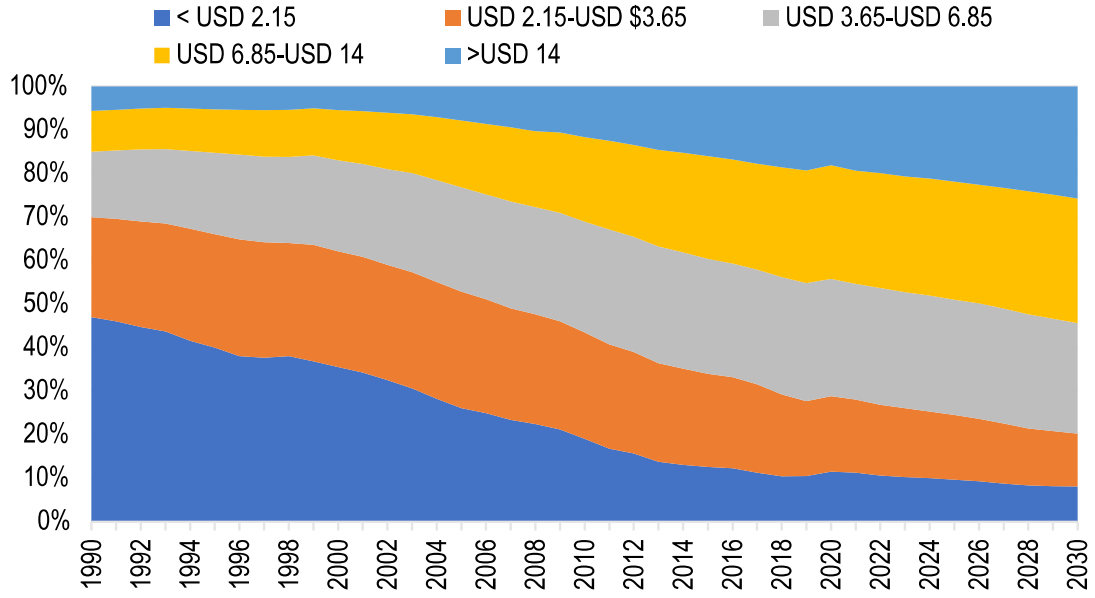
Who, then, are the poor, according to the various measures available?

Those in monetary and non-monetary poverty are overwhelmingly young and rural, though agriculture employment may no longer be their dominant form of work. Focusing on monetary poverty, Castañeda et al. (2018[17]) found those living in extreme poverty to be two-thirds working in agriculture, with 80% residing in rural areas and 45% children under the age of 15 years old. A somewhat different profile emerged from an analysis based on the UNDP-OPHI multidimensional poverty measure (MPI), which concurred on the youth and rural nature of poverty but found that one-third to one-half of poor households have no member employed in agriculture (Robles Aguilar and Sumner, 2020[18]).

What are the prospects for ending monetary and non-monetary poverty as framed by the SDGs?

In terms of the scale of the task, the good news is that since the 1990s, monetary poverty has been clearly declining as a share of the total global population. This trend is observed at both monetary poverty lines noted, though with an uptick during the pandemic as people fell back into poverty (Figure 2.2). In most countries, since 2010, aggregated multidimensional poverty has declined too (Figure 2.3). Further, the various poverty-related SDGs – undernutrition, stunting, under-5 mortality, maternal mortality and access to safe water – all improved over the 2000s quite rapidly (Figure 2.4).

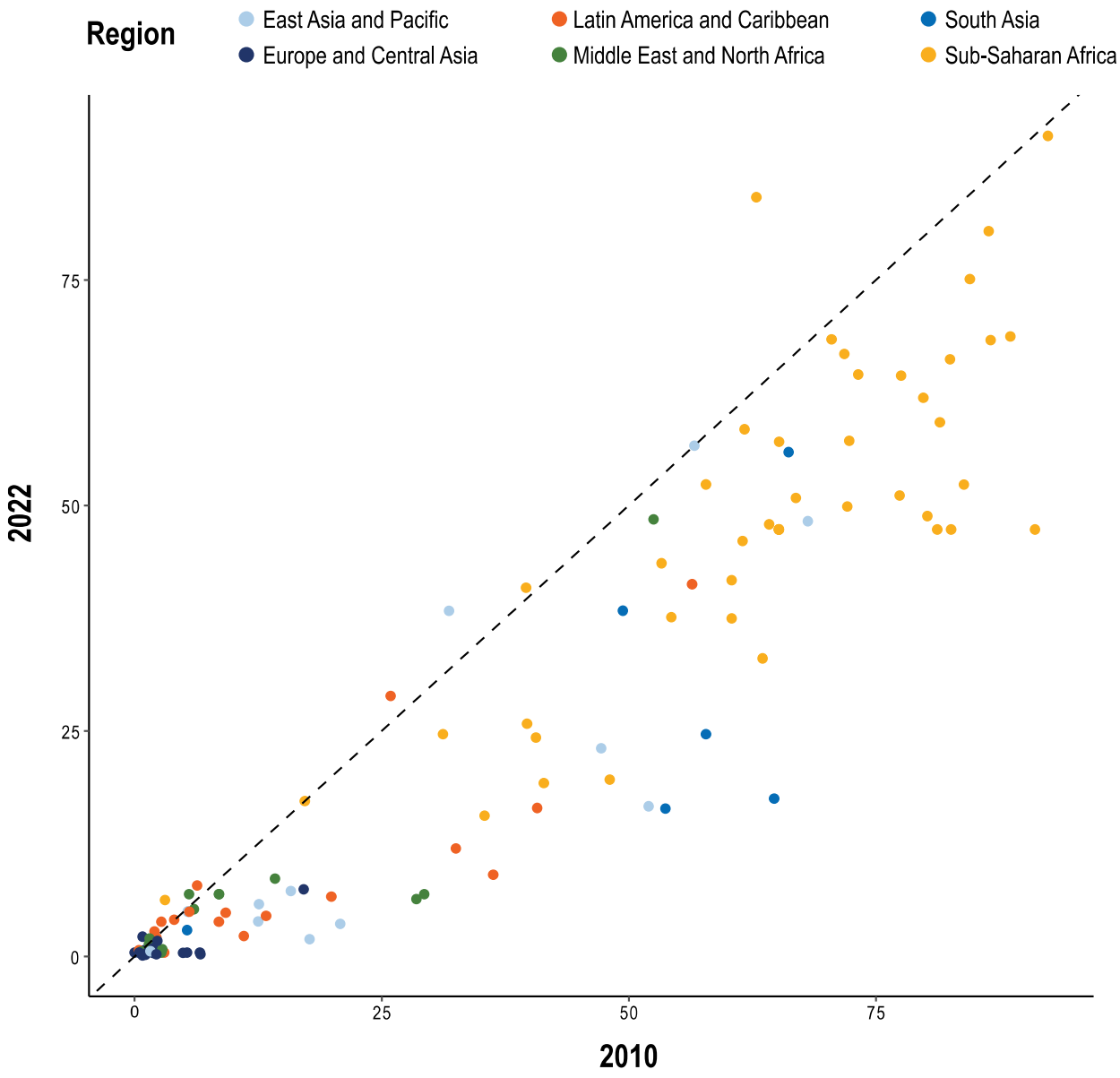
Figure 2.2. Share of population living in monetary poverty, by poverty line, 1990-2030 (World Bank projections from 2023-30)



Note: The figure was generated using World Bank extrapolated and interpolated data for low- and middle-income countries with a population of 1 million or more.

Source: Authors' elaboration based on data from World Bank (2024[15]), Poverty and Inequality Platform, https://pip.worldbank.org/home and World Bank unpublished staff estimates.

Figure 2.3. Share of population living in multidimensional poverty, 2010 and 2022



Notes: Missing data were filled using population-weighted regional averages. The most recent Multidimensional Poverty Index shares were used with 2022 population data to estimate multidimensional poverty in 2022. Plots show low- and middle-income countries with a population of 1 million or more.

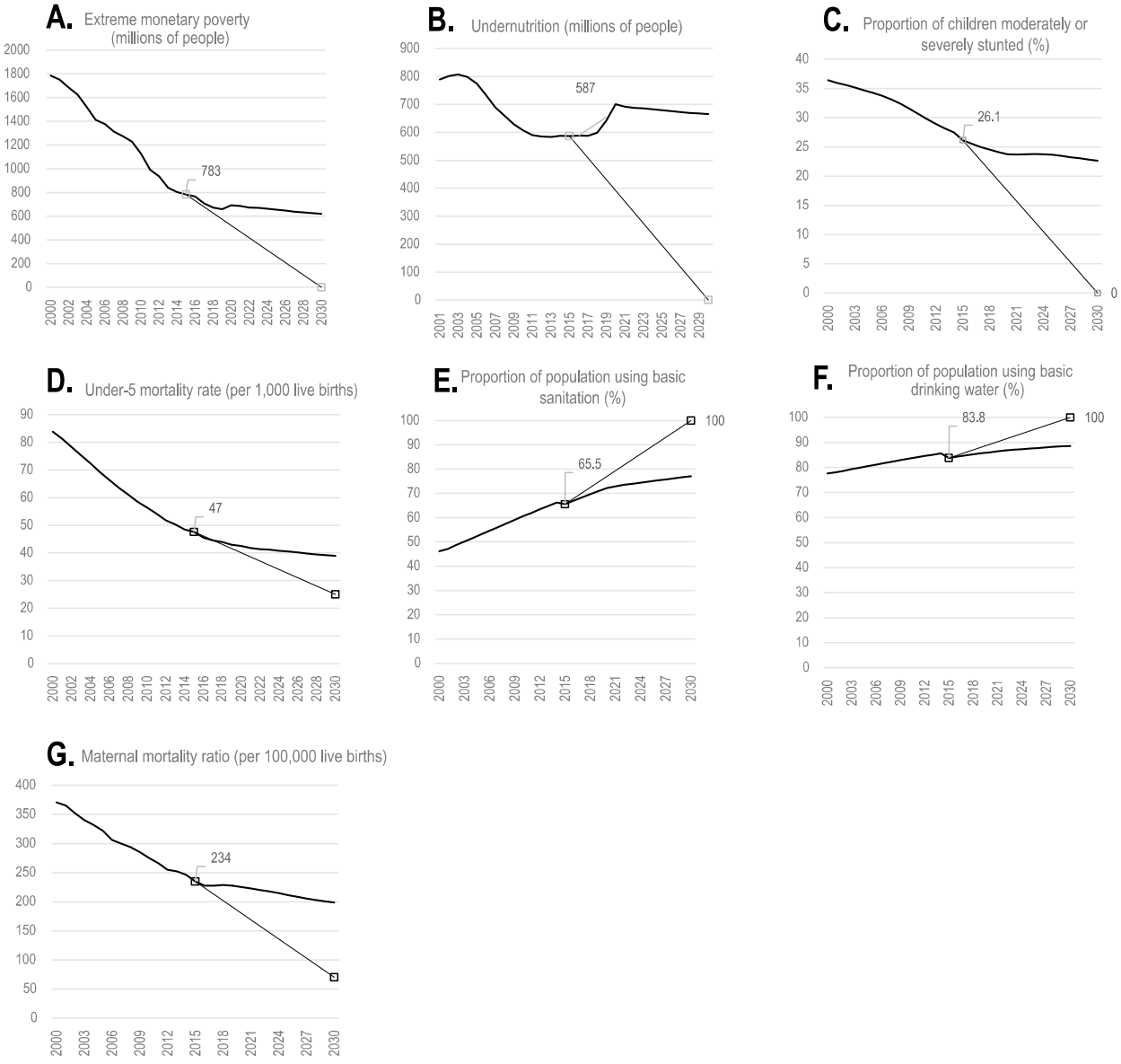
Sources: Authors' elaboration based on data from Data Table 1 (national results 2023) in OPHI and UNDP (2023[19]), Global Multidimensional Poverty Index (MPI), https://ophi.org.uk/global-mpi/2023.

However, the post-pandemic context of slow growth, price shocks and higher debt servicing costs have pushed the poverty-related SDGs off track. Projections by Yusuf et al. (2023[20]) show that the strong declines of the 2000s and onward have stalled (Figure 2.4). In 2030, it is projected that over 600 million people will remain in extreme monetary poverty and 665 million people will be undernourished.

Alarmingly, the number of undernourished people will be higher in 2030 than before the COVID crisis and, in fact, higher than in 2015 when the SDGs were agreed upon. While rates of stunting and infant and maternal mortality have improved dramatically, especially since 2000, it is also projected that in 2030 more than one in five children will be stunted. Additionally, although under-5 mortality and maternal mortality

should continue to improve, the progress will be slow. Access to safe water could also remain a major challenge and in 2030, 800 million people could still lack access to safe water and potentially 1.7 billion people may still not have access to basic sanitation (Figure 2.4).

Figure 2.4. Poverty-related Sustainable Development Goals, 2000-15 and projected 2015-30



Notes: The thin lines show the trajectory necessary to meet the Sustainable Development Goal. Bold lines illustrate current projections. These figures do not include data from high-income countries.

Sources: Authors' elaboration based on 2000-15 data from World Bank (2024[21]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators; Yusuf et al. (2023[20]), "Will economic growth be sufficient to end global poverty? New projections of the UN Sustainable Development Goals", https://doi.org/10.35188/UNU-WIDER/2023/431-1.

The setbacks could be particularly striking in sub-Saharan Africa, where extreme monetary poverty (USD 2.15) is projected to increase. The better news is that extreme poverty is projected to decline in South Asia. This pattern is also reflected in forecasts for undernutrition, which is on a rising trend in sub-Saharan Africa but a declining trend in South Asia. However, South Asia has and will have high stunting

rates, with projections of more than a quarter of children experiencing stunting in 2030. Nevertheless, under-5 mortality and maternal mortality rates are projected to slowly improve. In sub-Saharan Africa, though gradually decreasing, these rates are expected to remain exceptionally high. While South Asia has lower mortality rates, slow progress is expected in the years leading to 2030.

Reducing inequalities

Inequality refers to differences in income (and other things) between individuals globally or within a country. Poverty, in contrast, is understood as insufficient assets to generate reasonable income which may be caused, in part, by the unequal distribution across society of the assets needed to generate reasonable income. In other words, poverty and inequality are interlinked and mutually dependent, and changes in one impact the other.

Reducing income inequality can best be thought of as increasing the share of income accruing to the poorest parts of the population. Achieving this may only be politically possible in a context of a growing economy and rising incomes for everyone. It is important to note that income differences between individuals often intersect and overlap with differences between groups, creating complex patterns of exclusion and disadvantage by gender, ethnicity and subnational region. Further, extreme poverty in many countries is related to entrenched inequalities and thus a strategic reason why more emphasis is needed on policies to mitigate inequality.

...that income differences between individuals often intersect and overlap with differences between groups, creating complex patterns of exclusion and disadvantage by gender, ethnicity and subnational region

Global income inequality – inequality between all individuals in the world – has been falling for some time, largely driven by the fast growth of per capita income in the People's Republic of China and other MICs (Gradín, 2024[22]; Kanbur, Ortiz-Juarez and Sumner, 2024[23]). That said, this era is likely over, and there may be a global inequality "boomerang" on the horizon. In recent years, MICs, especially China, have been moving closer to the income levels of HICs while pulling further ahead of LICs. If these patterns of economic growth continue, even at a slower pace, the inequality-increasing consequences at the global level may well blunt any inequality-reducing effects of favourable national forces (Kanbur, Ortiz-Juarez and Sumner, 2024[23]).

At the same time, the International Monetary Fund's latest growth forecasts suggest weak growth ahead for many of the world's poorest countries (IMF, 2024[24]), which exacerbates the pessimistic outlook for global income inequality.

Trends in within-country income inequality vary across regions

Income inequality has fallen in some countries, notably in Latin America, but risen in other LICs and MICs. This trend is observed whether measuring changes in income inequality through the Gini index or in terms of the share of income accruing to the richest 10% of the population over time or the share of income held by the poorest 40%.

What do the data say? In sum (based on (UNU-WIDER, 2023[25])) thus:

1. Within-country income inequality is the highest in countries in sub-Saharan Africa.
2. Within-country income inequality has fallen from high levels in many Latin American countries, with the income shares of the poorest 40% rising and the shares of the richest 10% falling since 1985.

This is due in large part to anti-poverty social assistance programmes and policies, the expansion of basic education, and labour market interventions, including rising real minimum wages (Cornia, 2012[26]; Lustig, López-Calva and Ortiz-Juarez, 2013[27]).

3. Across sub-Saharan Africa and South Asia, trends are very mixed. The data show the poorest in sub-Saharan Africa countries have the lowest shares of national income though those shares in some sub-Saharan Africa countries have improved since the mid-1980s. The richest in sub-Saharan Africa have the highest shares of national income.

Within-country income inequality varies widely across countries at the same income level

The share of income accruing to the poorest 40% of the population typically ranges from 10% to 20% (population weighted) across LICs and MICs. It is particularly low in LICs in sub-Saharan Africa. The share of income of the richest 10% in these countries ranges from 25% to 45% (population weighted), with the richest holding a particularly hefty share in LICs in sub-Saharan Africa and LMICs in South Asia.

It is important to note that these data are based on the available household survey data, which may not fully capture the incomes of the richest. This is because very rich households are less likely to appear in survey data. To address this, some analyses have sought to look at tax data to estimate the share of the richest (Alvaredo et al., 2016[28]; Bourguignon, 2015[29]). Innovative methodologies to create distributional national accounts have also recently emerged. Estimates of the share of income of the top 1% suggest not only that within-country inequality is higher than surveys show but that there is heterogeneity within regions.

How much inequality is too much inequality?

The World Bank has a new goal to address income inequality within countries with a Gini coefficient above 0.40. However, a Gini coefficient higher than about 0.30 – close to the average for developed countries and the OECD median of 0.33 – is already considered to hinder future economic growth.

What does this mean? In their analysis of the relationship between income inequality and economic development, Grigoli and Robles (2017[30]) show that when the Gini rises above 0.27 there is a slowdown in future economic growth. At low levels of inequality, the impact of inequality on economic growth is positive. Then at inequality levels above 0.27, the impact of inequality on economic growth switches from positive to negative. Almost all developing countries have inequality above this level. In short, it is likely inequality is already slowing economic growth. This 0.27 is an inequality "tipping point" where inequality above this level can start to hinder economic growth.

We also know that changes in income inequality tend to happen at the top and bottom of society. Palma (2011[31]) has noted that there is a surprising stability in this regard, with the "middle" that is sandwiched between the richest 10% and poorest 40% of the population always capturing about 50% of national income. This distribution varies little across countries and over time (Cobham, Schlögl and Sumner, 2016[32]). Rather, it is the shares of the richest and poorest groups that vary dramatically across countries, and thus changes in income inequality can be seen as the result of political competition between the richest and the poorest or the result of the "middle" siding with one group or the other. Moreover, the critical threshold around a Gini of about 0.30, above which income inequality becomes a drag on future economic growth, hinders future prosperity for everyone, including the rich.

What complexities impact ending global poverty and reducing inequalities?

Ending poverty and reducing inequalities are complex endeavours. One difficulty relates to people falling back into poverty; another relates to shifts in the location of poverty; yet another to the changing significance of ODA and the limits of relying on economic growth. Moreover, high levels of inequality can have negative impacts on social cohesion in societies. In addition, the post-pandemic debt is draining national governments of resources that could be used for ending poverty and reducing inequalities while also widening the development finance gap. Indeed, there is a growing sense of zero-sum game between ODA inflows and debt servicing outflows to creditors. One way of looking at this is that debt servicing costs are diminishing – offsetting – the potential positive effects of ODA resources and this is especially the case in the poorest countries.

Ending poverty means setting ambitions higher than extreme poverty

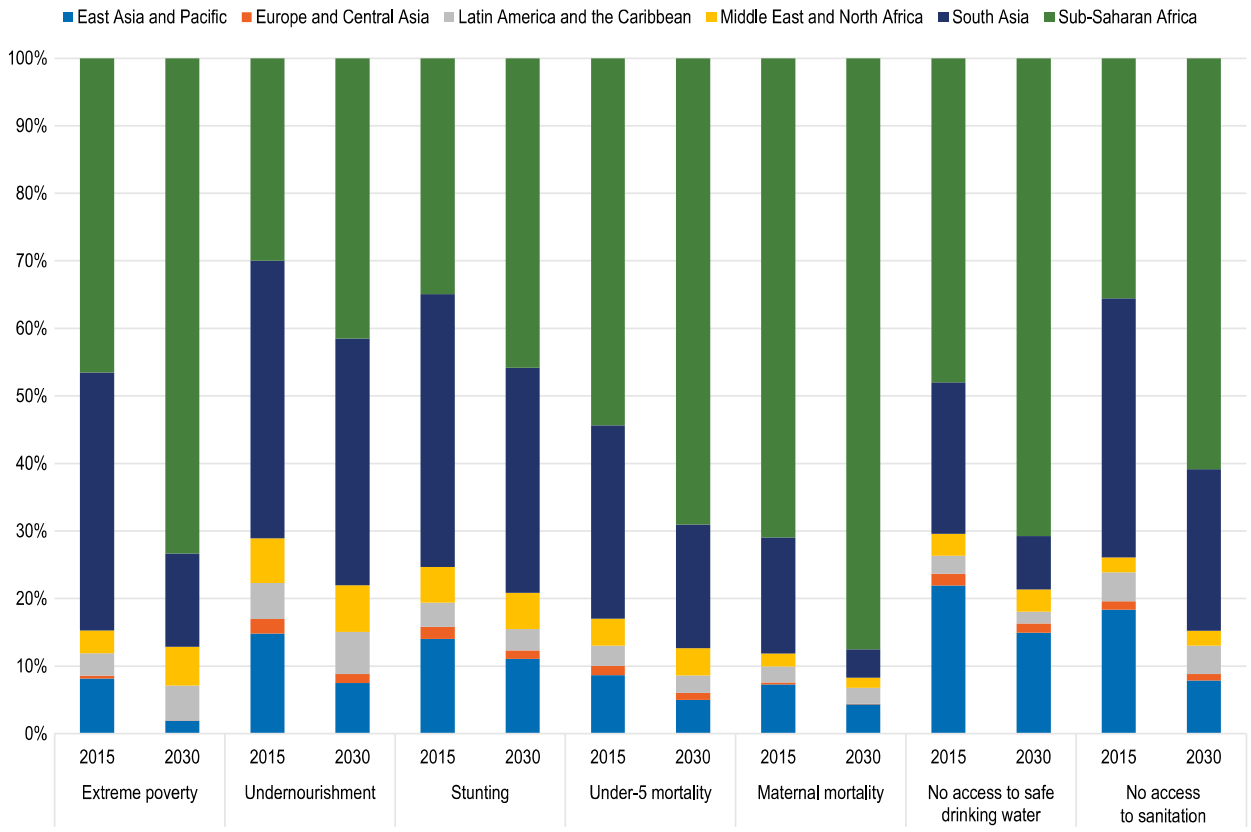
The minimum aspiration should be ending global monetary poverty at the USD 3.65 line and having policies in place to ensure people do not fall back below that line.

Moreover, reducing monetary poverty is not enough given the many other dimensions of poverty. Addressing undernutrition, limited education and poor health as well as a lack of access to clean water and basic sanitation matters, too – not only intrinsically but instrumentally to ensure that people do not fall back into poverty due to poor nutrition or ill health, for example.

Global poverty will increasingly be concentrated in sub-Saharan Africa

Where the world's poor live is changing over time. All forms of poverty are increasingly focused in sub-Saharan Africa (Figure 2.5). South Asia will still have a sizeable proportion of the world's extreme poor. Likewise, sub-Saharan Africa and South Asia will have the largest concentration of undernutrition and stunting, though sub-Saharan Africa's share will expand. The prospects for the reduction of both extreme monetary poverty and other forms of poverty are weakest in sub-Saharan Africa, though notable challenges will remain in South Asia and elsewhere.

Figure 2.5. Regional distribution of dimensions of poverty, 2015 and projected 2030



Source: Authors' elaboration based on projections from Yusuf et al. (2023[20]), "Will economic growth be sufficient to end global poverty? New projections of the UN Sustainable Development Goals", https://doi.org/10.35188/UNU-WIDER/2023/431-1; United Nations (2023[33]), Statistics – SDG Indicators Database, https://unstats.un.org/sdgs/dataportal; IMF (2023[34]), World Economic Outlook: Navigating Global Divergences, https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023.

The changing significance of ODA and tailoring to different country contexts

In some countries ODA is essential for the government to function reasonably and to deliver basic services. In others it is much less significant thanks to expanding domestic resources that the government has at its disposal. Furthermore, some countries are FCAS, and some are not. Thus, development co-operation needs to be *tailored* for four types of country contexts which should shape its priorities and approach to reducing poverty and inequalities (Table 2.1). This creates complexity for donors in the sense that the partnerships with governments will be quite different in each context.

ODA caters for only two of the four contexts – those where ODA is significant – but these countries are home to only half of the global extreme poor, almost half of the world's multidimensional poor and just a third of the world's absolute poor. The remainder of each type of global poverty is in countries where ODA is less significant (Sumner and Yusuf, 2024[11])

Approximately 40% of global extreme monetary poverty and multidimensional poverty was concentrated in fragile/conflict-affected situations in 2022 and a third of absolute poverty – but some of these amounts are in FCAS that are low ODA dependency countries. Looking ahead, projections suggest that more of the world's poverty – of all types – will be more concentrated in FCAS countries by 2030. The share is forecast to continue to increase and approach 60% in 2030 (Yusuf et al., 2023[20]).

So where do the world's poor live today in terms of the four contexts? Sumner and Yusuf (2024[11]) note that:

- FCAS, high ODA/GNI (gross national income) countries account for a third of extreme poverty, a third of multidimensional poverty and a fifth of absolute monetary poverty
- non-FCAS, low ODA/GNI countries account for a third of extreme poverty, approaching half of multidimensional poverty and over a half of absolute monetary poverty
- the remainder is split between non-FCAS, high ODA/GNI countries and FCAS, low ODA/GNI countries, with the former having larger proportions of each type of poverty.

Table 2.1. Different types of country contexts for development co-operation

	Significance of ODA relative to recipient's GNI	
	High	Low
FCAS	***Type I*** ***High aid dependency and fragile/conflict-affected situations***	***Type II*** ***Low aid dependency and fragile/conflict-affected situations***
Non-FCAS	***Type III*** ***High aid dependency and non-fragile/conflict-affected situations***	***Type IV*** ***Low aid dependency and non-fragile/conflict-affected situations***

Notes: ODA: official development assistance; GNI: gross national income; FCAS: fragile and conflict-affected situations. Significance of ODA relative to recipient's GNI = net ODA received as a percentage of GNI.

Development co-operation can support poverty reduction even where ODA is less significant

There is much that development co-operation can do and already does in places where ODA matters less. Potential avenues are policy coherence (e.g. trade policies and supporting new global tax rules); supporting more open policy processes (though this can look like political meddling); widening the evidence base in policy making by bringing evidence from other contexts and supporting national, regional and global think tanks and research institutes; technical assistance; and co-financing global and regional public goods.

Persistent inequalities, among other factors, undercut the poverty-reducing potential of economic growth

Economic growth and shifts in income inequality can induce changes in monetary poverty. On average, the poverty headcount falls and the incomes of the poor rise in line with income growth (Dollar and Kraay, 2002[35]; Dollar, Kleineberg and Kraay, 2016[36]; Kraay, 2006[37]) but not always. Some recent analyses have reopened the debate around the relationship between economic growth and poverty with a focus on "immiserizing growth" episodes – episodes in which average incomes rise but the incomes of the poor or the poorest do not. According to Shaffer (2023[38]), who provides the most up-to-date estimates using 1990-2023 PIP data, poverty does not fall and/or the incomes of the poorest do not rise in one in six of all growth episodes, defined as episodes of rising average incomes for at least five years (Table 2.2).

...reopened the debate around the relationship between economic growth and poverty with a focus on "immiserizing growth" episodes – episodes in which average incomes rise but the incomes of the poor or the poorest do not.

These anti-poor episodes of growth are particularly evident in sub-Saharan Africa, where the income of the poorest 10% of the population does not rise in nearly a quarter of the 50 growth episodes over the 1990-2023 period. Why? The reason is that countries in sub-Saharan Africa have high levels of income inequality and the poorest in the region have low shares of income. Thus, the poorest benefit less – and sometimes not at all – from rises in average income. This could reflect, as noted by Shaffer (2023[38]), that there is a minimum level of assets required to accumulate more assets and raise incomes. Examples include minimum land or herd sizes or cash advances to buy farming inputs. Or it could be that conflict may lead to loss of assets, reduced production and insecurity for the poorest even amid overall economic growth. Another possible explanation is that stressors and shocks among the poorest such as droughts, floods and harvest failures are so substantial that they negate attempts at progress. In short, exposure to harms such as conflict, natural disasters and other stressors severely hinders asset accumulation.

Table 2.2. Economic growth episodes and income evolution among the poorest, by region (five-year spell)

	Poorest 10%			Poorest 20%		
	# of episodes without income rise	Total # of episodes	% of episodes without income rise	# of episodes without income rise	Total # of episodes	% of episodes without income rise
East Asia and Pacific	4	23	17.4	3	30	10.0
Europe and Central Asia	0	9	0.0	0	13	0.0
Latin America	11	53	20.8	9	56	16.1
Middle East and North Africa	1	7	14.3	3	16	18.8
South Asia	0	13	0.0	0	14	0.0
Sub-Saharan Africa	12	50	24.0	12	53	22.6
Total	**28**	**155**	**18.1**	**27**	**182**	**14.8**

Note: Growth episodes are defined as episodes of rising average incomes for at least five years.
Source: Data from Shaffer (2023[38]), "Growth, poverty and immiserizing growth: Empirical evidence", https://d.docs.live.net/3c6a1bfca63c80ba/DCR 2024/CHAPTER 1 FROM IDA/10.13140/RG.2.2.10061.20961.

The added fiscal challenge of the post-pandemic debt legacy

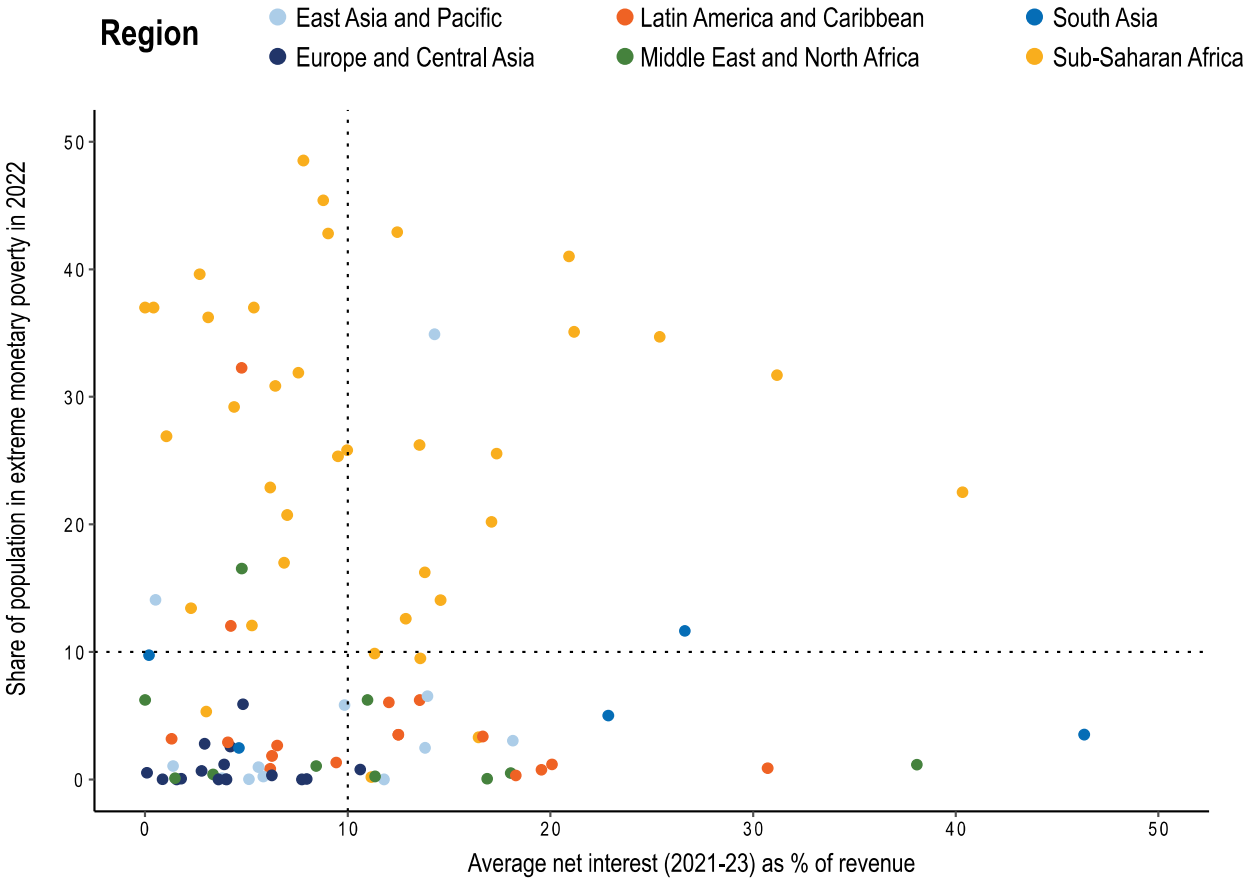
One of the biggest constraints on the ability of both LICs and MICs to end poverty and address inequalities is the cost of post-pandemic debt service. Debt servicing levels have risen dramatically. The United Nations estimates that the average LIC and MIC has net interest payments of over 8% of government revenue in 2024 (UNDP, 2024[39]). In fact, in many of the poorest countries with the highest levels of extreme and absolute monetary poverty and of multidimensional poverty, net interest is at or above 5% of government revenue and surpasses 10% in a number of them (Figure 2.6 and Figure 2.7). More than half of low-income countries (LICs) are either already in debt distress or are at high risk of debt distress (IMF, 2024[24]).

These costs of debt service also represent a substantial "offsetting" of ODA resources provided to the poorest countries because of fungibility. And the burden is growing. For example, in 2022, the poorest 75 countries paid approximately USD 90 billion in external public debt service, of which interest payments accounted for approximately USD 25 billion (Albert et al., 2023[40]). Furthermore, external public debt service paid by these 75 poorest countries (which are International Development Association-eligible countries) is estimated to rise to approximately USD 125 billion per year in 2023 and 2024 (Albert et al., 2023[40]).

Diversification in creditor structure has hardened terms at which borrowing countries access debt, as new lenders tend to offer less concessional debt (Albinet and Kessler, 2022[41]). At the same time, this shift has

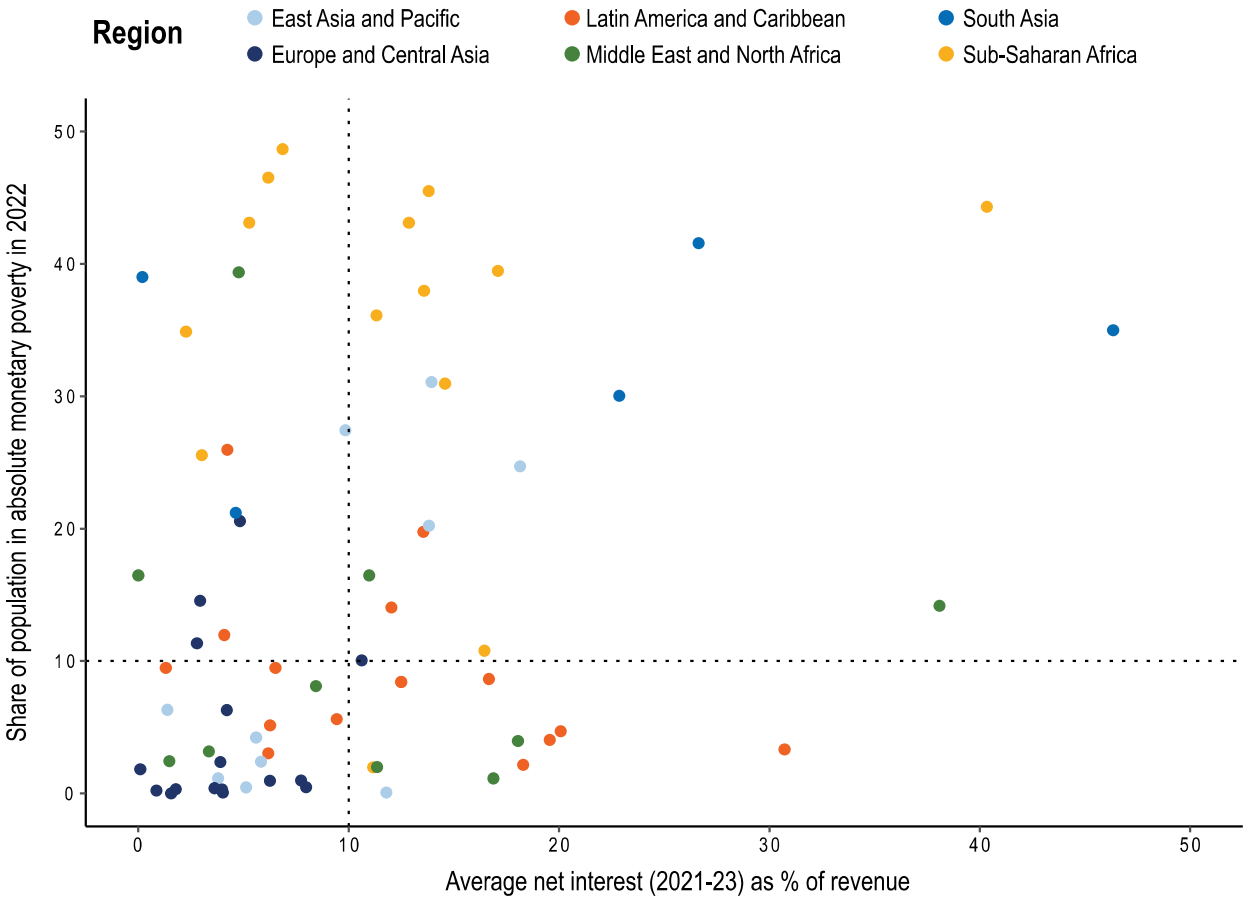
been limited, due to the concomitant increase in multilateral development finance (Kessler, 2022[42]). At the macroeconomic level, multilateral banks have sought to alleviate funding constraints by providing additional loans (Albinet and Kessler, 2022[41]). Yet, net external flows were projected to turn negative in 2024 (Diwan and Harnoys-Vannier, 2024[43]) for low and lower middle-income countries as more money flowed out, raising questions on the efficiency of the aid system where dollars meant to reduce poverty are diverted to reimburse creditors. Development providers thus face a difficult dilemma: either play their role as counter-cyclical actors, but at the risk of mainly reimbursing other creditors, and with very little new money entering illiquid countries; or allow them to fail even though those countries do not seem insolvent (Diwan and Harnoys-Vannier, 2024[43]).

Figure 2.6. Net debt interest (% revenue), average 2021-23 and extreme monetary poverty headcount (USD 2.15), 2022



Sources: Authors' elaboration based on IMF (2023[34]), World Economic Outlook: Navigating Global Divergences, https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023; World Bank (2024[15]), Poverty and Inequality Platform, https://pip.worldbank.org/home.

Figure 2.7. Net debt interest (% revenue), average 2021-23 and absolute monetary poverty headcount (USD 3.65), 2022



Sources: Authors' elaboration based on IMF (2023[34]), World Economic Outlook: Navigating Global Divergences, https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023; World Bank (2024[15]), Poverty and Inequality Platform, https://pip.worldbank.org/home.

How much will it cost to end poverty and reduce inequalities?

Estimates of the cost of ending poverty are indicative rather than precise given there are administrative and logistical costs to delivering any transfer system. However, the infrastructure necessary for social transfer schemes do exist in many LICs and MICs. One measure to approximate this cost is the annual monetised value of the poverty gap, which is shown in Table 2.3. This is the cost of raising those who are living below the poverty line to an income level equivalent to the poverty line.

Table 2.3 sets out new cost estimates using this measure for ending extreme monetary poverty (USD 2.15 per day) and for ending monetary poverty (USD 3.65 per day). The former is over USD 65 billion in current US dollars per year, which is 0.07% of global GNI and 0.12% of the GNI of high-income OECD countries. To end absolute monetary poverty, the estimate is inevitably a larger amount: around USD 325 billion in current US dollars per year or 0.32% of global GNI and 0.56% of the GNI of high-income OECD countries.

What would be the cost per person living in poverty? Measured at the two monetary poverty lines, the annual per-person cost is small, as it is the total cost divided by the number of people living in poverty. Thus, the cost is approximately USD 100 per year per person living in extreme poverty and approaching USD 200 per year per person living in absolute poverty. ODA-dependent FCAS countries account for the largest share (around 35%) of the cost of ending extreme monetary poverty. However, a large share of the

cost of ending absolute poverty (41%) is concentrated in countries that are not FCAS and have low ODA as a share of GNI. This again points to the importance of ODA in the ODA-dependent FCAS countries and to OECD countries' policy coherence in the non-ODA-dependent and non-FCAS countries.

In short, the financial cost of ending poverty is not prohibitive *vis-à-vis* current ODA levels or the share of global GNI or OECD high-income countries' GNI. Of course, these values are only the monetised poverty gap, and administrative costs challenges are not considered. Nor is the technical challenge of reaching people, which should not be underestimated. Nonetheless, the estimates do suggest that ending global poverty would not be financially impossible in relation to global GNI or the GNI of high-income OECD countries.

Estimates of the cost of addressing specific components of multidimensional poverty are available, but some are dated and typically pre-pandemic cost estimates. Generally, comparability across estimates is limited due to the different survey years to estimate each type of poverty, differences in the average cost of ending each type of poverty within and between countries, and different underlying assumptions, making it challenging to estimate the costs (Kenny and Snyder, 2017[44]; Manuel et al., 2019[45]; Watkins and Nwajiaku-Dahou, 2024[46]).

In contrast to poverty, the direct cost of addressing inequalities, in principle, is zero. However, this does not take into account administrative costs associated with income transfers or with other policies such as expanding tax collection and enforcing minimum wage legislation. All of these policies incur costs of delivering the policy outcome. The barriers are rather political such as vested interests, what is perceived as possible, and who the winners and losers may be (see discussion in Coolin, Sapienza and Sumner (2024[47])). It is not just about the cost.

Table 2.3. Estimated annual cost of ending poverty (monetised poverty gap) at the USD 2.15 and USD 3.65 poverty lines, 2022

	USD 2.15 poverty line	USD 3.65 poverty line
Annual cost, current USD, billion	67.28	324.90
Share of annual cost by country type:		
Low ODA and FCAS (%)	14.55	13.91
Low ODA and non-FCAS (%)	25.44	41.00
High ODA and FCAS (%)	35.40	25.88
High ODA and non-FCAS (%)	24.32	18.95
Annual cost per person in poverty, current USD	97.2	185.2
% global GNI	0.07	0.32
% OECD HIC GNI	0.12	0.56

Notes: ODA: official development assistance; FCAS: fragile and conflict-affected situations; GNI: gross national income; OECD HIC GNI = high-income OECD countries. Estimates are based on countries with populations of more than 1 million with available data (103 countries).
Sources: Sumner and Yusuf (2024[11]) based on World Bank (2024[15]), Poverty and Inequality Platform, https://pip.worldbank.org/home Bank (2024[21]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

What will it take to end poverty and address inequalities?

The next decade and beyond are likely to be shaped by shocks and stressors related to climate change and other major global factors. Ending poverty and reducing inequalities now, as soon as possible, would be cheaper and easier in a relative sense, that is in relation to the cost of doing so amid climate shocks and stressors. It would also be sensible, in preparation for a hotter climate, to end poverty and reduce inequalities before climate change-induced impacts make these tasks harder in the face of extreme

weather, shifting agriculture patterns, rising sea levels, and potentially mass migration between and within countries.

> Ending poverty and reducing inequalities now, as soon as possible, would be cheaper and easier in a relative sense, that is in relation to the cost of doing so amid climate shocks and stressors.

The scale of the task to end poverty and reduce inequalities is undeniably substantial, and economic growth and rising incomes are important. That said, growth itself is no guarantee of poverty reduction and may even bypass the poorest sometimes. Public policies to ensure that the direct and indirect benefits of growth are broadly distributed are thus essential. Changes in non-monetary poverty, however, relate more to the quality and provision of public goods – for example, education and health. There is substantial scope for national policies, particularly those to support welfare such as social policies, to change the trends and levels of poverty and inequalities. However, the sharp increase in debt service costs since the pandemic has significantly limited national social policy spending, especially in the poorest countries. This does need urgent attention, potentially in a similar vein to the Heavily Indebted Poor Countries Initiative and the related Multilateral Debt Relief Initiative programmes of the mid-1990s onwards that led to debt relief of USD 100 billion for the poorest countries (World Bank, 2024[48]). A renewed case may be made as part of an "SDG-compact" or reparations for climate-related loss and damage.

LIC and MIC governments do have considerable control over domestic policies, including national macroeconomic policies, labour market policies, wealth inequality policies, fiscal policy (taxation and transfers) and government spending on public goods. But this requires active policy regimes – social spending, transfers and policies – orientated towards that end, thus shaping the accumulation and distribution of assets.

Finally, the challenge of ending poverty and reducing inequalities is evolving with important implications for development co-operation and development finance. The shifting characteristics and location of global poverty are reasonably clear. In the years ahead, economic growth may not be sufficient to raise the incomes of the poor. The expansion of income transfers, well-funded public goods, insurance mechanisms and active labour market policies are required to end poverty and address inequalities. Further, roughly half of the world's poorest live in countries where ODA really matters to the functioning of their governments, including in conflict and post-affected situations where ending poverty is particularly difficult. The other half of the world's poorest live in countries where ODA is less important due to sufficient domestic resources. What really matters in such countries is policy coherence on the part of OECD countries. The legacy of the pandemic has been higher debt servicing and a resulting fiscal squeeze impacting the public systems that need to deliver poverty and inequalities reduction. Without a doubt, new financing will be needed for the poorest countries.

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Notes

[1] The Stern Review on the Economics of Climate Change made a similar argument that the benefits of early action outweigh the economic costs of not acting. See: https://webarchive.nationalarchives.gov.uk/ukgwa/20100407172811/https:/www.hm-treasury.gov.uk/stern_review_report.htm.

[2] This approach of conceptualising people's livelihood strategy is sometimes referred to as an asset-based approach or sustainable livelihoods approach and is associated with the seminal paper by Chambers and Conway, https://www.ids.ac.uk/publications/sustainable-rural-livelihoods-practical-concepts-for-the-21st-century.

[3] Shocks refer to sudden-onset risk events such as floods, droughts and price spikes. Stressors refer to more gradual shifts such as regular non-catastrophic flooding, land degradation and socio-economic marginalisation. A shock may be short in duration, but its impacts can persist long after the initial event and erode assets that support resilience.

[4] There is also some contention over whether ending extreme poverty means zero extreme poverty, with SDG target 1.1 calling for eradicating extreme poverty everywhere by 2030 and the World Bank's goal is to reduce extreme poverty to under 3% of the global population by 2030.

3 Proven policies that end extreme poverty and reduce inequalities

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This chapter reviews findings from a five-year global research programme that can guide national policy makers and development co-operation agendas on how to best reduce poverty and inequality – sustainably and in tandem. Successful efforts require bigger public budgets, greater tax fairness and significantly expanded social protection, and targeted efforts to formalise workers and increase worker mobility. The chapter includes examples of Viet Nam's extension of the mandated maternity leave period, cash transfer programmes in Ecuador, South Africa and Zambia, among others; tax system strengthening in Tanzania and Uganda, and minimum wage policies and government protection for workers in vulnerable industries during structural transformation in Indonesia.

The authors are grateful for additional suggestions and contributions from the UNU-WIDER research staff and acknowledge contributors to the 2019-23 work programme whose more than 800 research studies collectively form the backbone of the knowledge synthesised in this chapter. For a more in-depth synthesis of this work, see UNU-WIDER, https://www.wider.unu.edu/publication/towards-peace-decent-work-and-greater-equality.

Key messages

- Low- and middle-income countries need greater fiscal capacity to invest in policy actions that reduce gender and other inequalities, boost social mobility, and eliminate extreme poverty.
- Poverty reduction strategies are more likely to succeed in tandem with policies that support economic transformation.
- Programmes that support the expansion of social protection systems and enhance the livelihoods and working conditions of the most vulnerable informal workers are among the most effective ways to secure inclusive progress on global goals.
- Increasing data availability and local capacity to analyse the impact of tax and benefit system reforms on poverty and inequality is key to increasing domestic revenues in the Global South and encouraging prudent macroeconomic management.
- To solidify gains in reducing inequality and help people escape poverty over the long term, policy and programmatic goals should focus on continuously raising household incomes and expanding the middle class.
- Poverty and inequality are drivers and consequences of fragility and conflict. State-building efforts that recognise the economic security and sociopolitical needs of local populations are more likely to succeed in reducing both in the long term.

Despite recent setbacks, targeted aid and action at international and national levels can reduce extreme poverty and inequality

With the 2030 deadline for the Sustainable Development Goals (SDGs) looming, a barrage of global economic shocks have reversed much of the progress made since 2015. Recent projections make it clear that progress on critical poverty-related SDG targets is already derailed, threatening the lives and livelihoods of hundreds of millions of people (Yusuf et al., 2023[1]; Yusuf, Zuzy and Komarulzama, 2023[2]). Global South countries have limited fiscal space to fund the broad range of public actions known to address poverty and inequalities. More than half of low- and middle-income countries are already in or at high risk of debt distress (UNDP, 2024[3]). Without additional resources for development, the prospects for achieving the SDGs are low.

Nonetheless, the development progress of recent decades has made many low- and middle-income countries more resilient to global shocks than in the past, and this enables stronger public action to cushion shockwaves and support both economic development and the reduction of poverty and inequalities. Data availability has improved, as has the capacity to take informed decisions at the national level. Much-strengthened financial and capital markets give Global South economies easier access to finance. There is momentum, too, for important reforms to key components of global economic governance in 2024. All these positive developments offer reassurance that it is still possible to put global goals, with poverty and inequality reduction at their centre, back on track and turn the corner on climate change.

At the national level, improving the operation of labour markets can help to boost income and labour mobility, which in turn can build and expand the middle class to solidify progress on reducing poverty and inequality. Improving domestic resource mobilisation can set the stage for poverty and inequality reduction through social transfers and protection systems if states are not overly burdened by public debt. At the international level, support for initiatives that meaningfully address debt distress can increase fiscal space in low- and middle-income countries, while development co-operation should support local capacity to improve tax enforcement and compliance and encourage actions that increase national investment in sustainable development. These are the prerequisites to success that lay a working foundation for the economic, social and state transformations needed to recover lost progress and advance further.

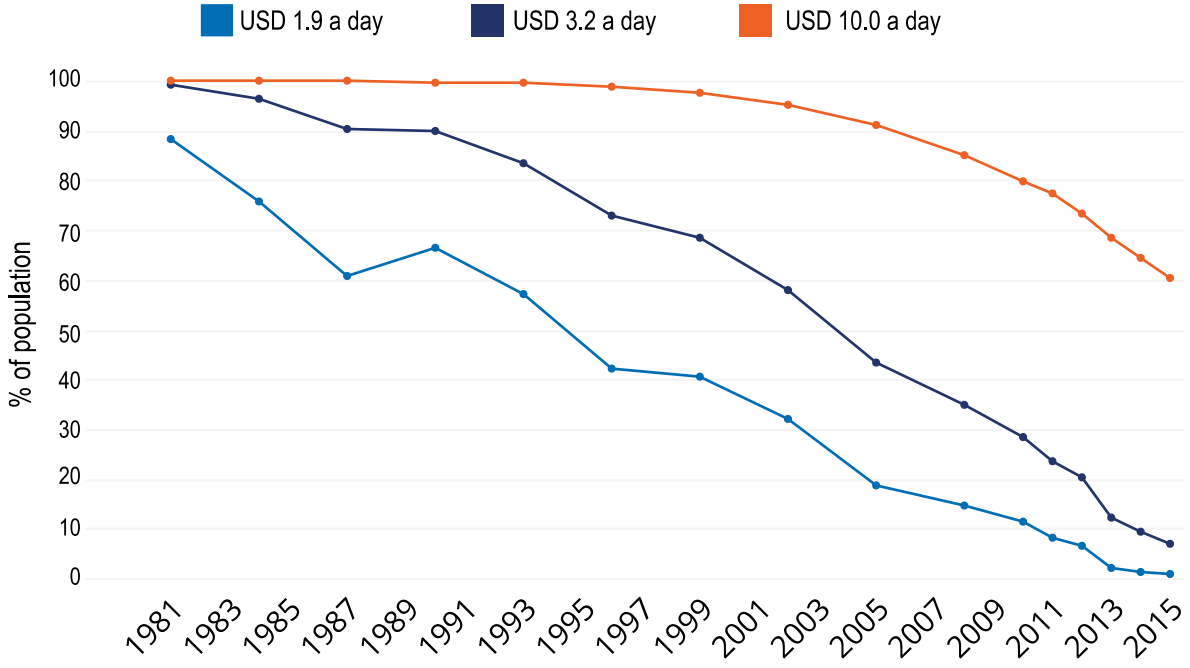
Inextricably linked, poverty and inequality must be tackled and managed together

Poverty and inequality do not always move in the same direction, but this should not be taken as evidence of a meaningful tension. Reductions in poverty today can support reductions in inequality tomorrow and vice versa. Poverty and inequality have a complex relationship depending on the country context, so it is important to look beyond headline indicators to understand what underlying data changes reflect.

For example, reductions in income inequality can coincide with zero progress on poverty when reduced inequality results from changes in the income distribution above the poverty line – for example, lower shares of economic output to the upper classes with increasing shares of output to lower middle-class families just above the poverty line. In such a case, measuring progress by poverty headcounts alone would fail to capture the worthwhile gains made for equality.

Likewise, a country may all but eliminate extreme poverty through social policies that push household consumption above the extreme poverty line. But it may also witness large increases in inequality. For example, the People's Republic of China (hereafter "China") experienced a decline in extreme poverty (per the international line of USD 1.90 a day) from 88.0% to just 0.7% of the population between 1981 and 2015 (Figure 3.1) (see also Chapter 10). At the same time, there were rapid increases in income inequality although the upward mobility of households above higher poverty lines in the future would begin to reduce inequality (Li and Xing, 2020[4]).

Figure 3.1. Poverty rates in China, 1980-2015



Notes: The figure depicts poverty rates at different poverty lines. Poverty lines are in 2011 purchasing power parities.
Source: Li and Xing (2020[4]), "Structural transformation, inequality, and inclusive growth in China", https://www.wider.unu.edu/publication/structural-transformation-inequality-and-inclusive-growth-china.

In any context, if either poverty or inequality is falling (or both), it is important to solidify short-term gains and find strategies to translate these into long-term future reductions in poverty and inequality. While several economies in recent decades experienced spikes in inequality alongside poverty reduction, permanent long-term increases in inequality are not an inevitable consequence of either poverty reduction or economic development (Alisjahbana, Sen and Sumner, 2022[5]). Strong public actions that ensure

growth is inclusive can create conditions like those from the mid-1970s to the mid-1990s in Indonesia, when it became a rare example of a country with both declining inequality and poverty. This development is attributable to Indonesia's policies on rural development, education provision and pro-poor spending that coincided with rapid economic transformation (Alisjahbana et al., 2022[6]).

In Indonesia, when it became a rare example of a country with both declining inequality and poverty. This development is attributable to Indonesia's policies on rural development, education provision and pro-poor spending that coincided with rapid economic transformation (Alisjahbana et al., 2022[6]).

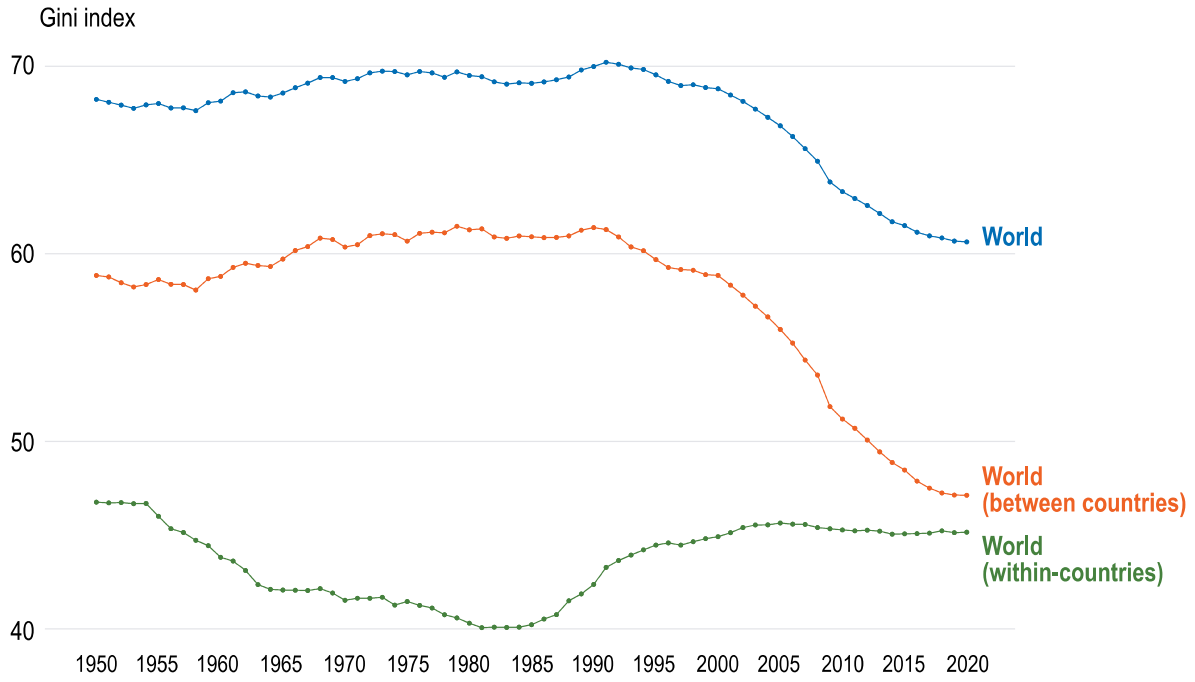
At the global level, the relationship between poverty and inequality is equally complex but for slightly different reasons. According to standard measures of global income inequality and global poverty, both have trended downward for decades (Gradín and Oppel, 2021[7]; World Bank, 2024[8]). But inequality experts now recognise that as rising incomes – that is, per capita gross domestic product (GDP) – in more populous countries surpass global mean incomes, the trend will reverse (Kanbur, Ortiz-Juarez and Sumner, 2024[9]). Assuming this progress continues, a downward trend in global poverty alongside rising global inequality could be expected.

Measures of global inequality include components on both within-country and between-country inequality. Between-country inequality is currently the dominant component driving trends (UNU-WIDER, 2023[10]). As long as between-country inequality is the bigger component, average income gains for lower income economies, such as those in sub-Saharan Africa, will need to outpace income gains for the middle-income economies, such as China and India, to prevent a reversal of the declining global inequality trend. Even if higher GDP per capita growth in the lower income economies is achieved, the within-country component of global inequality is already growing in importance and could become the dominant component in the future (Figure 3.2). Therefore, the long-term upward trajectory of the within-country component also urgently needs to be arrested to prevent increases to already high global inequality.

These trends and dynamics (Figure 3.2) demonstrate that poverty reduction at the global level is not by itself enough to achieve global goals. Progress in global poverty reduction must be both significant and long-lasting, and the growth of both between-country and within-country inequalities must be prevented. At the level of individual nations, what is important is to solidify gains in poverty reduction, manage for an initial rise in inequality with support for moving the remaining low-income households out of poverty, and prevent the sudden reversal and loss to progress associated with periodic crises.

The long-term upward trajectory of the within-country component also urgently needs to be arrested to prevent increases to already high global inequality.

Figure 3.2. The trend in global inequality (global Gini) and global Gini decomposed,1950 - 2020



Source: UNU-WIDER (2020[11]), *WIID Explorer: Gini Index* (database), https://www4.wider.unu.edu/?ind=1&type=ChoroplethSeq&year=70&byCountry=false&slider=buttons.

Strategies to generate and solidify gains in poverty and inequalities reduction must be tailored to context

Some constraints to reduce poverty and inequality effectively and sustainably are context-specific. The public actions that are known to reduce both poverty and inequality in high-income countries may not work as well in low- and middle-income country contexts. There are several critical differences between lower and higher income contexts to consider that primarily relate to the labour market inefficiencies of Global South countries and the overall capacity of the state to make critical public investments, raise revenues and redistribute. UNU-WIDER research finds that key targets for inequalities reduction in low- and middle-income countries are to: reduce labour market economic inequality, achievable through more inclusive labour markets and economic development; and reduce post-market inequality, which can be achieved through social transfers and the provision of critical public goods such as health, education, and transport and transit infrastructure. It is also vital to understand how to address context-specific constraints to effectively reduce poverty and inequality. For example, poverty and inequality are drivers as well as consequences of fragility and conflict. To break the cycle in fragile and conflict-affected situations, establishing a just and sustainable peace is a prerequisite (Box 3.1).

Box 3.1. Poverty and inequality must be addressed deliberately and systemically in fragile and post-conflict contexts

Conflict and fragility are key drivers of poverty and inequality. While global poverty has been on a downward trajectory for most of the past 34 years, poverty has increased in conflict-affected countries, and gaps between peaceful and conflict-affected countries are predicted to widen further (World Bank, 2022[12]). Per capita income levels in more than half of all fragile and conflict-affected countries are lower than in 2019 (World Bank, 2024[13]). Conflict, in particular, can restructure the social, political and economic order, setting the stage for cycles of exclusion and violence in the absence of appropriate intervention.

Recognise the complexity of conflict dynamics

Conflict brings about enormous suffering and loss. It also leads to profound forms of institutional change with unexpected results. For instance, in some cases, exposure to certain forms of wartime governance has been shown to increase grassroots participation and organisational capacity (Steele and Weintraub, 2022[14]) and create greater economic resilience to post-conflict shocks (Ibáñez et al., 2023[15]). This does not mean that exposure to conflict improves lives. It means that conflict dynamics are complex and may result in positive outcomes for some. These positive effects are typically associated with infrastructure improvements and the provision of public goods from both state and non-state armed groups, including improved local-level dispute adjudication systems (Bakke and Rickard, 2023[16]; Kloppe-Santamaría, 2019[17]).

Post-conflict state building should lay foundations for a strong social contract and economic security

State-building efforts that put the needs of local populations at the centre are more likely to succeed. To re-establish the state as a legitimate actor, it is important for state and development co-operation actors to focus on building state capacity to provide for basic rights and economic needs, which in turn increases the state's ability to effectively control territory. Provision of political representation (especially if the conflict has run along identity lines) not only reduces group-based inequalities but also significantly prevents violent conflict (Bhalotra, Clots-Figueras and Iyer, 2023[18]). Simultaneously, support for grassroots democracy can help raise the concerns of poor and marginalised groups, consolidate democratic practices, and re-establish trust in the state (Cremaschi and Masullo J., 2023[19]).

Inclusive post-conflict economic transformation is crucial

Local communities require viable economic alternatives to sustain their livelihoods, broad socio-economic inclusion and protection from powerful criminal organisations. State efforts to replace lucrative wartime economies, which often rely on illicit markets, and cash transfers schemes (Sviatschi, 2022[20]) can increase economic security. A move away from coercive policies that reduce trust in the state and towards more co-operative approaches can also strengthen state legitimacy and the social contract (Ortiz-Ayala, 2021[21]).

The formation of a legitimate state during the transition to peacetime is the foundation needed to begin reducing poverty and inequality in fragile and conflict-affected contexts. The international community can best support such efforts by integrating a deeper understanding of the economic networks and power structures established during conflict (Justino, 2022[22]).

Sources: World Bank (2022[12]), *Global Economic Prospects, June 2022*, https://www.worldbank.org/en/publication/global-economic-prospects; World Bank (2024[13]), *Global Economic Prospects, January 2024*, https://www.worldbank.org/en/publication/global-economic-prospects; Steele and Weintraub (2022[14]), "Rebel governance and political participation", https://doi.org/10.35188/UNU-WIDER/2022/232-4; Ibáñez et al. (2023[15]), "The long-term economic legacies of rebel rule in civil war: Micro evidence from Colombia", https://doi.org/10.1177/00220027231170569; Bakke and Rickard (2023[16]), "'Ten pound touts'": Post-conflict trust and the legacy of

counterinsurgency in Northern Ireland", https://doi.org/10.35188/UNU-WIDER; Kloppe- Santamaría (2019[17]), "Lynching and the politics of state formation in post-revolutionary Puebla (1930s-50s)", https://doi.org/10.1017/S0022216X18001104; Bhalotra, Clots-Figueras and Iyer (2023[18]), "Ethnic conflict: the role of ethnic representation", https://doi.org/10.35188/UNU-WIDER/2023/392-5; Cremaschi and Masullo (2023[19]), "The political legacies of wartime resistance: How local communities in Italy keep anti-fascist sentiments alive", https://doi.org/10.35188/UNU-WIDER/2023/352-9; Sviatschi (2022[20]), "Making a NARCO: Childhood exposure to illegal labor markets and criminal life paths", https://doi.org/10.3982/ECTA17082; Ortiz-Ayala (2021[21]), "'They see us like the enemy'": Soldiers' narratives of forced eradication of illegal crops in Colombia", https://doi.org/10.1080/14678802.2021.1986305; Justino (2022[22]), "Wartime governance and state-building trajectories in post-conflict societies", https://doi.org/10.35188/UNU-WIDER/2022/179-2.

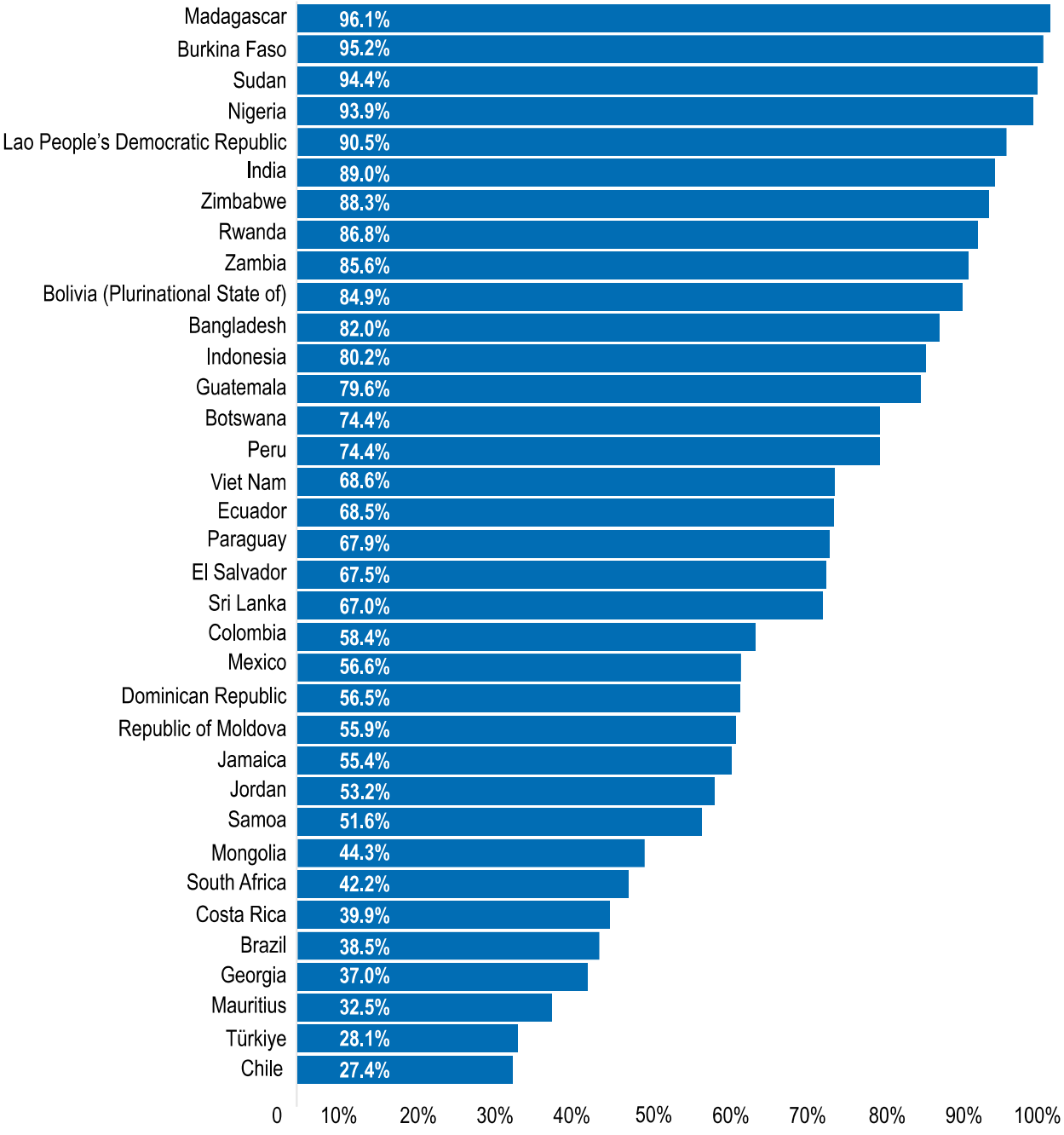
Equality cannot be achieved without more inclusive labour markets

Achieving more equal and sustainable economies requires high-functioning and inclusive labour markets that provide workers with secure, safe and fairly remunerated jobs.

High rates of worker informality limit prospects, but policies and programmes that improve outcomes for informal workers can reduce inequality

Labour markets in Global South countries are characterised by high levels of informal work (Fields et al., 2023[23]) (Figure 3.3). In lower income countries especially, most jobs are self-employment or unpaid family work in agriculture or services. These jobs are often poorly paid, transitory and insecure and lack formal legal protections for workers' rights (ILO, 2019[24]). Informality also undermines the bargaining power of some workers more than others, which is a barrier to reducing wage inequality between different groups of workers (see also Chapter 8).

Figure 3.3. Share of informal employment in total employment (selected countries, 2022)



Source: ILO (2024[25]), 2024, *Indicators and Data Tools – SDG Labour Market Indicators* (database), https://ilostat.ilo.org/data/#.

High levels of informality also mean that large numbers of people do not have adequate access to social protection (ILO, 2021[26]), which itself is an inequality that can compromise efforts to reduce other inequalities. In high-income countries, for instance, higher participation rates in contributory insurance schemes, such as unemployment insurance, make for stronger automatic stabilisation during economic downturns than in lower income countries where social protection is characterised by relatively larger shares covered by non-contributory schemes, such as cash transfers. For this reason, high rates of informality can diminish the ability of social protection to act as a bulwark in an economic crisis.

High levels of informality also mean that large numbers of people do not have adequate access to social protection, which itself is an inequality that can compromise efforts to reduce other inequalities.

A primary way to address labour market inequality is to improve earnings and working conditions for vulnerable informal workers in the Global South. While there are large potential gains to increasing formalisation of labour markets, a high rate of formalisation is a long-term prospect that would require the kind of historically exceptional progress in economic transformation that few countries have achieved. To reduce inequality, steps to encourage formalisation should, therefore, be balanced with those that address poor working conditions, low earnings and the lack of social protection for today's informal workers (UNU-WIDER, 2023[27]).

Actions that can increase worker mobility out of dead-end jobs – that is, increasing the rate at which workers move from lower paying and less secure positions to higher paying positions with greater protections – also can help create a path out of poverty. A recent examination of worker transitions in several countries using panel data from each country found that in almost all countries analysed, jobs fall into the ranked categories of high-wage formal work at the top of the job ladder followed by formal work, upper-tier informal work and, at the bottom rung, lower tier informal work (Fields et al., 2023[23]). Data on how often workers transition between these categories demonstrate that lower tier informal work is a dead end (Fields et al., 2023[23]). Once workers enter this sector, particularly across the Global South, there is little hope they will ever move up the job ladder (OECD, 2024[28]). For instance, the highest persistence rates, the proportion of workers observed who remain in the same employment status over time, in lower tier informal self-employment are in China (86%), Indonesia (81%), Niger (79%), Uganda (73%), Ghana (67%), the United Republic of Tanzania (65%) and Nigeria (61%). The lowest are in Costa Rica (34%) and Nicaragua (34%). In lower tier informal wage employment, the highest persistence rates are observed in Mexico (49-57%) and Paraguay (53%) and the lowest in Costa Rica (28%) (Fields et al., 2023[23]).

To reduce inequality, steps to encourage formalisation should, therefore, be balanced with those that address poor working conditions, low earnings and the lack of social protection for today's informal workers.

Upper tier informal employment, especially upper tier informal wage employment, is the least persistent work status and therefore a potential stepping stone towards formal wage employment. Policy makers hoping to increase rates of formalisation can target workers in this category. But workers in lower tier informal employment need targeted support to improve their current working conditions, provide social protection and increase their incomes.

Across Global South countries, policy makers need good ways to identify and subsequently support the types of informal firms that encourage upward mobility for workers and to discourage the types of firms that prevent upward mobility. A number of policy questions need more research attention: What kinds of interventions prevent downward slides for formally employed workers? What kinds of interventions increase upper tier informal employment while decreasing lower tier informal employment? And what else can policy makers do to enhance the livelihoods of those lower tier informal workers who are caught in dead-end jobs?

Gender disparities are a barrier to transforming labour markets.

Data on workers' demographic characteristics and their positions in the labour market highlight constraints on upward mobility and point to some areas for policy makers to target. Fields et al. (2023[23]), found that education is positively associated with employment stability in higher wage work status groups and reduces the risk a worker will slide down the job ladder. In addition, men have more chances than women to climb up the ladder. While married men in particular are more likely to climb the job ladder, married women are less likely to be able to do so. Male workers also are more likely to move into wage employment while female workers are more likely to stay in self-employment. These findings supplement a large body of research that suggests that gender disparities are a barrier to transforming labour markets.

Labour market segmentation is a barrier to inclusive growth and requires active labour market interventions

Formal labour markets in lower income country contexts also differ from those in high-income countries. They are much more likely to suffer from segmentation of the labour market by low and high value added, for instance, or by other factors such as rural and peri-urban and urban employment. There may also be important differences between workers within the same industries and within the same professions depending on whether they produce for domestic, global or regional value chains as well as on the size of the firms they work for and the location of their work. Such differences are not observed at the same scale in high-income economies.

New research on South Africa's earnings inequality, for example, finds that dual labour markets greatly increase firm-level wage premiums – so much so that the differences in pay between workers doing the same jobs but for different companies explain one-fifth of pay inequalities of South Africa's formally employed workers (Foster, 2023[29]).

Overly segmented labour markets imply that the benefits of economic growth spells are unlikely to lift multiple groups of workers at once, even when economic gains are shared with labour. While this makes it more difficult to reduce inequality, there are also many policy options for making growth more inclusive. More active labour market interventions alongside active industrial policy are thus needed to ensure that future spillovers from concentrated gains to earnings for some workers – and which put upward pressure on inequality – can complement efforts to reduce inequalities in the long term.

Technology and globalisation are not yet driving wage polarisation in emerging economies

An examination of labour markets and sectoral composition in 11 emerging market economies and the global economy, covering nations in 3 major world regions, documents large transformations of these economies' workforces in the 2000s and 2010s. Large numbers of workers moved away from employment in agriculture and towards employment in manufacturing or away from agriculture and into low-productivity services (Gradín et al., 2023[30]). The studies reclassify formal jobs using an indicator for routine task intensity, an alternative to the skilled-unskilled dichotomy, to examine labour market composition, the drivers of earnings inequality, and the role of technology and globalisation in national earnings inequality trends.

Partly due to the smaller sectoral shares in global manufacturing and high value-added economic activity found in the emerging market economies, the adoption and advancement of technology in production are not big drivers of earnings inequality. A major finding of the cross-country work is that the documented wage polarisation that technology and globalisation have induced in high-income economies does not yet threaten lower income ones. However, the impacts of technology adoption and globalisation on informal sector labour markets and workers are an area that needs deeper exploration.

The documented wage polarisation that technology and globalisation have induced in high-income economies does not yet threaten lower income ones.

In many countries, a change in the earnings premiums for more skilled or more highly educated professions drives changes in earnings inequality, as many labour market economists would expect. But the interaction between labour market composition and workers' characteristics is only sometimes a critical driver of the trend in market inequality. In several of the cases examined, active labour market policy reforms such as minimum wage laws, wage subsidies and effective labour market institutions actually promoted greater wage equality by offsetting the upward pressure on earnings inequality attributable to wage premium growth for a minority of highly skilled or highly educated workers (Gradín et al., 2023[30]).

Though structural changes in the economy could exacerbate poverty and inequalities, strong public policy to support competitive labour markets and wage growth can offset this outcome

Conventionally, economic development transforms the labour market and leads to a rise in formal, non-agricultural and urban shares of employment and in workers' incomes. The economic process responsible for this type of transition, called structural transformation, creates more demand for higher productivity labour and is often driven by strong growth in the economy's manufacturing, value-added tradables and technology sectors. More recently, employment growth in knowledge sectors and tradable services such as software engineering, communications and medicine has been a source of decent work.

Evidence on contemporary structural transformation shows different varieties of structural transformation, including economic development that follows unconventional pathways.

Today, many lower income economies are transitioning directly from mostly agriculture to non-business services, a sector with less potential for wage and productivity gains and one that is more difficult to formalise.

If unchecked, this growth pattern could pre-empt reductions to poverty and inequality, which suggests that public policy can play a role in supporting employment creation in the growth industries and higher productivity sectors that are complementary to strong wage growth for workers. Such support should not be limited to industrial policy and incentives for investment. Rather, it should coincide with active labour market policies and other incentives that support competitive labour markets and the growth of wages alongside any sales, revenue or productivity growth for corporations – that is, policies that ensure greater inclusivity of economic growth. As some sectors will experience wage growth more quickly than others, countries may experience upward pressure on inequalities – "the developer's dilemma" – but a comprehensive examination of development experiences shows there are several policy options to improve inclusivity (Alisjahbana et al., 2022[6]).

Historical experience also suggests that public investments in rural and agricultural development can minimise urban-rural income divergence, unionisation and agrarian reforms can protect lower income workers, and education policy can help minimise worker income divergence in the future. Access to other public services including healthcare, housing and social security also protects against increasing labour market inequality (Alisjahbana et al., 2022[6]).

State capacity to fund public investments and social transfers is critical to reducing poverty and inequalities

Weaker social protection systems restrict the scope for progress on poverty and inequality goals

Direct government transfers offer greater potential to reduce poverty and inequality in lower income countries as the entirety of the bottom 40% of the distribution is often unemployed, underemployed or informally employed. Expanding social transfers to this bottom 40% and beyond (in terms of either recipients or benefit amounts) can make a huge difference without even addressing the market inequality in earnings and employment. Because people in this proportion of the population officially have zero earnings, even small increases to household consumption at the bottom of the distribution, coming directly from government transfers, can reduce poverty and inequality substantially.

South Africa during the shock of the COVID-19 pandemic offers an example of this potential impact. During April-June 2020, the government responded with emergency social assistance, expanding eligibility for some social transfers to previously excluded groups. Due to these policy decisions, South Africa enjoyed a sudden, unprecedented reduction in poverty of 3-6 percentage points, and significant mitigation of upward pressure on inequality at the height of the crisis, when the economy was under duress and active employment down 40% (Schotte and Zizzamia, 2021[31]; Bassier, Budlender and Zizzamia, 2021[32]).

SOUTHMOD, a collection of tax benefit microsimulation models, provides additional evidence of both the efficiency and redistributive potential of tax and social protection policy reforms. The pandemic demonstrated that African tax and social protection systems are generally ill-equipped to protect households from income losses. Of the seven African countries studied (not including South Africa), only the additional policy measures of Mozambique and Zambia somewhat cushioned the COVID-19 shock for poorer households (Lastunen et al., 2023[33]).

The pandemic demonstrated that African tax and social protection systems are generally ill-equipped to protect households from income losses.

The case of Zambia illustrates a common scenario across Global South countries: the need to continue to expand social protection systems – in terms of coverage and the amount of support beneficiaries receive – and how tax benefit microsimulation models can provide powerful evidence for policy makers. In 2019, Zambia undertook a large expansion of its benefit system, mainly by adding a set of social cash transfers known as Cash Plus. An impact assessment found that the system reduces poverty by 4-6 percentage points. The social protection system as a whole provides support to 76% of the extremely poor, and the new cash transfers reach only 36% of that population. While the elderly, disabled and female-headed households are well-targeted, members of the extremely poor population outside of these groups, especially in urban areas, are least supported (Table 3.1). Overall, Zambia's benefits system does not have the potential to meet ambitious national poverty goals without further expanding support to uncovered groups (Gasior et al., 2021[34]).

Table 3.1. The impact of social protection measures on poverty and inequality in Zambia

POPULATION GROUP	COVERAGE RATE (%)	POVERTY AND INEQUALITY AFTER BENEFITS (%)			POVERTY AND INEQUALITY REDUCTION (pp)		
		Poverty headcount	Poverty gap	Gini	Poverty headcount	Poverty gap	Gini
Ages 0-17	76.7	44.5	19.1	51.9	-4	-4.4	-2.8
Ages 18-24	73.8	33.4	13.6	50.8	-3.8	-3.3	-2.1
Ages 25-64	73.7	34.7	14.1	56.7	-3.9	-3.6	-2.1
Ages 65+	98.4	44.3	18	52.2	-10.9	-9.7	-6.2
Person with disability	99.4	48.1	19.4	50.5	-10.9	-12.3	-8.1
Rural	79.7	58.4	25.1	42.4	-6.4	-6.5	-4
Urban	55.7	13.8	5	48.4	-1.1	-0.8	-0.6
Female-headed	92.1	41.4	18.4	53.5	-5	-6.1	-3.8
Male-headed	72.2	39.4	16.3	54.1	-4	-3.7	-2.3
Entire population	76.3	39.7	16.7	54	-4.2	-4.2	-2.6

Notes: The table shows simulation results for all social protection measures in Zambia. The measure of the reduction in poverty and inequality is relative to a counterfactual with no benefits, expressed in percentage points. Coverage rate is defined as the proportion of the extreme poor population who receive a benefit. The results are derived from MicroZAMOD, a tax benefit microsimulation model. Microsimulation models such as MicroZAMOD assess the next-day impact of tax benefit policies on poverty and inequality compared with a scenario without those policies in place.
Source: Adapted from Gasior et al. (2021[34]), "Towards greater poverty reduction in Zambia: Simulating potential Cash Plus reforms using MicroZAMOD", https://doi.org/10.35188/UNU-WIDER/2021/104-4.

In Latin America, tax benefit systems are slightly better equipped to cushion income losses. During the COVID-19 crisis, sizeable discretionary emergency cash transfers supported the least well off. But overall, Latin American tax benefit systems did not play a large countercyclical role. Tax systems provided automatic stabilisation only to a limited extent because lower tax and social security contributions only applied to the small share of formal sector workers at the top of the income distribution, while benefit eligibility and amounts were not responsive to sudden income losses in the rest of the income distribution (Rodríguez et al., 2022[35]).

In Ecuador, for example, national poverty rates increased from 25.7% to 58.2% during the first six months of the pandemic, extreme poverty rose from 9.2% to 38.6%, and inequality rose from 46 to 59 on the Gini Index. The addition of a new social transfer, the Family Protection Grant, to the social protection system supported mainly the bottom 20% and, while sizeable, was not entirely sufficient to counter the impact of the shock (Jara, Montesdeoca and Tasseva, 2021[36]).

Global South countries need international support to increase their fiscal space and improve domestic revenues

There is a clear role for international support and multilateral co-operation in expanding funding for social protection systems in Global South countries. First, international aid financing can provide direct support to governments to expand social protection systems. Second, multilateral and bilateral co-operation can promote greater tax fairness and support improvements to domestic resource mobilisation, creating more funds for programmes that reduce poverty and inequality.

The International Labour Organization (ILO, 2021[26]) has estimated that more than half the global population has no access to social protection against poverty vulnerability. Yet, as an analysis for the Swedish Expert Group for Aid Studies found, the share of aid targeting social protection is declining from already low levels of about 2%, despite a positive and statistically significant relationship between social protection aid and the percentage of a population covered by benefit systems (Niño-Zarazúa et al., 2022[37]).

Greater tax fairness is key to generating needed public revenues, and international co-operation can play an important role through efforts to prevent tax evasion, tax avoidance and profit shifting by the most profitable businesses and the richest individuals. Globally, corporations shifted less than 2% of annual profits to tax havens in the 1970s, but the share had increased to 37% by 2019, accounting for a global loss of revenue equivalent to EUR 250 billion, or one-tenth of annual total global corporate tax revenue (Figure 3.4 and Figure 3.5) (Wier and Zucman, 2022[38]). Thanks to newly granted access to South Africa tax data[1] (Box 3.2), researchers have been able to estimate the annual losses attributable to corporate profit shifting at approximately ZAR 7 billion (South Africa rand), the equivalent of EUR 400 million, each year (Wier and Reynolds, 2018[39]; Wier, 2019[40]).

Box 3.2. Increasing data availability and local capacity to analyse the impact of tax and benefit system reforms on poverty and inequality

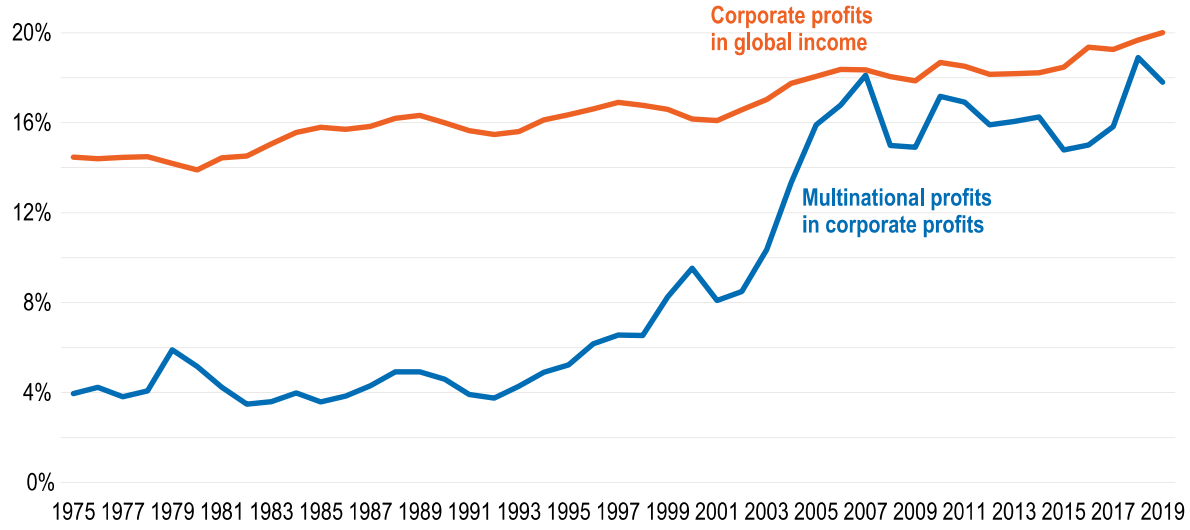
International partners can support domestic resource mobilisation over the long term by building local capacity to conduct analysis of the most effective ways to improve tax systems, support economic development, and reduce inequality and poverty.

For example, UNU-WIDER supported efforts by the South Africa Revenue Service and National Treasury to build a secure data lab and provide access to the national tax data for local and international researchers and policy makers.

The lab, housed at the National Treasury, is a hub that now provides a new interface between these actors. For example, researchers who use the data for their academic work hear directly from policy makers about what kinds of analysis would be most useful. And analysts and officials in government agencies now have access to datasets and expert advice for conducting their own analyses. Other sub-Saharan African governments have expressed interest in this approach, and there is strong demand to develop new local capacity. UNU-WIDER has since supported the development of a secure research lab at the Uganda Revenue Authority and is now working with Zambia on similar efforts.

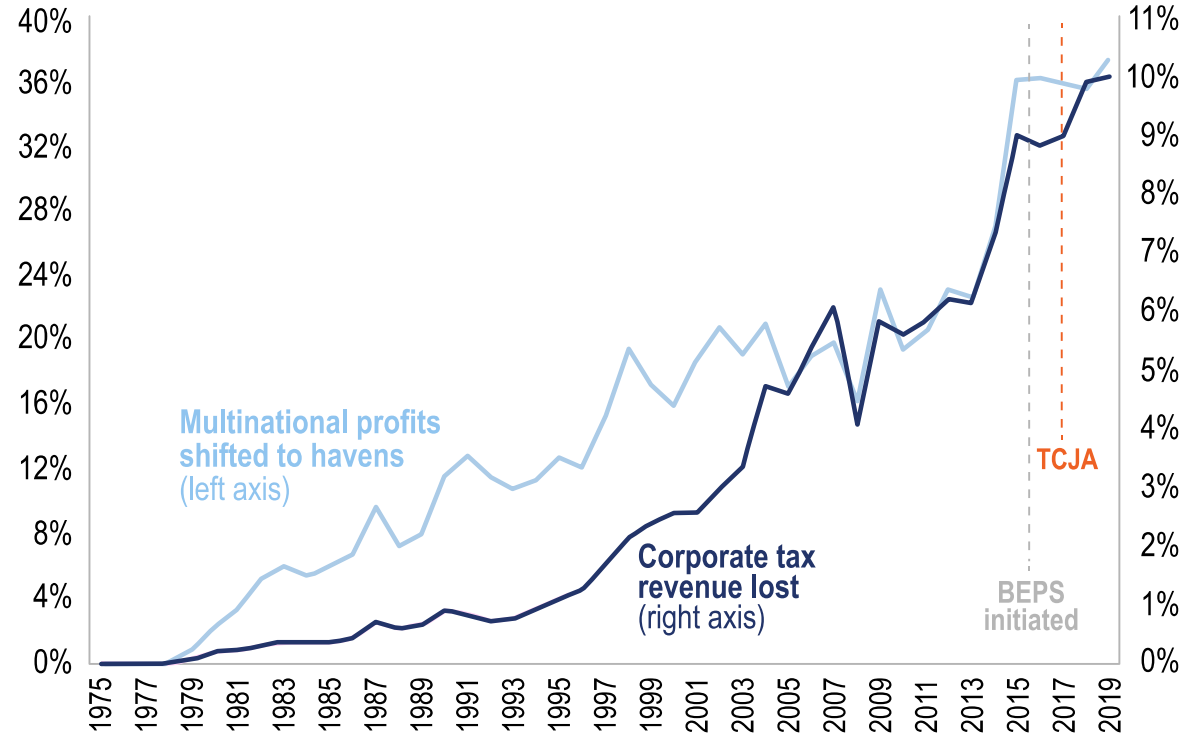
Administrative tax datasets are a natural complement to the SOUTHMOD project, which entails a set of 13 freely available tax benefit microsimulation models for Global South economies. Analysts and policy makers can use these models to simulate the next-day effects of tax and benefit system reforms on poverty and inequality at the level of households and individuals. The models are critical tools for understanding the potential effect of policies and reforms on different population groups. The SOUTHMOD project updates the models with the latest survey data and policy regimes, trains local officials and analysts to use the models, and carries out original country-specific and cross-country comparative research on tax and benefit systems. Like the original research conducted with newly accessible administrative data, research and analysis using the SOUTHMOD models are largely demand-driven, responding directly to the needs of national policy makers.

Figure 3.4. Profits of multinational corporations make up a growing share of total global income



Source: Wier and Zucman (2022[38]), "Global profit shifting, 1975-2019", https://doi.org/10.35188/UNU-WIDER/2022/254-6.

Figure 3.5. The share of multinational profits shifted to tax havens grew to 37% by 2019



Notes: The share of multinational profits shifted to tax havens is shown on the left axis. Revenue losses as a share of global corporate income tax revenues are shown on the right axis. BEPS = Inclusive Framework on Base Erosion and Profit Shifting; TCJA = United States Tax Cuts and Jobs Act, which changed the US international tax regime on corporate profits and dividends.
Source: Wier and Zucman (2022[38]), "Global profit shifting, 1975-2019", https://doi.org/10.35188/UNU-WIDER/2022/254-6.

Opportunities to increase domestic revenues through improved tax administration are effective and relatively inexpensive to identify and put into action

Alongside increased capacity and fiscal space, more effective tax systems can increase domestic resource mobilisation at relatively low cost in many countries. Access to administrative tax data can prove invaluable to pinpoint opportunities for future reforms or assess the impact of past ones, as demonstrated in several UNU-WIDER studies. For example, in Uganda, where the tax-to-GDP ratio is 11.4% (UNU-WIDER, 2023[41]), researchers estimated that multinational corporations pay an effective tax rate of 20 percentage points less than large domestic corporations (Koivisto et al., 2021[42]). Another study found that corporate tax incentives for both domestic and multinational corporations cost the Ugandan government the equivalent of one-fifth of the annual corporate income tax take (Musoke, Palanská and Schimanski, 2023[43]), while other research showed that fewer than 15% of local firms in the Uganda capital of Kampala are fully tax-compliant and file for both local trade licences and the national corporate income tax (Vincent, Dietrich and McNabb, 2023[44]; UNU-WIDER, 2023[45]). When researchers combined tax compliance estimates with Google Street View images, they found that firm compliance is linked to the quality of public infrastructure in the firm's neighbourhood, suggesting compliance is higher where public investments are more visible (Vincent, Dietrich and McNabb, 2023[44]; UNU-WIDER, 2023[45]).

A Ugandan government taxpayer registration campaign led to a 70% increase in the number of small businesses filing presumptive taxes. The roll-out of a simpler e-filing system on top of the registration campaign was even more effective, almost doubling the number of presumptive taxpayers (Jouste, Nalukwago and Waiswa, 2021[46]). Both reforms jointly led to an approximately twofold increase in presumptive tax revenues, although it should be noted that small business tax revenues constitute only 0.04% of total Ugandan tax revenues (Jouste, Nalukwago and Waiswa, 2021[46]).

In Tanzania, as part of a collaboration between the Tanzania Revenue Authority and the Finnish Tax Administration, a new data-driven approach to tax examinations in the Dar es Salaam tax offices increased adjusted taxable income by 15% in the first year (Ebrahim et al., 2021[47]). Likewise, results from Zambia suggest that the adoption of a new value added tax (VAT) withholding system in 2018 increased VAT revenues by 13% (Adu-Ababio et al., 2023[48]). These findings clearly demonstrate that there are opportunities for lower income countries to increase domestic tax revenues by harvesting low-hanging fruit in improved tax administration.

Savoia, Sen and Tagem (2022[49]), in a broad study of the development of fiscally capable states, found that among various political factors, constraints on the executive branch in particular were critical to shifting the composition of state revenues away from taxes levied on a narrow base and towards broadly levied taxes such as income taxes. The reason is that institutionalised checks and balances reduce leaders' discretion over public finance decisions, improve public accountability and increase legitimacy – all of which tend to make citizens and businesses more willing to pay tax.

Building a bigger middle class and promoting gender equality will solidify progress on reducing poverty and inequality

Investing in upward social mobility

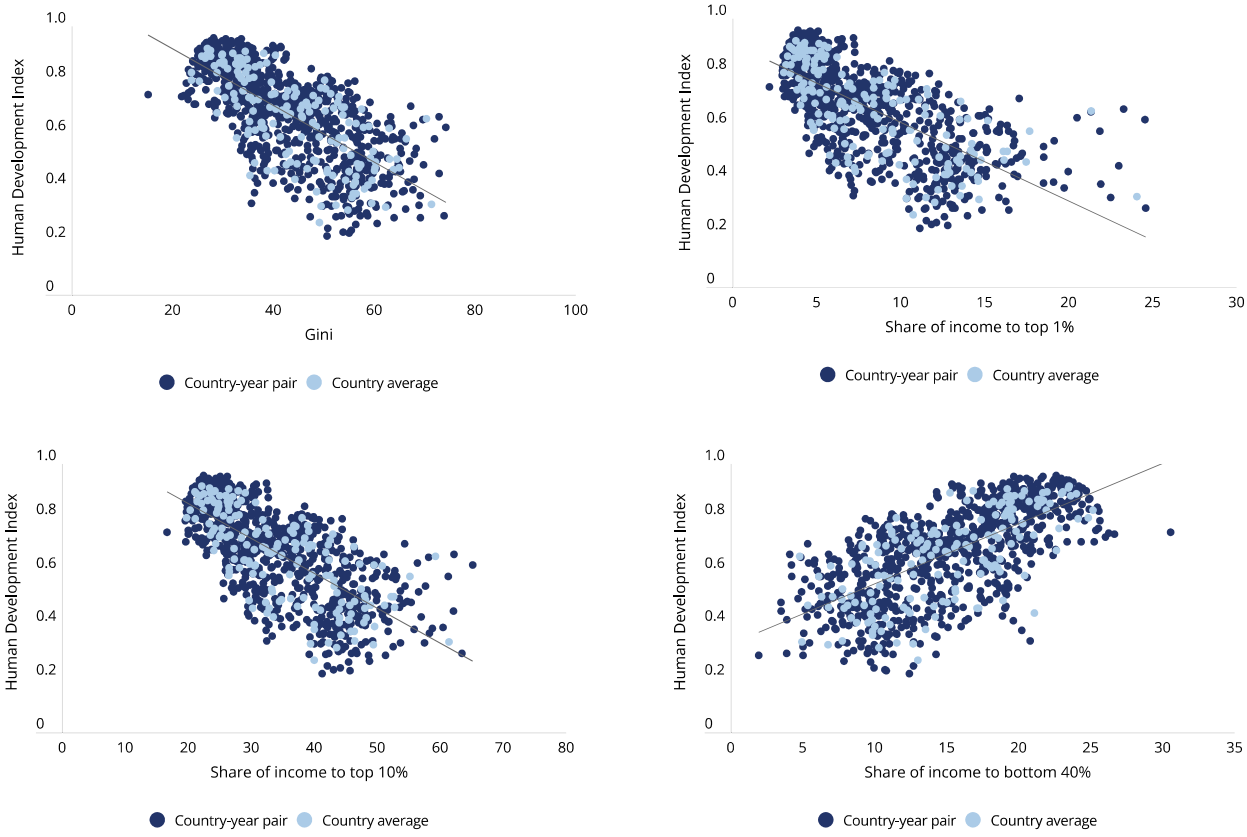
While there are major gaps in data and knowledge regarding social mobility in Global South countries (Iversen, Krishna and Sen, 2021[50]), it is widely recognised that poverty reductions are often temporary. Most households that move above the poverty line, for instance, remain vulnerable to downward slides back into poverty. Progress in reducing inequality is similarly at risk of backsliding. Without improved rates of upward social mobility, reductions in inequality that are driven by income gains at the bottom of the distribution will also be vulnerable.

It is widely recognised that poverty reductions are often temporary.

To solidify gains in reducing inequality and to help people durably escape poverty, policy and programmatic goals should focus on continuously raising household incomes and on expanding the middle class. However, poverty rates and inequality levels are snapshot indicators that do not capture the core aspects of resilience and vulnerability that ultimately determine the permanence of inequality and poverty reductions. To protect gains, efforts should target, measure, monitor and report on indicators beyond poverty rates and inequality levels, especially those related to overall well-being, the strength of the economy and other indicators of human development.

According to cross-country analysis using panel data on more than 145 countries from the UNU-WIDER *World Income Inequality Database* (UNU-WIDER, 2023[10]), there is a strong correlation between high levels of inequality and lower Human Development Index (HDI) scores, which measure society-wide levels of education, public health and life expectancy, and economic performance (Castells-Quintana, Gradín and Royuela, 2022[51]). As illustrated in Figure 3.6, the strength of the correlation varies by inequality indicator, but is strongest when inequality is measured by the share of income going to the top 10% or the bottom 40%. This implies that it is not only high inequality, but the associated lack of a middle class, which reduces a country's HDI score.

Figure 3.6. High levels of income inequality correlate with low Human Development Index scores



Notes: Each data point represents a country in one particular year (a country-year pair) or a country's average over several years for each of the four indicators analysed in each of the panels. The trend shows high levels of income inequality correlating with low Human Development Index scores.

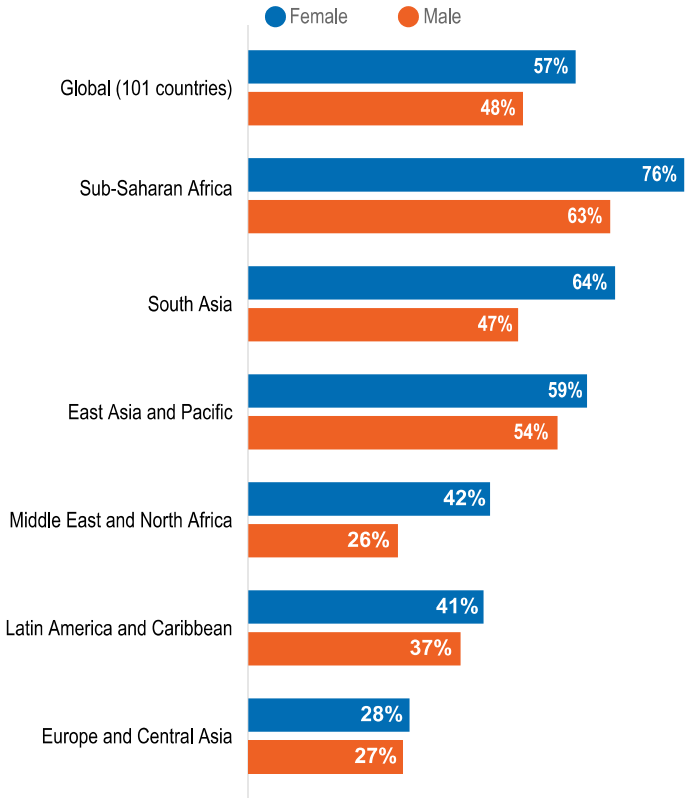
Source: Castells-Quintana, Gradín and Royuela (2022[51]), "Inequality and human development: The role of different parts of the income distribution", https://doi.org/10.35188/UNU-WIDER/2022/230-0.

The growth of a middle class is supported by investments in critical public goods such as access to public health and sanitation; clean water; education and infrastructure; and additional investments in early childhood education, maternal healthcare and family support, which can all underpin increased upward social mobility.

Evidence-based policies to promote gender equality

While investments in public goods provide a helpful foundation, they are unlikely to redress long-term systemic inequalities between groups such as gender-based inequality. Since the early 1990s, for instance, gender gaps in education have narrowed across Global South countries, and yet these gains have not translated into a narrowing of gender gaps in labour markets. Women continue to be employed at significantly lower rates than men and are often concentrated in lower paying jobs with more limited protections. According to data from 101 countries and conditional on individual and household characteristics, women were 7 percentage points more likely than men to be in vulnerable employment (Lo Bue et al., 2021[52]). One estimate is that 57% of female workers globally are in vulnerable employment, characterised by poor working conditions, insecurity of tenure and inadequate earnings, compared with 48% of male workers. In South Asia and sub-Saharan Africa, fully 64% and 76%, respectively, of female workers are in vulnerable employment, compared with 47% and 63%, respectively, of male workers in those regions (Figure 3.7).

Figure 3.7. Share of male and female workers in vulnerable employment, by region



Notes: The figure shows the percentage share of the male and female labour force in vulnerable employment. The data used for each country in the regional groupings are the most recent in the 1992-2017 range. The figure uses the World Bank regional classifications and shows unweighted averages of selected countries grouped by region.
Source: Lo Bue et al. (2021[52]), "Gender and vulnerable employment in the developing world: Evidence from global microdata", https://doi.org/10.35188/UNU-WIDER/2021/094-8.

National-level policy makers have mainly tried to address supply-side constraints such as lower educational attainment for women to advance gender equality. But overcoming these constraints has rarely led to better labour market outcomes for women. The female labour force participation rate in India, to cite just one example, is among the lowest in the world despite strong economic growth, high levels of female education and declining rates of fertility (Deshpande et al., 2024[53]; UNU-WIDER, 2024[54]).

Standard packages of policy efforts to improve women's ability to enter the labour market and compete with men for decent jobs through the provision of universal public goods are not wholly sufficient. These efforts focus more on individual-level factors that constrain women from engaging in paid work (supply-side constraints) but overlook factors that influence the extent to which employers and economies offer women opportunities for decent work (demand-side constraints). Public actions that ease supply-side constraints must be paired with efforts to increase demand for women in paid work, particularly from those in the bottom 40% who are often also marginalised for reasons of race, ethnicity, religion or other factors.

Socio-cultural norms about women's roles exert a significant influence on outcomes. For policy makers who want to change these norms, an important question is which norms matter? For example, research in India (West Bengal) finds that neither veiling nor religion substantially reduces women's labour force participation, but that the primary responsibility for domestic chores is the most significant association (Deshpande and Kabeer, 2024[55]). By contrast, a family history of working women increases the probability that a woman in India is in paid employment by 18-21 percentage points (Deshpande and Kabeer, 2024[55]). Norms around gender roles and their relationship to household responsibilities and care labour are one of the most impactful constraints on progress for gender equality.

An analysis of which macroeconomic variables correlate to better outcomes for women in 15 countries in Latin America, the region that scores the best on several indicators related to women's work, found that "the most significant and robust positive correlate of women's relative access to good jobs is public social spending as a share of GDP" (Arora, Braunstein and Seguino, 2023[56]). Social spending can ease both supply-side constraints and create jobs for women.

> Mandating employers to provide more supportive family leave frameworks did not reduce job opportunities for women. Rather, it attracted more applicants from qualified women who would have otherwise remained in informal livelihoods.

Policy action to address the over-representation of women in self-employment also shows promise. High levels of self-employment among women indicate working cultures that do not support women's – and especially mothers' – stronger preference for flexibility in working life. The motherhood penalty is a major driver of gender gaps, especially in pay and lifetime earnings. In Viet Nam, government policy action to extend the maternity leave period led to increased rates of formalisation by pulling women from agricultural household work to private formal employment, with a resulting increase in women's formal sector employment (Vu and Glewwe, 2022[57]).

Applying the insights from policies that work to reduce poverty and inequality in Global South countries

Developing impactful and inclusive policies and programmes to reduce both poverty and inequality is a constantly evolving challenge. While recent global shocks reversed hard-won gains since 2015, many low- and middle-income countries across Africa, Latin America and Asia found ways to cushion their most vulnerable populations. This experience and other policies and programmes offer important insights into

what works to reduce poverty and inequality. National governments, international partners and development co-operation all have important and interlocking roles to play.

First, the primary constraints facing Global South countries are on fiscal space. Critical reforms to the international financial architecture and international support can reduce the risks of global economic shocks and the costs of debt distress. Multilateral initiatives and international co-operation can reduce revenue losses by improving tax enforcement and compliance and supporting the development of local state capacities.

Second, national governments need to address two common weaknesses: relatively high rates of informality and relatively weak tax and transfer systems. Economic development and structural transformation that support strong job creation and wage and productivity growth – coupled with strong labour market policies to protect weak workers (such as minimum wages) and redistributive measures to support inclusive growth (such as transfers to rural areas) – can increase formalisation and tackle both poverty and inequality. Targeted efforts to formalise upper tier waged informal workers are a good strategy for formalising work, as are actions that can increase worker mobility out of dead-end jobs. Social support and legal protection of workers' rights can usefully support the large number of workers trapped in lower tier informal employment.

Finally, development co-operation can play a bigger role in supporting programmes and policies that have been shown to contribute to poverty and inequality reduction. Globally, only 2% of official development assistance explicitly supports the expansion of social protection systems, for instance. Increasing this support can also improve the countercyclical role of social protection in the Global South, which is critical to sheltering progress from periodic crises, especially in the most fragile states. Support for long-term transformations of economies, states and societies can also solidify the gains that these large-scale public actions support.

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Note

[1] This finding, based on South African tax data, was made possible by South Africa's pioneering granting of secure access to administrative tax records to researchers and analysts for economic study. Uganda was the second African country to provide secure access to its administrative tax records in partnership with UNU-WIDER. Overall, UNU WIDER has worked with revenue authorities and other government agencies to make tax administrative data available for research and policy analysis. Access to these data has enabled many studies that point to policy options for increasing fiscal space in Global South countries to finance public investments and increase social protection.

4 Multidimensional social programmes at scale for lasting pathways out of extreme poverty

Shameran Abed, BRAC International

In tackling entrenched poverty, policy makers and global actors can look to rigorous research for guidance on effective solutions. Multidimensional programmes, including the established Graduation approach pioneered by BRAC in Bangladesh, provide a time-bound, carefully sequenced set of interventions that can offer a lasting pathway out of extreme poverty. Such programmes have had success across Africa, Latin America and Asia, including in fragile contexts like Afghanistan and government scale-ups have reached more than 5 million people. Further scaling their impact requires integrating this approach into national policy, planning and existing social programmes as well as development co-operation financing and support for better co-ordination.

The author is grateful for the contributions of the following BRAC staff and consultants to this piece: Laura Burke, Max Gollin, Chris Lyne, Heidi McAnnally-Linz and Isabel Whisson.

Key messages

- Extensive research in Asia, Africa and Latin America shows that multidimensional approaches enable people to escape from complex poverty traps and prevent them from falling back into extreme poverty.
- Multidimensional programmes such as BRAC's Graduation approach address challenges beyond lack of income, offering a sequence of time-bound basic needs support, transfers of assets (e.g. livestock or lump-sum cash transfers) and coaching over two years.
- Rather than starting from scratch, governments and development partners can scale the Graduation approach by adapting and converging existing programmes, for example by leveraging existing cash transfer and livelihood programmes along with cadres of health workers to deliver the programme.
- By further supporting the scale-up of the Graduation approach through this convergence model, policy makers can cost-effectively eradicate extreme poverty and build resilience to climate change through livelihood diversification and increased savings.

Escaping the poverty trap: Addressing persistent poverty requires a comprehensive approach

The very first of the ambitious Sustainable Development Goals is to eradicate extreme poverty by 2030. Extreme poverty is at the top of the list for a reason. Lacking basic needs – enough food, clean water, housing or sanitation – causes immense human suffering. There was initial progress towards the goal, with the share of the world's population living in extreme poverty declining from 10.8% in 2015 to 8.5% in 2019. However, the COVID-19 shock as well as new conflicts, escalating climate impacts and other crises stopped the advance and increased global poverty for the first time in decades. Today, an estimated 712 million people live in extreme poverty (Castaneda Aguilar et al., 2024[1]), and climate change is projected to push as many as 132 million more people into extreme poverty by 2030 (Jafino et al., 2020[2]).

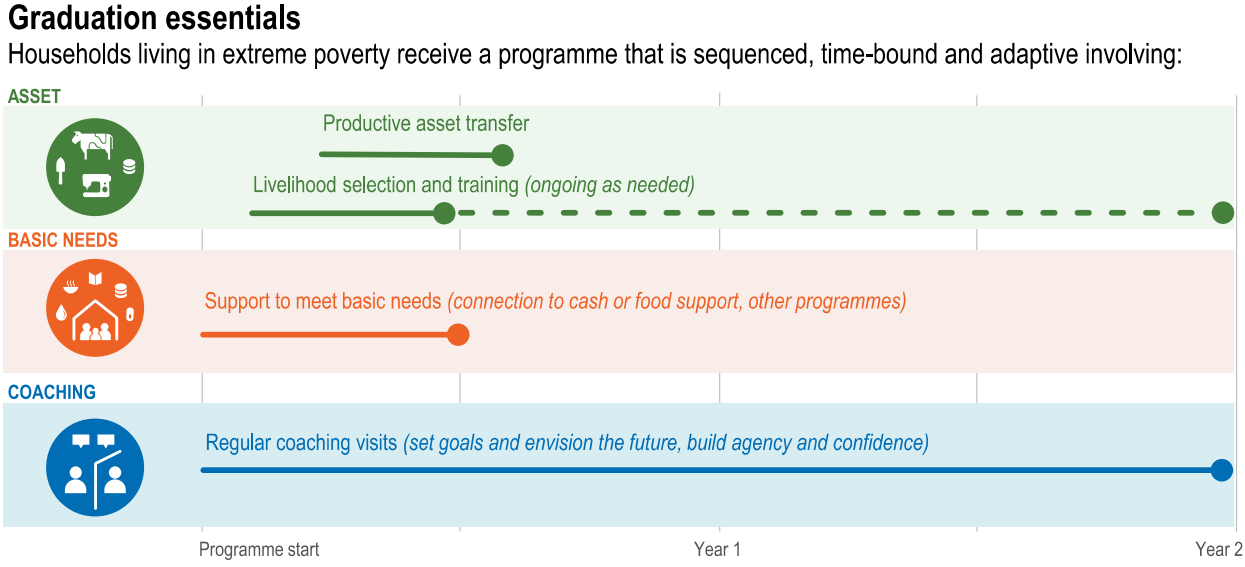
Why does extreme poverty persist during the wealthiest period in human history? One reason is that economic growth is uneven: most people in poverty live in countries in sub-Saharan Africa that have experienced little to no economic growth (Roser, 2023[3]). As of 2023, 46% of the people living in extreme poverty resided in low-income countries and 48% were in lower middle-income countries, while just 4.7% and 1.1% of people living in extreme poverty were in upper middle-income and high-income countries, respectively (Mahler, Yonzan and Lakner, 2023[4]). Another reason is that the poorest and most vulnerable people in low- and middle-income countries are further left behind by existing social protection policies. In low-income countries, only 21% of the poorest people receive social transfers as opposed to 73% in high-income countries (Parekh and Bandiera, 2020[5]). Low- and middle-income economies are also generally less successful at ensuring that taxes and subsidies benefit people in poverty (World Bank, 2022[6]).

To reach people living in extreme poverty, programmes require a specific design and must be effective in reducing their poverty. Evidence indicates that challenges of extreme poverty are more complex than simply a lack of income and that several barriers work together to hold people in a poverty trap (Balboni et al., forthcoming[7]). For example, households in poverty are more likely to suffer health problems and social exclusion and to lack of access to education and financial services. They are also more likely to live in remote areas without infrastructure and employment opportunities and to experience environmental shocks.

Programmes that graduate households from extreme poverty increase well-being, income and climate resilience

Effectively eradicating extreme poverty requires addressing multiple related challenges at once. Too often, programmes and policies aim to address one (or sometimes two) of these problems (e.g. through technical training programmes or monthly cash assistance programmes) but fail to address other barriers, making it challenging for people to escape the poverty trap. Comprehensive livelihood programmes can significantly reduce extreme poverty and also build this population's resilience to climate change, helping to ensure that the climate crisis does not leave the most vulnerable behind. The Graduation approach, pioneered by BRAC in Bangladesh in 2002, is one such multifaceted programme offering time-bound basic needs support; transfers of assets such as livestock or lump-sum cash transfers; and coaching that unlocks agency, know-how and hope.

Figure 4.1. Graduation essentials



Comprehensive programmes can provide a lasting boost to household income and well-being

Organisations and governments around the world have adopted BRAC's Graduation approach. More than two dozen randomised evaluations have been conducted on its use across vastly different contexts, including influential research in Bangladesh (Bandiera et al., 2017[8]) and a six-country study that tracked its impacts on approximately 11 000 households in Ethiopia, Ghana, Honduras, India, Pakistan and Peru for three years (Banerjee et al., 2015[9]). A recent review of outcomes after 18 months to 3 years found that participants in Graduation programme trials increased their incomes by anywhere from 7% to 65%, depending on the study context and intervention, and that consumption (a common measure of well-being) increased from 11% to 30% (J-PAL, 2023[10]). Participating households experienced similar improvements in food security, assets and savings, according to the same study. Durable benefits have also been observed over longer periods. For example, in the Indian state of West Bengal, an evaluation that tracked households after 3, 7 and 10 years found that the programme had increased consumption by 22% and income by 38% at year 10 (Banerjee, Duflo and Sharma, 2021[11]). The approach has also been unpacked and tested in fragile contexts with positive results, including in Afghanistan (Bedoya et al., 2019[12]); the

Democratic Republic of the Congo (Angelucci, Heath and Noble, 2023[13]); Yemen (Brune et al., 2020[14]); and northern Uganda (Innovations for Poverty Action, 2021[15]).

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Graduation programmes help households in extreme poverty withstand climate impacts

The comprehensive approaches used to graduate households out of extreme poverty can also foster greater resilience to climate impacts by diversifying their livelihoods, increasing their savings, improving their access to information and building awareness to help cope with rapid onset shocks such as floods and slow onset challenges such as worsening droughts.

For example, in Ethiopia, Graduation interventions reduced or eliminated the negative impacts of droughts on food security, nutrition, livestock holdings and intimate partner violence (Hirvonen et al., 2023[16]). In Afghanistan, Graduation programme households were found to withstand multiple crises – conflict, insecurity, drought and the COVID-19 pandemic – significantly better than control households[1] (Bedoya Arguelles et al., 2023[17]). A mixed-methods study found that in coastal Bangladesh, participation in the Graduation programme that had climate-specific interventions was associated with the development of absorptive and adaptive capacities that reduce chronic poverty (Diwakar et al., 2022[18]). The study further noted that participants who took disaster risk reduction training and received information on early warning systems were 19% less likely to lose income in the context of health or disaster shocks.

Other research from Bangladesh that examined the impact of floods and droughts on people in extreme poverty found supporting evidence that the Graduation programme offers some protection from climate-related shocks. In their study, Balboni et al. (forthcoming[7]) also noted that more disaster-prone households adapt to risks by reducing long-term investments, which "implies that integrating conditional loans or weather-specific insurance into poverty alleviation [programmes] can help make them more effective in the face of climate change". Climate-adaptive poverty alleviation programmes will not be a silver bullet for climate resilience but rather one tool in policy makers' toolkits.

Multifaceted approaches to graduating households out of extreme poverty are good value for money

The Graduation approach is widely considered to be a best buy in global development, offering enduring economic benefits that surpass upfront costs (ICAI, 2019[19]; J-PAL, 2023[10]; IPA, 2023[20]; Cartier Women's Initiative, 2023[21]). A recent committee report to the UK House of Commons noted approvingly that "by weaving a tapestry of the most critical interventions. Graduation programmes have a transformative and long-term impact on the poorest households, which reap sustained economic and social benefits that far outweigh the cost of initial investment". (UK Parliament, 2022[22]) (UK Parliament, 2022[22])

Overall, the required incremental investment in Graduation ranges between USD 300 and USD 2 000 per household for two years. In Bangladesh, the programme costs USD 500 per household over two years to

achieve a transformational impact for a family. Cost-benefit analysis undertaken as part of the six-country study (Banerjee et al., 2015[9]) indicates that the benefits exceed the costs of all but one of the programmes reviewed, with ratios ranging from 133% in Ghana to 433% in India.[2]

Thus, concern about costs should not be a barrier to implementing Graduation and other comprehensive livelihood programmes. Governments in the Global South already spend trillions of dollars annually on anti-poverty programmes (UNICEF Office of Research – Innocenti, 2022[23]). As a rough estimation, taking an average cost of delivering Graduation programmes at USD 1 000 per household, and assuming that approximately 100 million households live in extreme poverty, it would cost USD 100 billion in total to reach this entire population. In other words, governments and their development partners are already investing more than the budget required to fund Graduation approaches for all people living in extreme poverty.

Governments and their development partners are already investing more than the budget required to fund Graduation approaches for all people living in extreme poverty

What is now most critically needed is to unlock much greater impacts from such approaches by more effectively co-ordinating existing interventions into a cohesive bundle and ensuring that they reach those living in the worst conditions of poverty. This means testing, adapting and integrating these programmes into national planning and development policy (Box 4.1).

Box 4.1. How governments are integrating Graduation approaches into existing poverty programmes and policies

Among the more than 15 governments that have adapted the Graduation approach (Andrews et al., 2021[24]), governments in Brazil, Ethiopia, India, Kenya and the Philippines have integrated Graduation elements into existing systems to better meet the long-term needs of those furthest behind.

The state of Bihar in India, with a population of 130 million, has developed Satat Jeevikoparjan Yojana (SJY). It is the largest government-led Graduation programme in the world, reaching nearly 200 000 households since its inception in 2018. Bandhan Konnagar, a non-governmental organisation, has helped augment a government-led model and provides training for frontline staff and programme participants.

Building on lessons learnt from SJY, the government of India's Samaveshi Aajeevika programme will support the national expansion of Graduation interventions beginning with five new state-level programmes positioned to scale the approach further. Translating to "Inclusive Livelihoods", Samaveshi Aajeevika, housed within the Ministry of Rural Development, will co-finance the development of these five new Graduation programmes with state governments beginning in 2024.

Elsewhere, governments are implementing Graduation programmes that take advantage of existing social protection schemes. In Niger, for instance, the Sahel Adaptive Social Protection Program, a multi-donor trust fund managed by the World Bank, delivered a multifaceted Graduation programme targeting women in extreme poverty enrolled in the national cash transfer programme. The Graduation programme improved the women's consumption and food security, increased their off-farm business activities, and improved their psychosocial well-being (Bossuroy et al., 2022[25]).

The government of Ethiopia was one of the first to integrate elements of the Graduation approach into its national social protection system. Now in its fifth stage, the Productive Safety Net Programme is the second-largest social protection programme in Africa and includes a big-push programme component

modelled after BRAC's Graduation approach in both its rural and urban Productive Safety Net Programmes, which aim to reach a total of 1.25 million households by 2025 (Ethiopia Ministry of Agriculture, 2020[26]; World Bank, 2020[27]; 2023[28]).

At the policy level, governments also integrate the Graduation approach into national development plans and strategies. For example, the government of Rwanda adopted a dedicated National Strategy for Sustainable Graduation that addresses the need for sustainable impact and resilience building, which also considers the impact of climate shocks on households in extreme poverty. The government is co-ordinating the implementation of the approach across ministries and different levels of government through a national secretariat.

Sources: Andrews et al. (2021[24]), *The State of Economic Inclusion Report 2021: The Potential to Scale*, http://hdl.handle.net/10986/34917; Bossuroy et al. (2022[25]), "Tackling psychosocial and capital constraints to alleviate poverty", https://doi.org/10.1038/s41586-022-04647-8; Ethiopia Ministry of Agriculture (2020[26]), *General Programme Implementation Manual*, https://govtribe.com/file/government-file/attachment-j-dot-3-psnp-5-general-pim-final-1-dot-pdf; World Bank (2023[28]), "Ethiopia-Urban Productive Safety Net and Jobs Project", http://documents.worldbank.org/curated/en/438581601776877012/Ethiopia-Urban-Productive-Safety-Net-and-Jobs-Project; World Bank (2023[28]), *Implementation Status & Results Report: Urban Productive Safety Net and Jobs Project*, https://documents1.worldbank.org/curated/en/099122023102033576/pdf/P1699431b343f00261b3301b9f31ebf4b81.pdf.

Integrating Graduation into existing programmes and policies offers a cost-effective pathway to eradicating extreme poverty

Governments are best positioned to achieve long-term progress in eradicating extreme poverty and building climate resilience. They have the mandate, the infrastructure and the established systems to transform the lives of their most vulnerable people as well as the ability to co-ordinate investments across ministries, stakeholders, policies and programmes to most effectively tackle extreme poverty and climate vulnerability.

Governments and development partners can get a jump start on scaling Graduation approaches by adapting existing programmes rather than starting from scratch. The convergence of existing schemes such as cash transfers with ongoing livelihood programmes is key, with cadres of frontline workers all working together to deliver the full sequenced package at the household level over a timeline of approximately 24 months. Layering the Graduation approach onto existing programmes and structures at both government and community levels means lower marginal implementation costs and potential economies of scale as programmes expand their reach. Successful scale-up also requires strong partnerships: non-governmental organisations play a key role, offering capacity building for design and implementation.

> With the right coalitions and support, extreme poverty may be vanquished for good.

Yet national governments cannot integrate and scale these programmes alone. Successful government scale-up requires knowledge-sharing and capacity strengthening. Multilateral and bilateral donors are critical to closing financing gaps for governments to invest in high-quality, multifaceted approaches. Initiatives such as the Partnership for Economic Inclusion (World Bank, n.d.[29]) and the Sahel Adaptive Social Protection Program, both hosted at the World Bank, and the Immersion and Learning Exchange programme hosted by the government of the state of Bihar, India, are examples of collaborative initiatives that donors can engage with. Such initiatives catalyse country-level adoption of evidence-based

anti-poverty interventions while accelerating global innovation and knowledge exchange between governments and international organisations. Adopting a more holistic approach, or a big-push investment, does not necessarily mean investing substantially more resources. Rather, leveraging existing resources more effectively through convergence can achieve a greater return on government investments.

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Notes

[1] See also a review of the World Bank's Targeting the Ultra-Poor Program in Afghanistan at: https://documents1.worldbank.org/curated/ar/855831560172245349/pdf/No-Household-Left-Behind-Afghanistan-Targeting-the-Ultra-Poor-Impact-Evaluation.pdf.

[2] In Honduras, the majority of households participating in the programme chose chickens as their asset, and the chickens were afflicted with disease.

5 In my view: Funding for sustainable development can be increased by closing tax loopholes and strengthening systems

Anne Beathe Kristiansen Tvinnereim, Minister of International Development, Norway

"In this world, nothing can be said to be certain, except death and taxes," Benjamin Franklin, the 18th-century American statesman and philosopher, allegedly once said. He was wrong about the tax part.

Every year, billions of dollars are lost due to poor and poorly implemented taxation systems. Laws, policies and loopholes cater for tax evasions, illicit financial flows and corruption, siphoning off vital resources from healthcare, education and basic services people. In this way, poor tax systems can perpetuate inequality. Inequality is first and foremost a systemic issue requiring systemic changes including in welfare programmes and public institutions and for effective service delivery. Given the gap between needs and available resources for sustainable development, we need equitable tax systems to improve local revenue raising and thereby reduce dependency and allow countries to be fully in charge of their own development.

A just and transparent tax system is also needed to ensure that society as a whole benefits from the exploitation of a country's natural resources. In Norway, we have a long tradition of taxing natural resources such as petroleum and hydropower. This has served us well in the process of developing our country while at the same time planning for the future. We also know from our own experience that environmental and climate taxes can stimulate effective and innovative approaches to financing the green transition.

At the global level, there is a demand to improve international regulations and transparency through more effective and inclusive multilateral co-operation to prevent capital flight. We must strive to make substantial progress in this area at the Fourth International Conference on Financing for Development in 2025 in Spain. Together with Mexico, Nepal and Zambia, Norway will facilitate negotiations around the outcome document for the conference. Norway also gives high priority to tax collaboration as a guest country in the G20 this year, under Brazil's presidency.

At the global level, there is a demand to improve international regulations and transparency through more effective and inclusive multilateral co-operation to prevent capital flight.

Fighting inequality is a main priority in Norway's development policy, as it has been in our own national development. Tax revenue is the cornerstone of every country's long-term social progress and one of our most important tools for reducing inequality. Through our development co-operation, Norway supports

several countries in improving national tax systems and strengthening tax administrations. A wide range of partners contribute through technical guidance and advocacy. In this way, we allocate official development assistance to enhance systems that generate more domestic resources.

A country's resources should benefit its people. Therefore, we need to close all loopholes and improve tax systems to generate funding for the realisation of the Sustainable Development Goals. This requires commitment and enhanced collaboration at global and national levels, and Norway is eager to play its part.

6 Tax systems and their equalising potential

Giulia Mascagni, International Centre for Tax and Development

Giovanni Occhiali, International Centre for Tax and Development

Low- and middle-income countries need to increase their tax revenue collection dramatically to finance progress towards the Sustainable Development Goals. This chapter discusses why equitable and sustainable tax systems, progressive tax design, implementation and monitoring should be given more attention in the broader fiscal and economic context – as essential tools for tackling poverty and inequality. It examines and shares examples of complementary fiscal measures, such as enforcement and targeted redistribution to the poorest to make fiscal systems fairer and to generate greater revenue. It notes that using tax systems to pursue environmental goals such as through domestic carbon taxes, often cited as a promising new revenue source, have limited revenue generation potential. It concludes with forward-looking suggestions to tap the full levelling potential of tax systems.

Key messages

- Achieving the Sustainable Development Goals (SDGs) by 2030 requires a dramatic doubling of tax collection in low- and lower middle-income countries. This increase will take time. Aid remains an essential source of financing in the medium term – including aid to support tax efforts.
- The intense pressure on low- and middle-income countries to increase revenue to meet often unrealistic targets, while justified by large financing gaps, risks incentivising ineffective, inequitable and unsustainable tax practices.
- Tax administration and implementation, alongside the design of tax policy, play an underappreciated role in ensuring progressivity. Weaknesses in implementation have unintended consequences on poverty and inequality, even under progressive tax policy.
- Uneven tax enforcement disproportionately affects lower income earners and smaller firms, with tax complexity and compliance costs compounding inequity. More effective enforcement on higher income taxpayers would improve both equity and revenue generation.
- The tax system could be used to pursue environmental goals, including the sustainable management of natural resources and reduced health costs of pollution in urban areas. However, environmental taxes are unlikely to become a major source of revenue for low- and middle-income countries.

Introduction

Increased tax collection to reduce poverty and inequality – and make progress towards the SDGs – must be achieved in a way that is equitable, sustainable and efficient. Achieving the SDGs, including those related to poverty and inequality, requires dramatic increases in tax revenue in low- and middle-income countries.[1] In 2019, it was calculated that absent a significant increase in official development assistance, the average low- or middle-income country would have to double its tax collection by 2030 to make substantial progress towards five key SDGs, up from the current average of less than 15% of its gross domestic product (GDP).[2] This is a massive challenge: over the past 30 years, low- and middle-income countries rarely achieved tax increases beyond 5 percentage points of GDP. History shows that sustaining tax increases of 0.5 percentage points of GDP per year is already a very ambitious target (Gallien, Lees and Mascagni, 2024[1]). Achieving equitable and sustainable revenue increases, therefore, takes time (Gallien, Lees and Mascagni, 2024[1]).

In 2019, it was calculated that absent a significant increase in official development assistance, the average low- or middle-income country would have to double its tax collection by 2030 to make substantial progress towards five key SDGs, up from the current average of less than 15% of its gross domestic product (GDP).

Tax systems primarily contribute to tackling poverty and inequality by generating sufficient revenue to fund public expenditure, such as social protection, healthcare and education. New and innovative tax instruments, for instance environmental taxes (Box 6.1), may hold significant potential for greater revenue generation, although environmental challenges will increase financing needs more than they could ever raise revenue across low- and middle-income countries. Reforms to strengthen revenue administrations' capacity and taxpayers' compliance will be needed to lay the essential foundation for increased revenue mobilisation. In addition to raising revenue, tax systems also directly affect poverty and inequality through

their design and implementation. For this reason, how tax is raised is as important as how much of it is collected. Tax administration and implementation are key to ensuring equitable and sustainable revenue increases.

Box 6.1. While environmental taxes play a key role in addressing inequality, their revenue-generating potential is limited

Low- and middle-income countries face huge climate financing needs, reinforcing their acute need for revenue generation. Domestic carbon taxes, while ubiquitous in international debates, have limited revenue potential. In South Africa, the only African country to have introduced such a tax, the carbon tax raised a paltry USD 40 million out of a total of USD 77.1 billion in taxes collected in 2020-21 (Baker, 2022[2]). Such taxes, then, can hardly be expected to make a substantial dent in low- and middle-income countries' financing needs. Nonetheless, a wider deployment of environmental taxes in low- and middle-income countries can help tackle environmental concerns such as poor waste management and air pollution, which disproportionally affect low- and middle-income households, and can do so in a progressive way.

Environmental taxes that help sustainable resource use or address urban pollution can play an important role in low- and middle-income countries (Keen, 2023[3]). Recent research shows that policy makers across sub-Saharan Africa see these taxes as holding the greatest potential to both generate revenue and redress existing inequalities (Occhiali, 2023[4]). For example, tariffs that disincentivise the import of second-hand cars and incentivise greener alternatives are likely progressive in contexts where private vehicle ownership remains a luxury and vehicle ownership taxes can finance public transport (Granger et al., 2021[5]). Waste taxes, the main source of financing for waste disposal in high-income countries, are rare in low- and middle-income countries; however, where they are in use, they tend to be applied with regressive flat rates. Linking them instead to property taxes could make waste taxes a progressive source of revenue for improved waste management (Matheson, 2022[6]). Likewise, efforts to rationalise tropical forestry taxation are often unsuccessful, but there are positive examples of fees structures disincentivising logging in peri-urban areas while keeping fuelwood affordable in rural areas where alternative fuels are scarce (Hamissou, 2001[7]).

Thus, environmental taxes can contribute to addressing current inequities. However, more research is needed to understand how tax instruments can address low- and middle-income countries' environmental issues in a just way. While fiscal instruments have potential, they should be deployed to tackle environmental problems as a priority rather than to mobilise revenue. Financing climate adaptation and mitigation in low- and middle-income countries will require high-income countries to continue to fulfil their pledge to direct USD 100 billion each year to climate finance, which took 13 years to be met for the first time.

Sources: Baker (2022[2]); Keen (2023[3]); Occhiali (2023[4]); Granger et al. (2021[5]); Matheson (2022[6]); Hamissou (2001[7]).

Progressive tax design is essential to tackle poverty and inequality and deserves more attention in the broader fiscal and economic context

Tax systems in low- and middle-income countries typically include the policy elements most commonly required for progressivity: progressive income tax rates with exemptions for low- and middle-income earners, value-added tax (VAT) exemptions for basic goods and taxes on types of incomes – such as dividend, rent or capital gains – that accrue particularly to higher income earners. Progressive tax systems

may still, however, have unintended consequences for poverty and inequality in practice. A clear example is the impact of inflation on tax exemption thresholds meant to protect those with low incomes, as was seen in Ethiopia. During a high inflation period in the 2010s, Ethiopia's tax exemption threshold fell well below the level policy makers intended it to be. To retain its real value it should have increased fivefold, but reform was delayed, and the threshold's value kept decreasing to half the national poverty line. The delays in adjusting the income tax schedule – and the outdated tax threshold in particular – resulted in the inclusion of workers below the poverty line in the tax net, with a likely negative effect on poverty (Hirvonen, Mascagni and Roelen, 2018[8]). Recent evidence also shows that lower income earners across several low- and middle-income countries pay a variety of tax-like contributions, especially at the local and community level, that are often regressive (Gallien and van den Boogaard, 2021[9]). These informal levies must be considered when designing formal tax systems, as they reinforce the need for exemption thresholds and progressive income tax schedules.

A second example of an unintended consequence concerns VAT exemptions for basic consumption goods. While these help improve progressivity in the short term, they might be less effective than other fiscal options to promote fiscal redistribution in the longer term. VAT is often considered to be regressive because it is levied at the same rate regardless of the consumers' income level. Most governments, however, exempt basic goods such as food or school uniforms, which represent a large proportion of poor households' consumption. These exemptions address concerns over the regressivity of VAT, but their effectiveness is limited by the tendency of poor households to purchase from informal markets (Bachas, Gadenne and Jensen, 2023[10]). As a result, the benefits of VAT exemptions, in absolute terms, accrue to higher income households more than the low- and middle-income ones that they are meant to target. In the long term, governments with stronger administrative capacity can improve fiscal redistribution by eliminating most VAT exemptions and using the resulting revenue gains to fund broad-based transfers to low- and middle-income households. Warwick et al. (2022[11]) showed that recycling the amount gained by eliminating VAT exemptions towards a universal, untargeted transfer would improve both poverty and inequality measures. This logic also applies to exemptions for menstrual hygiene products (MHPs), often advocated on grounds of gender equality. They are unlikely to improve poorer women's access to MHPs and mostly benefit higher income women (Byrne, 2023[12]). If such exemptions are eliminated, the foregone revenue could be used to fund targeted direct provision of MHPs (Grown and Mascagni, 2024[13]).

> …recycling the amount gained by eliminating VAT exemptions towards a universal, untargeted transfer would improve both poverty and inequality measures.

Stronger enforcement on higher income individuals and firms would help make tax systems fairer and generate greater revenue

Tax administration itself can have direct implications on equity, with uneven enforcement effort representing the clearest example. While tax administrations go to great lengths to squeeze (often non-existent) revenue out of micro and small informal firms, higher income earners remain largely off the (tax) hook. The conventional wisdom that formalising the informal sector can yield large revenue increases led many revenue authorities to implement mass registration campaigns that brought thousands of new taxpayers into the tax net. However, no substantial revenue gain was achieved because a significant proportion of new taxpayers are below or at the taxable threshold. Once registered, they either do not file or nil-file (Lediga, Riedel and Strohmaier, 2020[14]; Mascagni et al., 2022[15]; Gallien et al., 2023[16]). Worse, these campaigns can have unintended consequences on tax fairness: the substantial resources dedicated to registering unproductive taxpayers could be better spent to identify higher income individuals who often

escape the tax net. These individuals' tax liabilities disproportionately originate from rental income, capital gains and investment income, tax types that are often poorly enforced. A stronger focus on higher income earners would hence increase both equity and revenue generation. For example, the Uganda Revenue Authority's unit dealing with high-net-worth individuals collected over USD 5.5 million in the first year after its establishment – an amount that likely only represents the tip of the iceberg (Kangave et al., 2018[17]; Santoro and Waiswa, 2024[18]).

The negative effects of uneven enforcement are compounded by tax complexity and taxpayer confusion, which affect particularly smaller taxpayers. Research shows that tax complexity has equity implications, as compliance costs are regressive and result in higher tax burdens for smaller firms (Slemrod and Venkatesh, 2002[19]; Coolidge, 2012[20]). For example, a recent study shows that, on average, 40% of the smallest firms across a diverse set of 11 countries do not make use of their VAT credit from production inputs they purchase, effectively increasing their VAT bills above what they would technically owe (Brockmeyer et al., 2024[21]). The reason is that smaller firms tend to have less access to high-quality tax advisory services, weaker capacity to obtain tax exemptions and other benefits, and greater difficulty navigating an increasingly complex and digitised tax system (Mascagni et al., 2022[22]). Similar challenges exist for corporate and employment income taxes (Mascagni and Mengistu, 2019[23]; Benzarti, 2013[24]).

Ways forward to use the levelling potential of tax systems

Tax administration and implementation, alongside the design of tax policy, play an underappreciated role in ensuring progressivity. Administrative and institutional capacity is essential to monitor how tax systems work in practice, adjust them to maintain equity and ensure that enforcement pressure is evenly applied across groups in society. The intense pressure on low- and middle-income countries to increase revenue to meet unrealistic targets, while justified by large financing gaps, risks incentivising ineffective, inequitable and unsustainable tax practices. A broader focus on tax administration – and its reality in the context of low- and middle-income countries – can help mitigate this risk. The international community, including the Addis Tax Initiative and the Tax Administration Diagnostic Assessment Tool, is increasingly shifting away from a narrow focus on how much a country's revenue increases to broader considerations on how its revenue increases, including greater attention to tax administration (Addis Tax Initiative, 2023[25]). This focus on tax administration is particularly important to ensure that revenue mobilisation efforts promote rather than hamper equity and poverty reduction. The examples discussed above illustrate the impacts and unintended consequences of tax administration and implementation: thresholds, exemptions and administrative effort can all affect poverty and inequality in negative ways unless they are carefully monitored.

In practice, a reform agenda for equitable taxation certainly includes, among other features, greater efforts to tax the wealthy and to increasingly relieve administrative pressure and tax burdens on low- and middle-income earners and small firms, including by stopping mass registration campaigns and introducing simplified processes. In parallel, low- and middle-income countries, with the support of development partners, must continue ongoing efforts to increase administrative capacity and encourage taxpayer compliance, including by leveraging digitisation and data analytics for better tax administration. These efforts can result in both greater revenue mobilisation and improved equity, while also laying the foundations for sustainable revenue generation in the longer term.

Last but not least, the role of taxation to tackle poverty and inequality must be firmly embedded in a broader fiscal perspective. The levelling potential of tax mobilisation can only be fully tapped when the resulting revenue is spent to improve economic, human and social outcomes, especially for low- and middle-income households. Tax is only one of many fiscal policy tools available to governments (e.g. universal basic income, cash transfers, direct provision of goods such as MHPs) and it should be carefully evaluated against other policy options when pursuing specific goals such as gender equality, environmental

sustainability and poverty reduction. Improving outcomes and services for citizens would, in turn, have positive implications for trust and tax morale, which might lead to improved tax compliance and higher revenue generation.

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Notes

[1] In this chapter, low- and middle-income countries include both low-income and lower middle-income countries, according to the standard World Bank classification.

[2] The estimates refer to substantial progress towards achieving five of the SDGs, not achieving all of them. See: https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444.

7 In my view: On the road to 2030 and beyond – tackling inequality requires fair taxation

Svenja Schuze, Minister of Economic Cooperation and Development, Germany

How many zeros are there in a billion? Most of us need to at least pause and think – or ask Google – to come up with the right answer. There are nine zeros in a billion. A figure well beyond most of our imaginations, especially when we consider what a billion dollars means in personal wealth.

Currently, there are around 3 000 billionaires worldwide – most of them men. They are likely to have earned their fortunes as chief executive officers or as the main shareholders of multinational companies, and generally hold their money in financial assets such as stocks and bonds, or in real estate, yachts and diamonds.

Despite their wealth, however, you would be surprised to see how little income they earn – or at least, how little taxable income. Worldwide, the super-rich pay less in income tax relative to their wealth than the average wageworker does. In fact, global billionaires only pay the equivalent of 0.5% or less of their wealth in personal income tax (EU Tax Observatory, 2023[1]).

This is because the super-rich do not work for a wage, but instead generate their income by investing their assets. And investment income is taxed differently than wage income – usually at a lower rate. In Germany, for example, capital income is taxed at a rate of 25% while labour income is taxed at up to 45%. Moreover, billionaires are often able to structure their wealth so that, on paper, it generates hardly any taxable income. They use the many tax exemptions available, shift their wealth to low-tax jurisdictions and get help from the huge tax-planning industry.

This is all legal. But in my view, it is neither fair nor economically efficient. Current tax systems worldwide are clearly designed to favour the super-rich. To address this imbalance, Brazil introduced a proposal for a global tax on billionaires as part of its G20 presidency. The proposal suggests that billionaires pay an annual levy of at least 2% of their total net wealth. If they have already paid this amount in the form of income tax, they are exempt. If, however, they have managed to avoid paying this amount in income tax, they have to pay the billionaire's tax.

Brazil's proposal comes at a pivotal moment for two reasons.

First, because the world's major challenges require – in addition to political leadership – a substantial increase in financial commitments. In times of stretched public budgets, a tax of this kind could make a real difference in tackling global challenges such as climate financing and pandemic prevention. Estimates suggest that it could generate up to USD 250 billion in annual revenues globally – this is roughly equivalent to the amount of economic damages caused by extreme weather events in 2023 (Munich RE, 2024[2]). This is money that is urgently needed.

Second, because wealth inequality is on the rise worldwide. Oxfam's latest report revealed that, although the majority of humanity has become poorer in recent years, the world's five richest men have more than doubled their wealth since 2020 (Oxfam International, 2024[3]). The richest 1% of the world's population owns 38% of its total wealth while the poorest half owns just 2% (Chancel et al., 2021[4]). The design of tax systems is not only one of the root causes of this rising inequality, however; it is also one of the most effective instruments governments have to counteract it.

In my view, tackling inequality is key for making real progress towards the implementation of the 2030 Agenda. A decade ago, the OECD already highlighted the fact that the widening gap between rich and poor slows economic growth because it limits opportunities for lower income groups and inhibits innovation. It also underlined the fact that inequality weakens social cohesion and ultimately governments' ability to address urgent reforms such as the green transformation (OECD, 2015[5]). It is also disastrous for our climate, because wealth increases people's ecological footprint exponentially. A three-hour flight on a private jet emits more carbon dioxide than the average person emits in a year.

A decade ago, the OECD already highlighted the fact that the widening gap between rich and poor slows economic growth because it limits opportunities for lower income groups and inhibits innovation.

Of course, a billionaire's tax cannot be the only answer to tackling inequality and creating fiscal capacity to address global challenges. Such a reform needs to be embedded in broader efforts to implement more progressive fiscal policies. And to limit opportunities for shifting wealth offshore, it needs commitment from governments worldwide.

However, a billionaire's tax would nevertheless be an important step towards closing the gap between rich and poor. It would make tax systems fairer by placing more of the burden of taxation on those with the greatest ability to pay, rather than those with the least ability to avoid taxes. And lastly, it would unlock additional revenue for investing in public goods such as a healthy climate, education and infrastructure – investments from which billionaires ultimately also benefit.

In my view, it is time to be bold. Fighting inequality requires political commitment – commitment to hold everyone in society responsible for the common good. What the international community managed to do with the global minimum tax on multinational companies, it can do with billionaires, too.

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8 Labour policy and rights for decent work and a living wage

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Most people living below the international extreme poverty line of USD 2.15 per day have a job but do not earn sufficient income to support themselves and their families. To deliver a long-term and systemic response to poverty, the distribution of income across the value chain must improve – not least by upholding workers' right to a fair wage in low- and middle-income countries. This chapter discusses how labour market and wage-setting institutions are key levers to improve working conditions, tackle working poverty, enhance productivity, foster sustainable growth and end violations of workers' fundamental rights to freedom of association, which are increasing at an alarming rate. It examines how development co-operation, by fostering an enabling environment for collective bargaining and directly involving trade unions, can support a just transition to net zero economies and better integrate the fight against poverty and climate change while also enhancing social cohesion and strengthening pillars of democracy.

Authors are grateful for the input of the International Trade Union Confederation to this chapter.

Key messages

- Ensuring decent work and access to a living wage constitute systemic responses in the twin fights against poverty and inequality. High prevalence of informal work, low wages, inflation and the recent rise of the platform economy are key contributing factors to working poverty.
- Green transitions could further depress wages as developing countries seek cost competitiveness. Supporting collective bargaining and trade unions helps raise wages and tackle work-related inequalities, and will be key to advance a just transition.
- In developing countries, unions face significant challenges and the level of national compliance with fundamental labour rights has been deteriorating since 2020.
- Experience shows that development co-operation providers can successfully support workers' movements directly, link trade unions with those in partner countries as a form of technical assistance, and promote green and just transition processes by strengthening social dialogue.
- Allocating an increased share of official development assistance to the promotion of labour rights and social dialogue, respectively 0.11% and 0.01% of total allocable aid in 2021, is necessary to realise the power of decent work to tackle poverty and inequalities.

Introduction

Freedom of association and the right to collective bargaining are enshrined in international human rights instruments and the fundamental conventions (No. 87 and 98) of the International Labour Organization (ILO). The right to join or form a union and collectively bargain for better working conditions and higher wages is considered an enabling right underpinning the realisation of other workers' rights, including non-discrimination, the abolition of child labour and the eradication of forced labour.

To sustainably lift people out of poverty and reduce inequality, the responses must be systemic ones that promote real and continual wage growth and decent work for all.

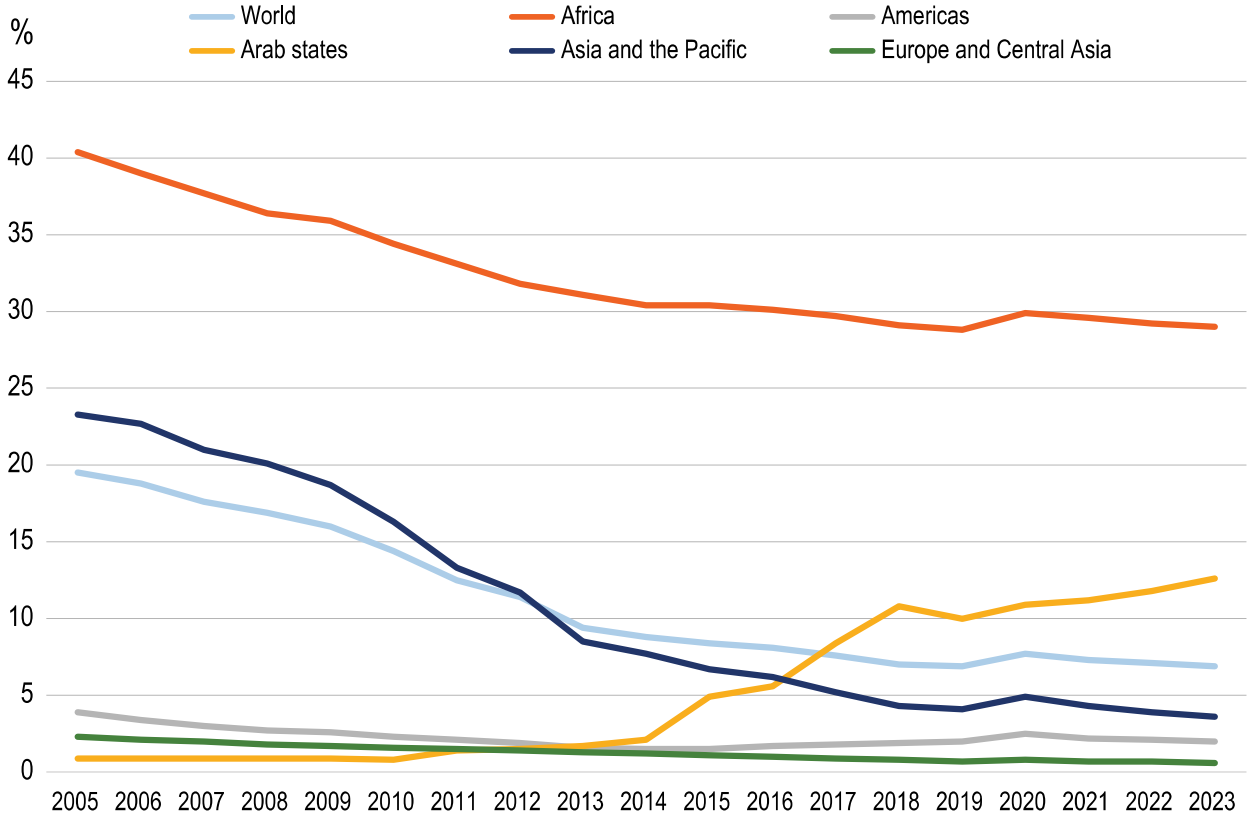
Freedom of association is defined as the right of workers and employers to form and join organisations of their own choosing. It constitutes an integral part of a free and open society and has often played a significant role in countries' democratic transformation. Collective bargaining refers to all forms of negotiations taking place between an employer and one or more workers' organisations to determine working conditions and terms of employment at company or sectoral level. Upholding these rights is therefore essential for achieving Sustainable Development Goal 8 on decent work for all and sustainable growth and critical to the broader fight against poverty and inequality.

Tackling systemic causes of low wages through collective bargaining is critical to reduce poverty and inequality

Most people in the world who are experiencing poverty[1] have a job. Yet their incomes do not offer an adequate standard of living for themselves and their families and do not cover their basic needs, such as food, health and housing. To sustainably lift people out of poverty and reduce inequality, the responses must be systemic ones that promote real and continual wage growth and decent work for all. Just prior to the COVID-19 pandemic, an estimated 44% of workers in low-income countries and 52% in lower middle-

income countries were either moderately or extremely poor (Gammarano, 2019, p. 2[1]). Though progress has stalled recently, the global working poverty rate has been steadily declining for decades. Yet significant regional disparities persist (Figure 8.1). In 2023, Africa had the highest share of working poor at 29%, and sub-Saharan Africa alone had 145 million people in extreme working poverty, almost a third of its employed population. In 2023, a significant majority of workers, 55-79%, were considered to be extremely poor in 9 African countries (ILO, 2023[2]; Sodergren et al., 2024[3]).

Figure 8.1. Regional disparities in working poverty rates persist, 2005-23



Notes: The working poverty rate conveys the percentage of employed persons living in poverty despite their being employed. Extreme poverty is defined using the international poverty line of USD 2.15 per day at purchasing power parities, in line with Sustainable Development Goal target 1.1.
Source: Trade Union Advisory Committee to the OECD based on ILO (2023[4]), "ILO modelled estimates", *ILOSTAT database*, https://ilostat.ilo.org/topics/working-poverty.

Poverty rates are particularly high among workers in the informal economy, which today represents nearly 58% of workers globally and 90% of workers in low-income countries. Informal work represents about 85% of total employment in Africa, 68% in Asia and the Pacific, and 53% in Latin America and the Caribbean (ILO, 2024[5]). While formalisation of the economy is essential to guarantee decent work, evidence shows that transitions to formal jobs do not automatically lift the poorest workers out of the lowest income quantile due to the absence of effective wage-setting institutions such as minimum wage laws and collective bargaining (OECD, 2024[6]).

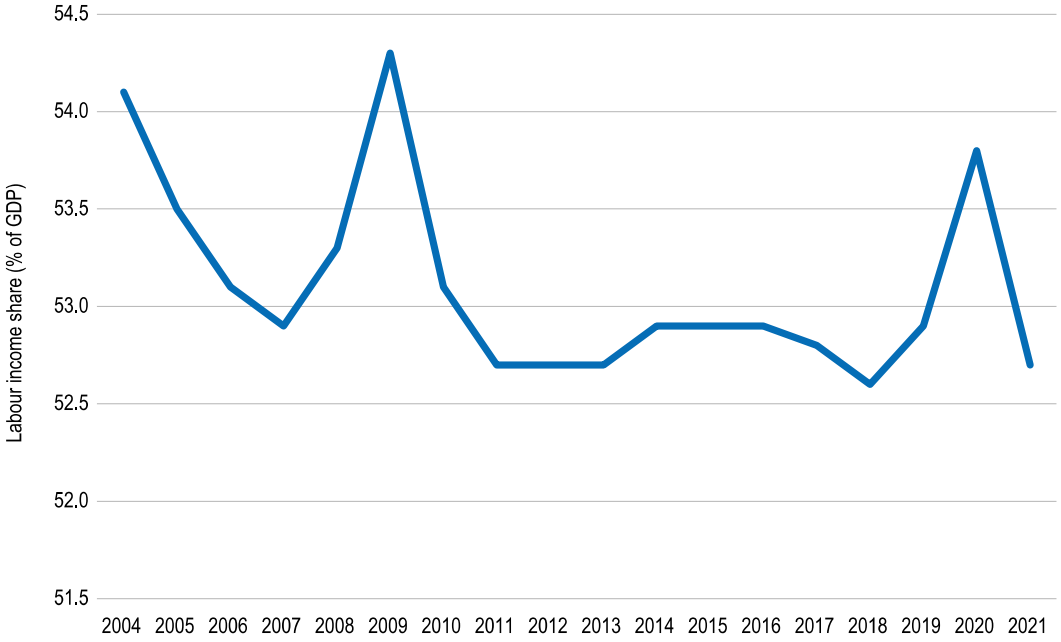
Labour productivity has been increasing more than real wages, and global economic turbulence threatens to keep wages depressed

While statutory minimum wages are essential and have proven to make a significant contribution to decent work, they also are not always sufficient to lift workers out of poverty. The ILO recently adopted guiding principles to calculate a country's "living wage", defined as "the wage level that is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances" (ILO, 2024[7]). These principles underline the importance of supporting collective bargaining to ensure that wages respond to workers' needs while taking into account levels of economic activity and productivity. Collective bargaining is also key to contribute to a "fair distribution of the gains generated through value-added along global supply chains" (ILO, 2024[7]).

The unequal distribution of value added within global supply chains raises major challenges for development policies (Selwyn, 2019[8]). The OECD-WTO database on trade in value added shows that in 2021 a large majority of total global value created accrued to global lead firms from advanced economies, while only a small portion of total value added was distributed in emerging economies where most workers and labour-intensive productions are located (OECD, 2021, p. 61[9]; Banga, 2013[10]).

Labour productivity has increased more than real wages over the last four decades. As a result, across all regions, the share of labour as a percentage of gross domestic product (GDP) has been declining since the 1980s (ILO, 2022[11]; International Institute for Labour Studies, 2011[12]). During the 2008-09 financial crisis and the COVID-19 pandemic, the labour share increased markedly. This does not imply that wages and labour income increased, however. Rather, while both capital income and labour income have fallen, profits and other capital incomes have dropped faster than labour income (Figure 8.2).

Figure 8.2. Global decrease in the labour income share, 2004-21



Note: The labour income share is the ratio of total labour income as a percentage of GDP (a measure of total output); both are provided in nominal terms.
Source: Trade Union Advisory Committee to the OECD based on (2023[13]), statistics on labour income and inequality, November 2023, https://ilostat.ilo.org/topics/labour-income/#.

The weakening of unions is an important factor in the decline of the labour income share and the rise in inequalities in low- and middle-income countries (Chancel et al., 2022[14]; Jaumotte and Buitron, 2015[15]). Recent trends have made matters worse. Fuelled by inflation, global monthly wages fell in real terms by 0.9% in the first half of 2022, the first negative wage growth this century (ILO, 2022, p. 36[11]). The current global economic slowdown, sluggish global productivity growth, monetary tightening and fiscal austerity are likely to further aggravate poverty and inequality. Furthermore, the urgent need to embark on a green transition may generate significant additional challenges for countries attempting to catch up in terms of economic and social development (Box 8.1). Among these are a lack of investment capacities; the increased cost of capital; and the potential loss of competitiveness in global trade resulting from carbon pricing, tariffs and other measures.

The current global economic slowdown, sluggish global productivity growth, monetary tightening and fiscal austerity are likely to further aggravate poverty and inequality.

Box 8.1. Development co-operation must support a just green transition that protects workers' rights and livelihood

Countries that are highly indebted or with very limited fiscal space are also often the most vulnerable to the effects of climate change. They also tend to have the greatest investment needs, both in terms of adaptation and mitigation, to shift to carbon-neutral economies and clean energy-based productions (Voyvoda, 2023[16]). It is sometimes argued that emerging economies may leapfrog to green industries and clean energy. But there are serious concerns about their capacity to access the necessary funding as well as about the potential spillover effects of climate actions adopted in advanced economies. For example, the European Union (EU) Carbon Border Adjustment Mechanism, which imposes a carbon tariff on imports into the European Union from certain high-emitting sectors, may induce an annual USD 5.9 billion decline in developing countries' incomes (UNCTAD, 2021[17]). If no appropriate measures are taken, the carbon tax could put additional pressure on developing economies to seek cost-competitiveness by compressing wages.

To protect wage growth and foster policy coherence, it is critical to support low- and middle-income countries in moving up the supply chain towards the processing of critical raw materials and development of finished products that are needed for the energy transition. Development co-operation should also promote responsible business conduct – including respect for environmental obligations and labour standards in supply chains – and support countries' efforts to pursue a truly "just transition of the workforce" in line with the Paris Agreement. Support for the just transition should also include financial support to allow countries to make the necessary investments in green infrastructures and to create green and quality jobs (ILO, 2015[18]). Social protection schemes are also key to protect both workers at risk of losing their jobs or livelihoods (especially if these rely on exposed biodiversity or natural resources) and businesses affected by climate change or the transition. While social protection benefits can provide immediate assistance and poverty relief, cash-based social assistance programmes can also positively affect people's behaviours, including in terms of land use and conservation practices. Indonesia's national poverty alleviation programme, for example, is estimated to have reduced tree cover loss in villages by 30% without including a direct objective of fighting deforestation (Györi, Diekmann and Kühne, 2021[19]).

Strengthening social dialogue is crucial to leave no worker behind and foster a truly just transition. Building on the DAC Recommendation on Enabling Civil Society in Development Co-operation and

Humanitarian Assistance, countries should ensure that workers have a voice in the design and implementation of adaptation and mitigation policies at the company, sectoral and national level, including in the context of just energy transition partnerships. With support from international development agencies, some nationally determined contributions have successfully adopted a just transition approach that integrates efforts to fight climate change, poverty and inequality by relying on social dialogue. Antigua and Barbuda are one example (Government of Antigua and Barbuda, 2021[20]). By organising dialogue between employers' and workers' groups, these countries have put the creation of green and quality jobs at the centre of the formalisation of the economy and development strategies.

Sources: Voyvoda (2023[16]), *Transitioning to a Clean Energy Growth Model: Challenges, Opportunities and Solutions*, https://unctad.org/system/files/non-official-document/MYEM2023_31Oct_presentation_-_Voyvoda.pdf; UNCTAD (2021[17]), *A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries*, https://unctad.org/system/files/official-document/osginf2021d2_en.pdf; ILO (2015[18]), *Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All*, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf; Györi, Diekmann and Kühne (2021[19]), *The Importance of Social Protection for Climate Change Mitigation in LMICs: Success Stories and Opportunities for the Future*, https://socialprotection.org/sites/default/files/publications_files/GIZ_Social_Protection_CCM_LMICs.pdf; Government of Antigua and Barbuda (2021[20]), *Antigua and Barbuda Updated Nationally Determined Contribution for the Period 2020-2030*, https://faolex.fao.org/docs/pdf/ant208476.pdf.

Collective bargaining correlates with lower poverty and inequality but is under mounting threat

There is abundant and compelling evidence that collective bargaining leads to better labour market outcomes in high-income countries, including in terms of wages, gender equality and the creation of quality jobs (OECD, 2019[21]). This is also true in low- and middle-income countries despite the additional challenges they face, such as prevailing informality and low trade union density rates. Unions help ensure the protection of workers' fundamental rights (ILO, 2021[22]) and reduce wage inequality including the gender pay gap (Hayter and Weinberg, 2011[23]). The example of South African trade unions in the campaign to establish a national minimum wage law shows the important role they can play (Box 8.2).

Box 8.2. South Africa's trade unions campaigned for and won a national minimum wage with support from development co-operation

South African trade unions have played a pivotal role as advocates for decent work and wages for the working poor. With support from a partnership programme co-funded by the Belgian Directorate-General for Development Cooperation and Humanitarian Aid and the Belgian General Confederation of Liberal Trade Unions, three major trade confederations – the Congress of South African Trade Unions (COSATU), the Federation of Unions of South Africa and the National Council of Trade Unions – successfully campaigned for a statutory national minimum wage. The International Labour Organization provided technical support and the National Economic Development and Labor Council, the national South African social dialogue structure, provided a platform. The national minimum wage law went into effect in 2019.

The new wage-setting institution, the National Minimum Wage Commission, has made periodic adjustments (Table 8.1). Its latest report in 2024 proposed an increase of the minimum wage to match inflation, and its review considered the objectives of inequality and poverty alleviation. The report noted that approximately 6 million workers are now covered by the minimum wage, including workers from the informal economy and in the agricultural, domestic, construction, retail, hospitality and cleaning sectors (South Africa Department of Employment and Labour, 2023[24]). COSATU has welcomed the new proposed adjustment and lauded the progress in the five years since the national minimum wage was enacted (Congress of South African Trade Unions, 2024[25]).

Table 8.1. Progressive increases in the national minimum wage in South Africa

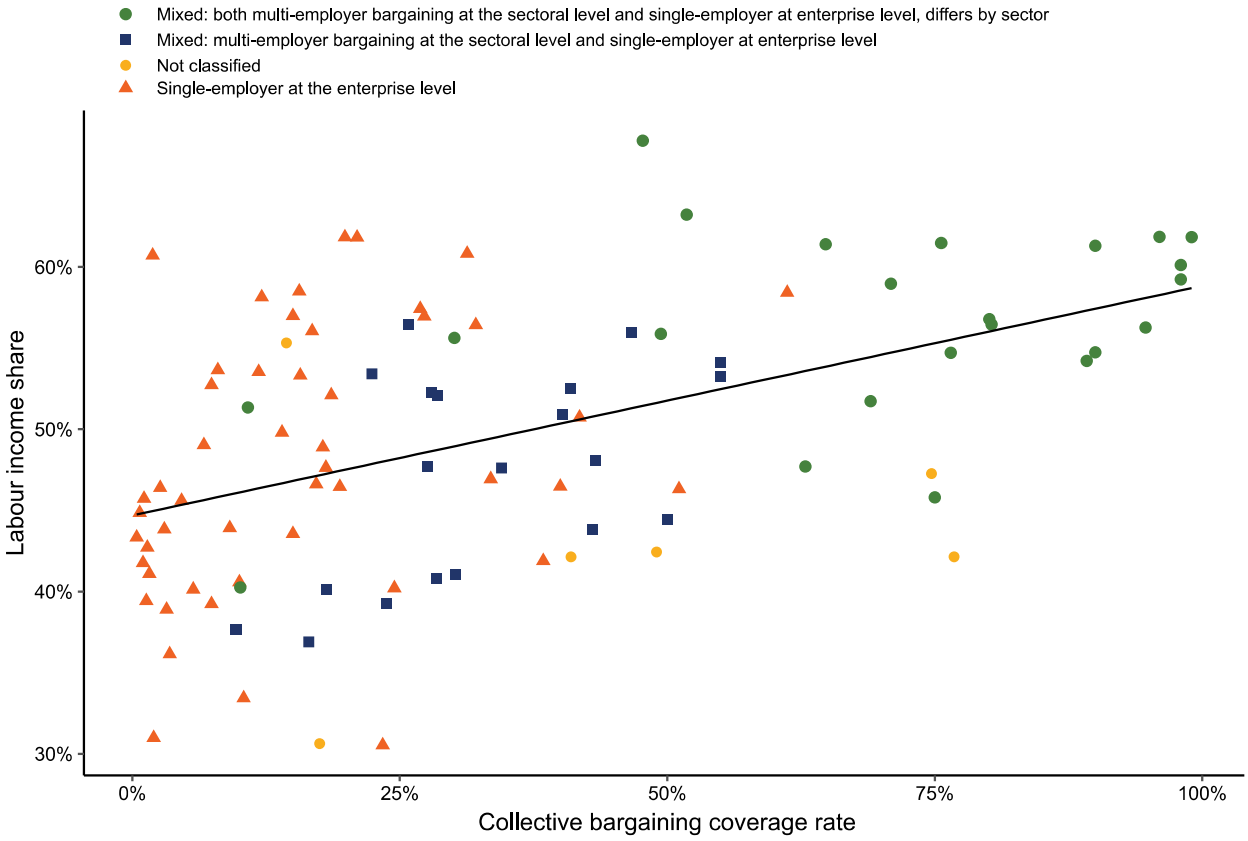
	2019 national minimum wage (in South African rand)	2024	2025
General hourly minimum wage	ZAF 20	ZAF 27.58	ZAF 30
Farm workers	ZAF 18	ZAF 27.58	ZAF 30
Domestic workers	ZAF 15	ZAF 27.58	ZAF 30

The law has had a substantial impact on the working poor. A few years ago, many farm and domestic workers received poverty wages – sometimes as little as ZAF 6 per hour. In 2019, the minimum wage for domestic workers was set at ZAF 15 and for farm workers at ZAF 18. Today, their wages have increased to match the general hourly minimum wage of ZAF 27.58. While significant challenges remain to expand the scope of application of the minimum wage and increase it towards a living wage, the law is considered a major poverty alleviation achievement and is a concrete example of development co-operation supporting trade unions and social dialogue to promote reduced poverty and inequalities.

Sources: South Africa Department of Employment and Labour (2023[24]), *The National Minimum Wage Commission Proposal for 2024 Adjustment*, https://www.gov.za/sites/default/files/gcis_document/202312/49835rg11649gon4168.pdf; Congress of South African Trade Unions (2024[25]), "COSATU welcomes the 2024 increase in the national minimum wage from 01 March 2024", https://mediadon.co.za/2024/03/01/cosatu-welcomes-the-2024-increase-in-the-national-minimum-wage-from-01-march-2024.

Strengthening collective bargaining also greatly contributed to reducing inequalities in Latin America in the 2000s. In Argentina, Brazil, Mexico and Uruguay, reduced inequality in labour incomes accounted for over 60% of the fall in inequality, most of which occurred among registered wage earners (i.e. formal workers) (Berg, 2015[26]). Today, data collected by the ILO show a clear positive association between the coverage of collective bargaining and labour income share, including in developing countries[2] (ILO, 2022[27]) (see Figure 8.3).

Figure 8.3. Collective bargaining coverage rates and the labour income share

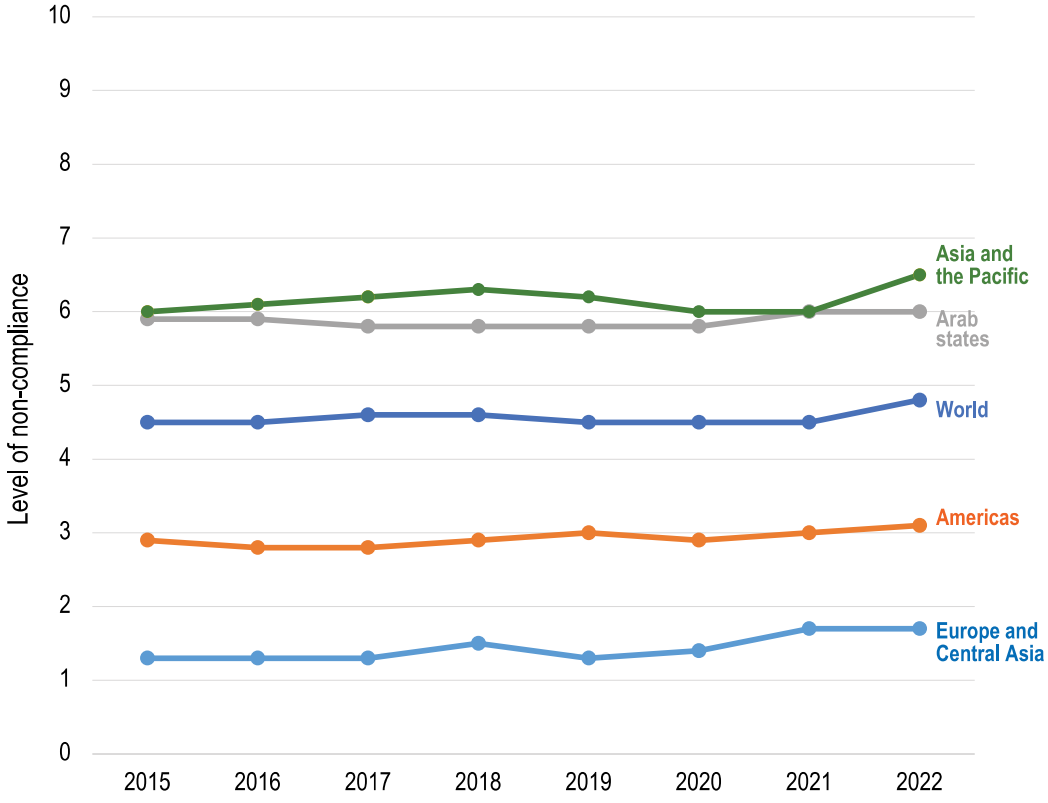


Sources: ILO (2023[28]), ILOSTAT, https://ilostat.ilo.org/beyond-the-numbers-exploring-the-relationship-between-collective-bargaining-coverage-and-inequality.

The rise of platform work together with the persistent prevalence of informal employment are considerable obstacles to unionisation and the fight against poverty in developing countries. The World Bank recently estimated that the number of global online gig workers ranges anywhere between 154 million and 435 million, representing between 4.4% and 12.5% of the global labour force (Datta et al., 2023[29]). Together, low- and middle-income countries account for 40% of traffic to gig platforms. There are examples of collective representation and negotiations in the platform and informal economy that can be seen as steps towards collective bargaining and formalisation.[3] Trade unions have also concluded global framework agreements with multinational companies to secure and enforce workers' rights throughout their global operations (Uni Global Union, 2024[30]).

The International Trade Union Confederation Global Rights Index shows that freedom of association and collective bargaining, despite their being fundamental human and labour rights, are routinely violated in low- and middle-income countries, preventing unions from defending workers' rights and from strengthening their bargaining position in wage setting (ITUC, 2023[31]). Violations reported in 2023 increasingly took the form of criminalisation of the right to strike, impeded registrations of trade unions, restriction of the right to join a union and arbitrary detention of workers' representatives. As illustrated in Figure 8.4, data reported by the United Nations in 2022 show that the number of violations of fundamental labour standards, i.e. freedom of association and collective bargaining (SDG indicator 8.8.2), has increased alarmingly in much of the world since 2020[4] (United Nations Economic and Social Council, 2022[32]).

Figure 8.4. Non-compliance with core labour standards (SDG indicator 8.8.2) has jumped since 2020



Notes: SDG indicator 8.8.2 relates to the level of national compliance with labour rights (freedom of association and collective bargaining) based on ILO textual sources and national legislation by sex and migrant status. It ranges from 0 to 10, with 0 being the best possible score (indicating higher levels of compliance) and 10 the worst (indicating lower levels of compliance). Data for Africa are not available.
Source: TUAC based on Sodergren et al. (2024[3]), "Charting progress on the global goals and decent work", https://ilostat.ilo.org/charting-progress-on-the-global-goals-and-decent-work.

Despite this bleak situation, there are positive albeit still limited examples of trade unions being consulted in low- and middle-income countries in the context of national SDG plans or United Nations Economic and Social Council voluntary national reviews, which contributes to enhancing transparency and inclusive social dialogue at the national level (Papadakis and Cauqui, 2023[33]). These examples could be further promoted and built on to encourage similar action elsewhere.

Development co-operation can help promote decent work and wages by supporting the enabling environment for fundamental worker's rights

Since the 1990s, labour market regulations and institutions have wrongly been perceived as barriers to development,[5] leading to advocacy for deregulation of the labour market and collective wage-setting institutions in the context of development assistance programmes.[6] While this narrative is now less explicit and there are many positive examples of development co-operation supporting the advancement of worker's rights (Box 8.3), much remains to be done to ensure greater policy coherence and respect for internationally agreed-upon fundamental labour standards, including in operations of international financial institutions and structural adjustment programmes.

Box 8.3. Development co-operation providers supporting and strengthening trade unions' capacities

Through their participation in the Better Work programme, a collaboration between the International Labour Organization (ILO) and the International Finance Corporation that is present in 13 countries, factories have steadily improved compliance with the ILO's core labour standards and national legislation covering compensation, contracts and working time. By fostering social dialogue, the programme has also significantly improved working conditions and enhanced factories' productivity and profitability at the same time. Assessments carried out in Cambodia, Nicaragua and Viet Nam have demonstrated that the non-compliance rates of factories with a union presence and a collective bargaining agreement were, on average, nearly 10% lower than those of other factories (Better Work, 2024[34]).

The United States Agency for International Development's Global Labor Program, implemented by the Solidarity Centre, builds on the 2023 Presidential Memorandum on Advancing Worker Empowerment, Rights, and High Labor Standards Globally and offers examples of important initiatives with unions in Bangladesh, Cambodia and Lesotho, among others (USAID, 2024[35]).

Development co-operation providers can also play an important role in linking trade unions in their own countries to those in developing countries. In Ethiopia and Ghana, for example, the Norwegian Confederation of Trade Unions has been working with the Norwegian Agency for Development Cooperation to implement a project aimed at fighting modern slavery and promoting fair wages and workers' rights (Karanja and Lomosi, 2023[36]). Unions in countries as diverse as Honduras, Nigeria and the Philippines are working with union organisations from high-income countries (including Australia and the United States) to build collective bargaining and improve the lives and livelihoods of the working poor in both formal and informal work.[1]

1. See, for example: https://www.solidaritycenter.org/wp-content/uploads/2022/07/Honduras.Bargaining-for-Decent-Work-and-Beyond.REV-7.2022.pdf; https://www.solidaritycenter.org/category/what-we-do/freedom-to-form-unions; https://www.solidaritycenter.org/wp-content/uploads/2024/02/Solidarity-Center-Annual-Report-2023.pdf; and https://www.apheda.org.au/wp-content/uploads/2024/02/compress_116402_UAA-Annual-Report-2023-2024-v5.pdf.

Sources: Better Work (2024[34]), "Better Work Jordan annual report shows challenges, progress in garment sector", https://betterwork.org/better-work-jordan-annual-report-shows-challenges-progress-in-garment-sector; USAID (2024[35]), "Global Labor Program", web page, https://www.usaid.gov/democracy/global-labor-program; Karanja and Lomosi (2023[36]), *LO's Global Programme on Trade Union Efforts to Combat Modern Slavery in Ethiopia and Ghana*, https://www.norad.no/globalassets/publikasjoner/publikasjoner-2023/norad-collected-reviews-17-23.pdf.

These examples show that collective bargaining can make a significant, long-term and systemic contribution to the fights against poverty and inequality while also fostering social cohesion (OECD, 2021[9]). Together with trade policies[7] and in line with their overall commitment to support and enable civil society and civic space, development co-operation actors can actively contribute to protecting workers' rights through support for unionisation and the rebalancing of workers' bargaining power. Allocating an increased share of official development assistance to the promotion of labour rights and social dialogue, respectively 0.11% and 0.01% of total allocable aid in 2021 (OECD, 2021[37]), would help fully realise the power of decent work to tackle poverty and inequalities.

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Notes

[1] The working poverty rate conveys the percentage of employed persons living in poverty despite their being employed. The poverty line is generally defined as the per capita monetary requirements an individual needs to afford the purchase of a basic bundle of goods and services. For the purpose of SDG

target 1.1 (eradicate extreme poverty), an absolute international poverty line of USD 2.15 per day is used to define extreme poverty. See: https://unstats.un.org/sdgs/metadata/files/Metadata-01-01-01b.pdf.

[2] A related interactive chart and data are available at: https://ilostat.ilo.org/beyond-the-numbers-exploring-the-relationship-between-collective-bargaining-coverage-and-inequality.

[3] In Ghana, for instance, online ride-hailing drivers are organised in about 16 online drivers' associations, the earliest of which was established in 2018 and some of which are affiliated with the Trades Union Congress Ghana; see: https://webapps.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_875942.pdf; https://hbr.org/2016/11/why-diverse-teams-are-smarter. In Senegal, the National Confederation of Senegalese Workers took steps to formalise workers in the private security sector, including through establishing unions in companies that employ guards. The Confederation negotiated a collective agreement with employers in January 2019.

[4] An interactive chart and background data are available at: https://ilostat.ilo.org/charting-progress-on-the-global-goals-and-decent-work.

[5] See, for instance, https://doi.org/10.1596/978-0-1952-1102-3.

[6] The World Bank's Doing Business indicators, launched in 2002, include a sub-index on labour laws called the Employing Workers Index. This assesses the degree of regulation in labour markets in the areas of working time, minimum wages and dismissal protection based on a benchmark of no regulation and zero cost. Countries with more regulated labour markets ranked lower in the Employing Workers Index.

[7] For instance, Viet Nam ratified ILO Convention No. 98 on the right to collective bargaining in 2019, fulfilling commitments under the EU-Viet Nam Free Trade Agreement which fully entered into force in 2020.

9 Socio-economic benefits of gender responsive policies

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Gender equality is a powerful engine for economic growth and resilience. This chapter discusses how closing gender gaps can result in greater productivity, economic growth and human development. Drawing on a vast literature and insights and lessons from the International Monetary Fund's work with member countries such as Mauritania, Niger, Nigeria, Senegal, and Sierra Leone, among others, highlights the importance of tailored policy advice with a gender lens, and capacity development initiatives. It examines the importance of decisive policy action to close persistent gender gaps in labour force participation and tackling gender inequalities in work, education, access to technology and other opportunities. It calls for collaboration with development and multilateral partners to leverage collective expertise and resources to address persistent barriers to gender equality.

The views expressed in this chapter are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

Key messages

- Gender equality is a potent driver of economic growth and stability. Closing gender gaps could raise real gross domestic product (GDP) by about 23% on average in emerging markets and developing economies.
- Applying a systematic and intentional gender lens to policy formulation is key to tackling barriers to gender equality and unlocking a powerful engine of growth and resilience.
- There is a large body of evidence of the macroeconomic and distributional benefits of closing gender gaps and the importance of well-crafted, gender-responsive policies, such as improved access to education, targeted infrastructure development and affordable childcare which enable women's full participation in the economy and green transition.
- At the international level, development partners should leverage collective expertise and resources to drive meaningful change, foster inclusive growth, and develop tailored policy advice and capacity development.

Closing gender gaps pays off in greater productivity, economic growth and human development

The global economic outlook is challenging, with the weakest medium-term growth outlook in decades, greater volatility and multiple disruptive transitions. Long-standing growth engines such as international trade are losing steam. Many countries have depleted their policy buffers, including in response to the pandemic and other shocks of recent years, leaving them with elevated debt levels. Lower productivity growth, climate change, demographic shifts and geoeconomic fragmentation add to the challenges of inclusive growth, stability and resilience.

A vast body of literature shows that closing gender gaps enhances economic growth, fosters stability, promotes inclusion and yields positive externalities. Gender gaps are an indication that productive human resources are likely underdeveloped, underemployed and/or misallocated, with adverse effects on productivity and growth.[1] Smaller gender gaps in opportunities (e.g. education, health and financial inclusion) and environments in which women and girls are protected from violence and harmful practices (e.g. child marriage and female genital mutilation) therefore lead to higher productivity, employment and development. In Senegal, for instance, successful implementation of a policy ensuring that all children receive at least five years of education could raise GDP by 8% (Malta, Martinez and Mendes Tavares, 2019[1]). Similarly, in Nigeria and Sierra Leone, lifting the level of education of girls to that of boys in each income quintile would boost GDP by 5% and 8%, respectively (Malta and Newiak, 2019[2]; Malta, Newiak and Sandy, 2020[3]). Greater inclusion of women as users, providers and regulators of financial services has been associated with greater stability of the banking system (Khera et al., 2022[4]). Female representation in managerial positions and on corporate boards is positively associated with improved firm performance in terms of funding obtained, revenues and profitability (Christiansen et al., 2016[5]). Women's political leadership is also associated with higher infrastructure spending and female educational attainment (Duflo, 2012[6]). Narrower gender gaps are associated with lower income inequality which, in turn, improves social cohesion and support for reforms and increases both the rate and sustainability of economic growth (Gonzales et al., 2015[7]; Demery and Gaddis, 2009[8]; Čihák and Sahay, 2020[9]).

In sum, gender equality is macrocritical.

Decisive policy action is critical to close persistent gender gaps in labour force participation

Wide gender gaps in labour force participation persist in many emerging and low-income and developing countries (LIDCs)[2] even as they have decreased by almost 8 percentage points over the past 20 years in advanced economies, driven largely by greater female labour force participation. In emerging markets and LIDCs, though, female labour force participation rates in 2022 were even lower than in 2000. While the gender gap narrowed by approximately 3 percentage points in LIDCs over this same 23-year period, this was due to a decrease in male labour force participation. Moreover, cyclicality in the labour market is not gender-neutral, particularly for hours worked and unemployment[3] (Gomes, 2024[10]). Labour market participation gaps will narrow based on current trends and policies but are forecast to remain sizeable – or to never close – for many economies unless there is a decisive step-up in policies (Badel and Goyal, 2023[11]). In fact, the average global gap has fallen by only 1 percentage point annually over the past three decades.

> It is estimated that closing gender gaps in labour force participation in 128 emerging markets and LIDCs would result in potential GDP gains of 23% on average.

Higher female labour force participation can provide a much-needed boost to economic growth. Not only does it mean a larger and more diverse workforce but also, and importantly, better job-matching with talent – a main driver of higher productivity (Goyal and Sahay, 2023[12]; IMF, 2024[13]). For example, it is estimated that closing gender gaps in labour force participation in 128 emerging markets and LIDCs would result in potential GDP gains of 23% on average (IMF, 2024[13]). Even if gender gaps in labour force participation were narrowed by just 6 percentage points, which is the improvement experienced by top performers between 2014 and 2019, the output gains could more than compensate for the economic scarring from the pandemic (Badel and Goyal, 2023[11]; Sayeh, Badel and Goyal, 2023[14]). Leveraging this inclusive growth engine is especially important in an era of low growth, high volatility, high debt levels, higher interest rates and limited policy space.

Gender inequalities in work, access to education and technology, and other opportunities need to be tackled decisively

Rapid population growth in many LIDCs and emerging markets will cause these economies to face a youth bulge in the coming decades. Closing gender gaps in opportunities will contribute to human capital accumulation and more productive labour market matches, which ultimately can help countries achieve potential demographic dividends. However, women face barriers such as insufficient legal rights, hostile or unsupportive work environments, and unequal access to resources and services that impede them from engaging in paid labour market or entrepreneurial activities and leave them with limited options, such as unpaid work. Paid and unpaid work, in turn, also impact fertility choices and parents' incentives to invest in girls' education (Gu et al., 2024[15]).[4]

Enhanced access to education for girls and women is key to building a more skilled labour force pool and supporting positive macroeconomic outcomes. It is estimated that in Niger, for example, raising girls' education could increase female labour force participation by nearly 86%,[5] real GDP could rise by more than 11% and tax revenues could be boosted by more than 11% (Ouedraogo and Gomes, 2023[16]).[6] In light of structural and other barriers in some countries, however, complementary policies addressing

broader social and economic challenges are essential to fully realise the benefits of education in boosting female labour force participation.

> It is estimated that in Niger, for example, raising girls' education could increase female labour force participation by nearly 86%, real GDP could rise by more than 11% and tax revenues could be boosted by more than 11%.

The rapid growth of digital financial services provides an opportunity to eliminate mobility- and time-related barriers for women to access financial services. In fact, though fintech has helped improve women's access to financial services in several countries, significant discrepancies remain across regions and countries (Sahay et al., 2020[17]). Between 2017 and 2021, for example, men gained access at a faster pace than women overall, which widened gender gaps. It is important to address disparities in financial and digital literacy, legal barriers, and access to technology, all of which drive the gaps in access to digital financial services. Lack of financial literacy may lead to hesitancy or avoidance of financial services, while lower levels of digital literacy may impair women's ability to use these services effectively. In some countries, women cannot obtain the necessary credentials for mobile accounts and are discriminated against in credit access, property rights and asset ownership (Khera et al., 2022[4]; Molinier, 2019[18]). Disparities in access to smartphones, computers and the Internet also limit women's engagement with digital financial services, with women in low- and middle-income countries being less likely to own a mobile phone and use mobile Internet (Molinier, 2019[18]). The high cost of technology combined with lower income and limited control over household finances pose challenges for women in terms of the affordability of Internet services or mobile devices.

> Climate-related disasters only increase women's workloads to secure a livelihood, adding to the time and resource constraints that hinder them from pursuing education and income-generating opportunities.

Barriers to equal opportunities carry over to the climate crisis and green transition. Climate change already disproportionally affects women, especially in agriculture-based economies (Sorensen et al., 2018[19]). Women account for a significant share (50-80%) of global food production but own less than 10% of the world's land (Osman-Elasha, 2012[20]). In rural communities, where women bear primary responsibility for household tasks and agriculture, their limited access to resources and decision making exacerbates their vulnerability. Climate-related disasters only increase women's workloads to secure a livelihood, adding to the time and resource constraints that hinder them from pursuing education and income-generating opportunities. Socio-cultural norms often restrict women's mobility during crises, and they face heightened risks of violence and exploitation.

Responding to country demands for gender equality interventions requires capacity building and collaboration among development actors

In recognition of the macrocriticality of gender equality, the IMF Executive Board endorsed its first gender mainstreaming strategy in 2022 (IMF, 2022[21]). The strategy aims to integrate gender into the IMF's core activities of surveillance, lending and capacity development in accordance with its mandate. This means that IMF staff are to systematically assess the macroeconomic consequences of gender gaps where they

are macrocritical, evaluate the gender-differentiated impact of shocks and policies, and provide granular and tailored macroeconomic and financial policy advice. The strategy underscores the IMF's recognition of gender equality as not only a moral imperative but as fundamental to inclusive economic growth and resilience.

Policies can go a long way towards addressing barriers to female economic empowerment and closing macrocritical gender gaps. Discussions between IMF staff and policy makers[7] have focused on addressing equality of opportunities across a range of policies including:

- increasing access to education for girls (Belize, Kingdom of Eswatini, Mali)
- improving financial access (Costa Rica, Côte d'Ivoire, Gambia, Rwanda)
- removing legal barriers to gender parity (Kiribati)
- the provision of affordable and quality childcare (Belize, Kingdom of Eswatini, Mexico, St. Lucia)
- enhancing labour market flexibility (India, Korea, Luxembourg)
- instituting parental leave (Brazil)
- ensuring equal access to technology and digitalisation (Rwanda, Uganda), which provide more workplace flexibility through online job searches, virtual interviews and remote work.

Gender-responsive fiscal policies can also support women's economic empowerment and labour force participation through needed infrastructure investment, for instance, safer transportation (India); and by addressing gender biases in tax systems (Greece). In addition, policies that boost women's enrolment in STEM (science, technology, engineering and mathematics) education and vocational training and that integrate a gender lens into climate-related expenditures and reforms can lead to greater representation of women in green industries and mitigate the gendered impacts of climate change (Mali, Mauritania) (IMF, 2023[22]).

Support for capacity development also assists countries to effectively implement gender policies by providing the necessary training, resources and expertise to policy makers and institutions. In line with its gender strategy, the IMF has been providing capacity development to member countries on a wide range of topics and priorities including gender budgeting, tax and revenue administration, public financial management reforms, legal barriers, data collection and analysis, and courses and trainings on gender and macroeconomics and gender budgeting.

Collaboration across the international community is essential to develop more tailored policy advice and capacity development. The IMF focuses on gender equality and women's economic empowerment from a macrocritical angle and partners with other multilateral institutions. For example, the IMF (2023[23]) staff report on Mauritania featured analysis and policy recommendations on gender and climate change developed jointly with UN Women. The OECD, UN Women, the United Nations Population Fund and the World Bank also are providing strong support through their micro and sectoral-level work.

Conclusion

Gender equality and women's economic empowerment offer transformative potential in this era of low growth, external shocks and pressing challenges from megatrends. IMF research provides powerful evidence on the macroeconomic and distributional benefits of closing gender gaps and the importance of well-crafted, gender-responsive policies. Collaboration with international partners underscores the value of concerted action in designing granular, tailored policy advice and capacity development. Such a holistic approach leverages collective expertise and resources to drive meaningful change; foster inclusive growth; and build a more prosperous, resilient and equitable future.

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Notes

[1] For a more detailed discussion, see: https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/10/09/Economic-Gains-From-Gender-Inclusion-New-Mechanisms-New-Evidence-45543; https://www.imf.org/-/media/Files/Publications/WP/2017/wp17166.ashx; https://www.mckinsey.com/featured-insights/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth; https://www.jstor.org/stable/3693510; https://doi.org/10.1080/13698249.2014.966427; https://hbr.org/2016/11/why-diverse-teams-are-smarter; https://www.journals.uchicago.edu/doi/abs/10.1086/683847; https://ideas.repec.org/a/bpj/bejmac/v18y2018i1p15n5.html; https://doi.org/10.1080/13545701.2014.986153; https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Catalyst-for-Change-Empowering-Women-and-Tackling-Income-Inequality-43346; https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Inequality-Gender-Gaps-and-Economic-Growth-Comparative-Evidence-for-Sub-Saharan-Africa-43946; https://onlinelibrary.wiley.com/doi/abs/10.3982/ECTA11427; https://www.imf.org/-/media/Files/Publications/WP/2020/English/wpiea2020119-print-pdf.ashx; https://hbr.org/2016/11/why-diverse-teams-are-smarter; https://elibrary.worldbank.org/doi/10.1093/wber/lhf004; https://www.nber.org/system/files/working_papers/w29354/w29354.pdf; https://mitpress.mit.edu/9780262536738.

[2] Per the IMF *World Economic Outlook*, the IMF group of LIDCs includes countries that have per capita income levels below a certain threshold (based on USD 2 700 in 2017 as measured by the World Bank's Atlas method and updated following new information in early 2024), structural features consistent with limited development and structural transformation, and external financial linkages insufficiently close for them to be widely seen as emerging market economies. See: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024.

[3] Gomes argues that "the business cycle represents the natural rhythm of economic growth and recession. Economic expansions bring opportunities, such as increased employment and rising incomes, whereas contractions can lead to job losses and financial challenges. The relationship between gender and business cycles is complex, with a multitude of interwoven factors influencing outcomes". See: https://www.imf.org/en/Publications/gender-notes/Issues/2024/04/04/Gender-and-Business-Cycles-546729.

[4] Gu et al. (2024) shed light on the link between public policies and the household's decision-making process on education, labour force participation and fertility choices.

[5] While investing in girls' education is crucial for enhancing skills and broadening opportunities, it may not be sufficient to generate higher female labour force participation in the context of persistent societal norms and gender biases. Labour market structures also may not support the integration of educated women due to a lack of appropriate job opportunities as well as gender discrimination or inadequate workplace policies, such as flexible working hours and maternity leave. Economic barriers such as lower wages for women and fewer career advancement opportunities also deter educated women from entering or remaining in

the workforce. Thus, while educational attainment is a critical component of women's empowerment, complementary policies addressing these broader social and economic challenges are essential to fully realise the benefits of education in boosting female labour force participation.

[6] To quantify these impacts, a micro-founded general equilibrium model was used to examine the impact of an increase in education spending so that the number of years of education of boys and girls within the same income percentile is equalised.

[7] Since the launch of its Strategy Towards Mainstreaming Gender at the IMF in July 2022, gender issues have been integrated into IMF surveillance activities (Article IV consultations) in approximately 50 countries.

10 Lessons from sustained poverty reduction in China

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With global crises already stalling or reversing progress in reducing global poverty, the challenge today is to not only redouble efforts to reach poverty goals but also maintain gains achieved. This chapter shares lessons from the 40-year dramatic decline in the number of people living in poverty focusing on successful policies and strategies. It begins with a discussion of China's pro-poor economic transformation before examining its development policy that provided new employment opportunities for the rural poor outside the agriculture sector. It looks at the importance of policy coherence and institutional capacity to maintain a focus on poverty reduction and removing structural barriers through expansive social protection systems. It concludes with a section on sharing knowledge through South-South co-operation including an example of a village-level poverty reduction project implemented in the United Republic of Tanzania.

Key messages

- The economic transformation of China's rural areas and development strategies has helped lift 770 million people out of poverty since 1978 and has driven nearly three-fourths of the overall global reduction in poverty since 1980. In 2021, China announced it had eradicated extreme poverty in the country.
- China's experience in targeting rural poverty is being taken up through its South-South co-operation in Africa and through other projects in Asian countries.
- China's poverty reduction success relied mainly on three pillars: 1) increasing rural households' income by promoting the growth of non-agricultural jobs and industries; 2) increasing agricultural productivity; and 3) investing in rural infrastructure.
- Rapid economic growth and transformation also contributes to income inequality reduction. Along with an expansive social protection system and targeted pro-poor policies, the growth and transformation helped poor people become self-sufficient and overcome barriers to participating in economic activities.

Introduction

The poly-crises of recent years brought an end to 30 years of steady progress in reducing poverty worldwide. From 1990 to the eve of the COVID-19 pandemic, the share of the global population living in poverty (on USD 1.90 a day or less) declined from 36% to 10% (Kharas and Dooley, 2022[1]). In 2024, multiple crises – COVID-19, climate change, large-scale conflicts and geopolitical tensions, among others – have reversed the trend. The challenge today is not only to reduce poverty but also to maintain gains already achieved. China's experience in dramatically reducing poverty over the past four decades offers many examples of strategies that have worked.

China has been a world leader in poverty reduction. It contributed to nearly 75% of the global extreme poverty reduction between 1981 and 2017 and has lifted 770 million people out of poverty since 1978. In 2021, China announced it had eradicated extreme poverty in the country (World Bank, 2022[2]). Even in the last few years, when vulnerable people slipped back into poverty in many parts of the world due to the pandemic-induced economic recession, China appears to have avoided a similar reversal (Roser and Arriagada, 2024[3]). The unprecedented speed and scale of China's poverty reduction can offer important lessons and proven strategies for other developing countries and the international development community. Moreover, as the largest South-South development co-operation provider (UNDP, 2016[4]), China is an active leader in global poverty reduction initiatives, drawing on its own experiences.

Highlights from China's strategies to combat extreme poverty

Pro-poor structural economic transformation

Pro-poor structural economic transformation played an essential role in China's rapid and sustained economic growth, dramatically raising incomes for poor people and the population as a whole. The reform and opening-up policy introduced in 1978 marked the start of China's transition from a centrally planned to a market economy, laying the institutional foundation for its economic expansion. It also developed strategies and practices that aimed to prevent increasing inequalities caused by rapid economic growth through providing huge support to agricultural and rural development since the new millennium. China called off the agricultural tax completely since 2006 and initiated the countryside construction campaign during the same period of time. Twenty-two No. 1 central documents[1] have been released each and every

year since 2004 to provide policy guidance on agricultural and rural development as well as increasing farmers' income.

A development policy that provided new employment in rural areas

A distinguishing feature of China's economic growth relative to that of other developing countries has been the rapid rise in rural household income. Poverty was largely concentrated in rural areas in the 1970s, and over four-fifths of the total rural population was living in poverty. Higher agricultural incomes, mainly the result of increased agricultural productivity in the early years of the opening-up and later due to the expansion of non-agricultural sectors in both rural and urban areas, drove poverty reduction until 2007. Real earnings per unit of labour in the agricultural sector grew at an annual rate of 8% between 1988 and 1995, and a vast majority of the rural workforce (more than four of five workers) remained engaged in agriculture (World Bank, 2022[2]).

Higher agricultural incomes, mainly the result of increased agricultural productivity in the early years of the opening-up and later due to the expansion of non-agricultural sectors in both rural and urban areas, drove poverty reduction until 2007.

Employment in township and village enterprises (TVEs) alongside rural outmigration to urban areas further boosted rural household incomes, contributing to a continued decline in rural poverty. TVEs played a particularly important role (Box 10.1). Generally low-skill, labour-intensive light industries, these enterprises provided an alternative source of local employment for farm workers made redundant with the increase in agriculture productivity, enabling them to keep their earnings in their rural villages. TVEs made a significant contribution to the infrastructural and technological development of rural areas and the agricultural sector overall in China. As a result of China's particular process of modernisation – urbanisation from within – the country was able to avoid large-scale urban poverty.

Box 10.1. The role of township and village enterprises in expanding economic opportunities and reducing rural poverty in China

Township and village enterprises (TVEs) grew out of the community enterprises (*shedui qiye*) that existed prior to the reform and opening-up policy of 1978. At that time, their total production value accounted for just 37% of total agricultural output. By 1987, the output of TVEs surpassed total agricultural outputs, signalling a significant structural change underway in China's rural economy. In 2008, TVEs were responsible for 71.2% of value added of rural society, and the number of TVE employees had increased from 28 million in 1978 (9.2% of rural labourers) to 154 million in 2008 (29.3% of rural labourers). In addition, between 1978 and 2008, the monthly average income of farmers working in TVEs grew by more than 150-fold from CNY 10.74 (yuan renminbi) in 1978 to CNY 1 666 in 2008, leading to sharply lower rural poverty rates among TVE workers. Over this 30-year span, TVEs contributed about CNY 433 billion to support agricultural value chain development.

Source: China Ministry of Agriculture (2009[5]), *60th Anniversary of the Founding of New China: Achievements in the Development of Township Enterprises*, https://www.moa.gov.cn/ztzl/xzqnylsn/gd_1/200909/t20090918_1353912.htm.

Policy coherence and institutional capacity to maintain a poverty reduction focus

Sustaining poverty reduction gains requires policy coherence and strong government mobilisation and capacity. In this regard, China's national strategies and policies have long prioritised the so-called three issues (*sannong wenti*) of rural people, rural society and rural production. From 1982 to 1986, agriculture and rural development policy[2] and programmes focused on problems around land reform, industry and service development in rural areas, the procurement of grains, and rural-urban relations – all with the aim of improving farmers' income and livelihoods (Central Committee of China, 1982[6]). Since 2004, themes of the annual rural plans have centred on narrowing rural-urban income gaps with a focus on investment, agricultural technology and innovation, green development and rural construction, and food security (Ministry of Agriculture, China, 2004[7])). A specific objective of the Rural Revitalization Strategy launched in 2017 is to consolidate and sustain the achievements in poverty reduction through the modernisation of production and rural development.

Removing structural barriers through expansive social protection systems

Expansion of social protection systems and targeted pro-poor policies have helped remove structural barriers and made the country's economic development more inclusive by supporting the capacity and capability of poor people to participate in economic activities. China's social protection systems include social insurance, social welfare, social assistance, preferential treatment and compensation, and mutual aid, among other services. As of March 2021, 1.36 billion people were covered by the basic medical care system and more than 350 million people were covered by the social protection system. Targeted poverty reduction policies put in place in 2012 – such as rural pensions and the expansion of universal health care to rural areas – have also proved effective and are credited with helping lift 100 million people out of poverty in the first eight years (World Bank, 2022[2]). Reforms in these areas were incremental, which helped businesses and the population adjust to the changes.

Lessons from China's success in reducing poverty

The steady reduction in global poverty prior to the COVID-19 pandemic was attributable in large part to the sustained economic and development gains by emerging markets and developing economies. China's success suggests that investments in economic transformation and social protection can make these achievements sustainable. The primary objective of these policies is to help realise the potential of poverty-stricken regions and people living in poverty, rather than viewing them as incapable of self-reliance. This experience in reducing poverty, and particularly rural poverty, offers lessons that could be shared with other developing countries that face some of the same challenges that China has overcome.

Two major lessons can be drawn:

1. **Success can be sustained when poor people have the capacity and capabilities to be self-sufficient.** Policies that promote the participation of poor people in economic activities ensure that they are the beneficiaries of economic development. Chinese policy does not rely on direct subsidies or cash transfers to the poor – it focuses on encouraging individuals to improve their livelihoods.
2. **Combine efficient-free markets and effective government.** The market played an important role in enabling poverty reduction strategies. Over the past four decades of reform and opening-up, China has benefited greatly from both internal and global free market mechanisms. Market-driven mechanisms were a fundamental contribution to the development of coastal areas.

China's success suggests that investments in economic transformation and social protection can make these achievements sustainable.

Sharing knowledge and experience through South-South co-operation

China has made commitments to address global poverty reduction through international development co-operation. As an example of South-South co-operation, other developing countries with similar histories and development trajectories are finding this experience a useful reference. Other providers also are testing the feasibility of China's approach to poverty reduction through their development co-operation, often in response to requests from partner country governments. Village-level poverty reduction projects have, for example, been implemented by Association of Southeast Asian Nations countries as well as in Africa, as outlined in Box 10.2.

Box 10.2. Exporting China's strategies and experience to reduce rural poverty in Africa

Since 2011, a team from China Agricultural University has been working with the local government and a local agricultural university in the Morogoro region of the United Republic of Tanzania to increase agricultural productivity and help lift smallholder farmers out of poverty using low-cost strategies that have been employed with success in rural China. An example of effective South-South co-operation, the project benefited from Chinese expertise and the context-specific knowledge of local stakeholders.

The project focused on providing simple, low-cost and labour-intensive technologies to poor farmers who lacked sufficient capital to obtain more sophisticated technology and methods. It supports farmers in preparing land for planting; using improved seeds; and increasing plant density, through thinning, weeding and intercropping. As a result of the project, maize production has doubled and sometimes tripled over previous levels and farmers' incomes have also doubled. Intercropping maize and soybeans allowed for soil fertility to be maintained, and the local population was able to begin to process the soybean crop into soy milk. The project thus contributed to food security and better nutrition and enabled new small businesses to open within the village, including soy milk-processing businesses and shops to sell soy milk.

The approach piloted in Tanzania draws on practices used in rural areas of China in the 1970s when the government did not have the infrastructure and capacity to invest significant capital but successfully increased agricultural productivity by deploying lower cost, simple technologies instead.

Source: United Nations Office for South-South Cooperation (2021[8]), *South-South in Action: China-Tanzania Cooperation through Agriculture and Poverty Reduction Partnerships*, https://www.southsouth-galaxy.org/action/south-south-in-action-china-tanzania-cooperation-through-agriculture-and-poverty-reduction-partnerships.

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Notes

[1] No. 1 documents outline the main policy directive and priority issued by China's central authority for each year.

[2] Every year since 1982, the Chinese Communist Party and State Council set forth agriculture and rural policy and priorities in the No. 1 documents.

11 In my view: A feminist approach to international assistance is rights-based and locally driven

Ahmed Hussen, Minister of International Development, Canada

What does feminist development policy look like today? It looks like human rights-based, people-first, locally driven and climate-resilient development. It looks like reducing poverty and boosting inclusive economic growth through initiatives that include women and girls and men and boys alike. That's an approach Canada will continue to champion, now and in the future.

In 2017, we launched our Feminist International Assistance Policy based on evidence that creating more gender-equal communities is one of the most effective ways to improve all areas of life – from economic development and social inclusion to health, education, peace and the environment. We set out to not simply increase support for gender equality-focused programmes, but to put gender equality at the heart of everything we do.

At its core, Canada's international assistance policy is centred on eradicating poverty and promoting human rights, dignity and equality. But this was a big shift, with ambitious targets to integrate gender equality considerations across all aspects of our work. We faced many hurdles: the COVID-19 pandemic, war and conflicts, and climate emergencies came to dominate the global development agenda. A polarising anti-gender movement has since grown in power and scope, putting our feminist policy to the test in new ways and also underscoring that a feminist approach to international assistance is needed now more than ever.

A polarising anti-gender movement has since grown in power and scope, putting our feminist policy to the test in new ways.

Canada's foreign policy supports those who disrupt and transform the social norms and systems that hold marginalised people back. We have learnt that one of the most effective ways to do this is to provide significant and sustained funding for local women's rights organisations, LGBTQ2I+ organisations and feminist movements. For example, the Equality Fund brings together gender-lens investing, grant making, advocacy and philanthropy and supports more than 650 women's rights and feminist organisations across 90 countries. Participants in our signature Women's Voice and Leadership programme have helped change over 100 laws and policies, including a law against sexual harassment in public places in Peru; a law on domestic violence in Saint Lucia; and laws banning child, early and forced marriages in the Democratic Republic of the Congo. The Alliance for Feminist Movements, which we are proud to co-chair, has hundreds of governments, civil society and philanthropic organisations, and women's funds

collaborating on issues such as funding, resources and building political support. Working closely with our trusted partners on locally rooted initiatives is key to leaving a lasting impact.

In global health, our feminist approach has guided us in making significant investments towards more equitable and resilient health systems. This work includes promoting universal health coverage, stronger healthcare systems, and comprehensive sexual and reproductive health and rights (SRHR), including access to safe and legal abortion. Under our 10-Year Commitment to Global Health and Rights, we have become one of the world's leading SRHR donors. Here too, taking a feminist approach has achieved powerful results. Recently, in my visit to a project in the United Republic of Tanzania, young women shared stories that plainly illustrate how access to SRHR is transforming their lives and their families. Empowering women to plan their pregnancies means they can continue their education and start a family later, a decision that has been proven to break intergenerational cycles of poverty. The Guttmacher Institute estimates that in one year alone, approximately 2.5 million women and couples could access contraceptive services; 1.1 million unintended pregnancies and 347 000 unsafe abortions were prevented; and 1 800 lives were saved.

Environmental and climate challenges are placing a disproportionate burden on women, girls and gender-diverse people, including through rising displacement, sexual violence and disease. It is undeniably important to recognise the gendered impacts of the triple planetary crisis of climate change, biodiversity loss and pollution. But it is just as critical to champion women's essential roles as climate leaders, environmentalists and agricultural workers as well as their roles as frontline healthcare workers, human rights defenders and deeply knowledgeable community members. By supporting women to have meaningful opportunities to participate in decision-making processes, our climate and nature initiatives have become more effective and more sustainable. We see this in Kenya, for example, where we work with women to grow sustainable, nutrient-dense crops that feed hundreds and create more trade and economic opportunities. We also see this in Uruguay, where we work to increase women's employment opportunities in the renewable energy sector, lifting up communities while fighting climate change.

We have seen clear evidence that closing gender gaps reduces poverty, raises economic growth rates, improves agricultural productivity, builds more resilient communities, improves nutrition, ensures better education for children and enhances climate action. To me, these results speak volumes about why gender equality is not only an important goal unto itself, but also makes clear sense for economies and development.

12 Development co-operation stepping up its role in ending poverty and reducing inequalities

Carolina Guerra, Development Co-operation Directorate, OECD

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This chapter reviews how DAC members prioritise, define, programme, monitor and budget for poverty and inequality reduction through development co-operation and partnerships. Drawing on in-practice examples and findings from a new and comprehensive survey and qualitative research on DAC members' approaches to reducing poverty and inequalities, the chapter discusses opportunities and challenges for effective delivery of poverty and inequalities policy priorities and programmes and highlights areas where fresh DAC guidance could support collective action, greater effectiveness and learn from good practices.

The authors are grateful for inputs from Jenny Hedman and Sasha Milanova from the Gender Equality team of the OECD's Development Co-operation Directorate.

Key messages

- Most Development Assistance Committee (DAC) members surveyed consider reducing poverty and inequalities a top priority for development co-operation with explicit commitments to reduce both in their international development policies and laws.
- All survey respondents participating in the survey reported that inequalities experienced by women and girls is a high priority, followed closely by inequalities experienced by refugees and displaced people.
- DAC members focus on different definitions, indicators and dimensions of poverty and inequalities and employ a mix of approaches in their development co-operation, potentially limiting the scope for collective action and impact.
- Poverty and inequalities goals are not effectively integrated development co-operation programming into their climate and environmental work due to a lack of dedicated guidance and strategies.
- Planned new OECD DAC guidance can support members in efforts to step up the integration and targeting of poverty and inequalities in development co-operation.

Introduction

Eradicating poverty and reducing inequalities are core purposes of international development co-operation. But new global priorities and crises, chief among them the climate crisis, are also vying for donors' attention and for scarce concessional development finance. In a survey conducted for this report, most DAC members reported they have explicit commitments to fight poverty and inequalities. However, definitions, priorities and indicators around poverty and inequalities vary among DAC members. Selective interpretations lead them to focus on certain dimensions of poverty and inequalities more than others, potentially limiting the scope of action. Maintaining focus is a challenge and there is an urgent need to better co-ordinate existing efforts and maximise impact.

Recommitting to the Sustainable Development Goals (SDGs) and to SDG 1 (end poverty in all its forms everywhere) and SDG 10 (reduced inequalities) in particular, as pledged at the 2023 OECD Ministerial Council is one important step. Likewise, at the most recent DAC High Level Meeting in November 2023, DAC members renewed their pledge to take comprehensive measures to eradicate poverty and reduce inequalities, including by updating the 2001 DAC guidelines on poverty reduction (OECD, 2001[1]). Among other initiatives, the 2024 High Level Political Forum and the Group of Twenty (G20) under Brazil's presidency are also mobilising political support and new commitments to accelerate action against poverty and inequalities (see also Chapter 1).

DAC members, individually and collectively, must reinvigorate the fight against poverty and inequalities by maximising the impact of their development co-operation and the resources at hand. The results discussed in this chapter are drawn from the responses of the 24 (out of 32) DAC members that participated in the survey and the 23 members who participated in the qualitative study on DAC members' approaches.[1]

What DAC members say about their policy, funding and programmatic approach to poverty and inequality reduction

Alongside their collective commitments to poverty and inequality reduction, individual DAC members generally rank reducing poverty and inequalities as a top priority in their development co-operation policies. Most survey respondents (19 of 24) reported that their policies and laws contain an explicit commitment to reduce both (see also the 2024 Poverty and Inequalities Profiles (OECD, 2024[2])). However, not all DAC members surveyed have dedicated strategies or frameworks in place to translate their commitments into

action. They define poverty differently and they focus on different types of inequalities, emphasising certain dimensions more than others. A selective interpretation combined with competing priorities can lead to policy evaporation, where objectives are set but not fully implemented. Respondents also expressed concern that their tools to monitor, measure and assess the impacts of their poverty and inequality interventions are not adequate for the task. Many of their responses also suggest that these tools are not always geared to the type of poverty or inequalities they targeted.

The results of the survey have been reviewed against the principles of the 2001 DAC guidance on poverty reduction (Box 12.1). While a useful reference, today's new realities and global priorities call for updated guidelines, as recognised in the DAC High Level Meeting commitment to work with partners to issue new guidance for action to reduce poverty and inequalities.[2]

Box 12.1. Building on the 2001 DAC guidelines on poverty reduction for today's realities

The 2001 DAC guidelines on poverty reduction offered a foundation to take a comprehensive approach to addressing poverty and emphasised several key pillars and commitments, stated below. Revisiting this key document is essential to developing new guidelines that also incorporate inequalities and consider the challenges of green and just transitions. The 2001 guidelines emphasise that a shared understanding among all development partners of the dimensions of poverty is essential to building and implementing a common agenda. Key concepts to guide poverty reduction efforts include:

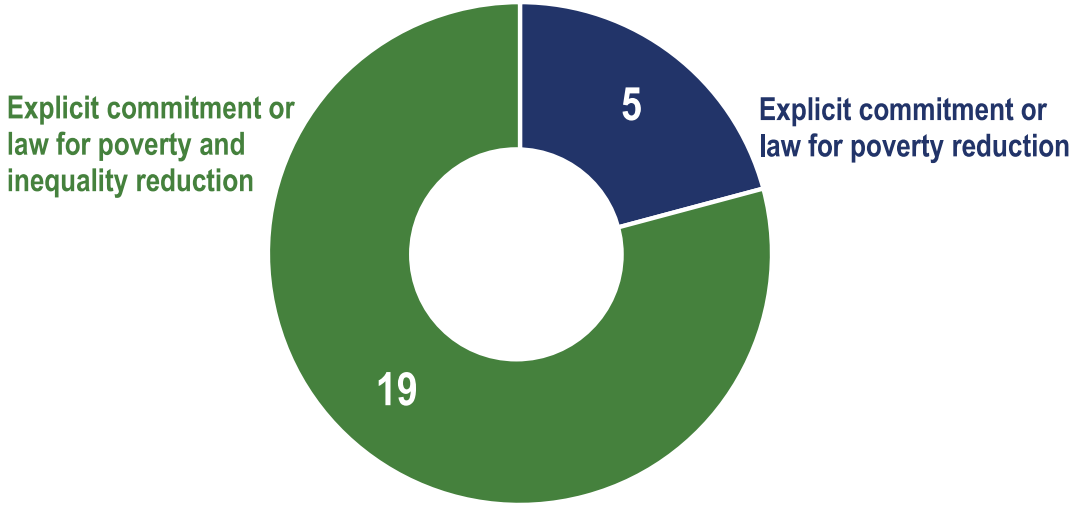
- **Multidimensional nature of poverty.** Poverty encompasses various forms of deprivation and covers distinct aspects of human capabilities, such as economic (income, livelihoods, decent work); human (health, education); political (empowerment, rights, voice); socio-cultural (status, dignity) and protective (insecurity, risk, vulnerability). Addressing poverty requires integrated strategies that consider all these dimensions within the framework of environmental sustainability. Reducing gender inequality is also crucial as it impacts all dimensions of poverty.
- **Pro-poor economic growth.** Promoting rapid, inclusive and sustainable economic growth is essential. This requires good governance, competitive markets and equitable participation by people experiencing poverty whose rights and voices in decision-making processes should be enhanced. Inequalities of opportunity poor people face should be addressed by improving access to basic social services – particularly education and health, which are essential human capital investments for broad-based growth. Equitable growth is essential, as reducing poverty in high-inequality countries is slower and more challenging.
- **Co-ordination, partnerships, better aid management and local ownership.** Effective poverty reduction needs long-term commitment and robust partnerships between governments, civil society, the private sector and development agencies. These are enhanced by harmonising administrative and financial requirements, fostering joint tasks, and combining resources for greater effectiveness. External partners should support country-led and locally owned development strategies based on dialogue, mutual trust and joint accountability.
- **Aid allocations that target needs.** Aid should be targeted to countries with large concentrations of poor people and those affected by conflict and/or facing severe governance issues. Poverty reduction efforts require continuous monitoring and evaluation to ensure they are effective and accountable and facilitate learning and adaptation.

Source: OECD (2001[1]), *Poverty Reduction*, The DAC Guidelines, https://doi.org/10.1787/9789264194779-en.

Most DAC members surveyed said their development co-operation policies and related laws explicitly commit to reducing both poverty and inequalities

DAC members signal their priorities in their overarching development co-operation policies and commitments. Of the 24 survey respondents, 19 reported that their national development co-operation law or overarching policy contains an explicit commitment to reducing both poverty and inequalities in low- and middle-income countries; 5 reported an explicit commitment only to reducing poverty (Figure 12.1). None of the respondents' commitments or laws focus exclusively on inequality reduction, and a few DAC members recognise poverty and/or inequality reduction as the sole goal of their development co-operation. Ireland's international development policy, for example, is framed to encompass both. The overarching goal of the policy, called *A Better World*, is to "reach the furthest behind first", with a multidimensional understanding of the furthest behind that includes overlapping forms of poverty and exclusion.[3]

Figure 12.1. Most DAC members' policies or laws explicitly commit to reducing poverty and inequalities, though few focus solely on poverty or inequalities



Note: The chart reflects responses from the 24 (out of 32) DAC members that participated in the OECD survey.
Source: OECD analysis (2024) based on a survey of OECD-DAC members on approaches to targeting poverty and inequality in development co-operation.

Overarching statements of goals and commitments lay the groundwork for deliberately and effectively integrating priorities into development policies. As noted in the 2001 DAC poverty reduction guidelines, policy coherence and clear commitments also are important to ensure that all policies work synergistically, maximising impact.

Programming for poverty and inequality reduction varies by approach and definitions

The goals of reducing poverty and inequalities are just two among many competing priorities for DAC member governments. The qualitative study on DAC members' approaches suggests that development co-operation initiatives to tackle poverty and inequalities often must overcome hurdles due to issues that are perceived as more pressing within governmental agendas.

...development co-operation initiatives to tackle poverty and inequalities often must overcome hurdles due to issues that are perceived as more pressing within governmental agendas.

The survey responses show there is a mix of approaches to poverty and inequality reduction programming. Some DAC members reported they implement stand-alone programmes explicitly to reduce poverty and inequalities, but 8 of 23 members said they mainstream poverty and inequality reduction as a cross-cutting goal of their development co-operation.[4] For instance, the Japan International Cooperation Agency (JICA) recognises gender inequality as cross-cutting and has produced a range of sector-specific guidance documents on gender mainstreaming.[5] In its Gender Mainstreaming in Agricultural and Rural Development Guideline, JICA incorporated the goal of ending poverty into its gender mainstreaming effort through policy frameworks based on pro-poor and gender-sensitive development strategies aimed at eradicating poverty.[6] The Danish Ministry of Foreign Affairs also mainstreams poverty and inequality across development co-operation portfolio, a approach that is further reinforced by the inclusion of poverty criteria in programme appraisal. The UK Foreign, Commonwealth & Development Office (FCDO), on the other hand, takes a stand-alone approach to its poverty reduction programming, with dedicated programming and policy including social protection, human development and inclusive growth as well as a stand-alone poverty research programme looking at poverty data, changing drivers of poverty and what works to reduce poverty.[7] For example, one of FCDO's programmes focuses on reducing poverty through the education of marginalised girls in sub-Saharan Africa and South Asia.

Not all DAC members mainstream poverty and inequality reduction in climate and environmental work

Most (12 out of 21) DAC members reported they integrate poverty reduction into their climate and environmental initiatives (Box 12.2), but only 7 of 20 respondents indicated they similarly integrate inequality reduction. Additionally, 9 of 21 respondents stated they only partially incorporate poverty objectives into their climate and environmental efforts, while 13 of 20 members do so for inequality reduction.

Building on the importance of explicit and clear commitments in international agendas, there is a significant opportunity to integrate climate and environmental work with efforts to combat poverty and inequalities within development co-operation. Box 12.2 presents some examples of how DAC members are integrating these.

Box 12.2. How members are integrating poverty- and inequality-reduction objectives in climate and environmental work

- The **European Commission** mainstreams poverty and inequality throughout its climate and environment work. First, it applies the Inequality Marker to the Directorate-General for International Partnerships (DG INTPA)'s interventions in all sectors, including climate and the environment. The international conference on Inequality, Work and Nature in South Africa, jointly organised by the French Development Agency (AFD) and the European Commission, demonstrates a strong willingness to continue pushing for more mainstreaming of inequality reduction into climate and environmental efforts. Second, regarding poverty and sustainable development, the European Commission has produced a comprehensive reference document providing guidance on the mainstreaming of environmental sustainability, climate change and biodiversity into the Sustainable Development Goals.

- The **United States Agency for International Development's** climate strategy aims to target entrenched power structures that create and maintain inequalities. Its high-level objective is to support partners in achieving systemic changes that increase meaningful participation and active leadership in climate action of Indigenous peoples, local communities, women, youth, and other marginalised and/or underrepresented groups. Its Agenda for Change supports gender equality and the empowerment of women and Indigenous peoples in leadership and decision making around biodiversity conservation; aims to strengthen the legal and traditional land and resource rights of communities and Indigenous peoples; and establish innovative partnerships with the private and public sectors, civil society, and academia. These collaborations are intended to leverage resources, enhance skills and amplify outcomes while avoiding redundant efforts.
- **France** sees the fight against poverty and inequalities and the financing of global public goods to target climate change as linked rather than in opposition, and this agenda is at the heart of its international diplomacy and bilateral programmes. The AFD's sustainable development analysis and opinion mechanism is at the core of its development co-operation approach to ensure the impact on sustainable development across its projects at an early stage. This tool makes it possible to rate projects, ex ante and independently, on several dimensions, encouraging dialogue between teams. It also reinforces a culture of sustainable development within the AFD, which France showcased at the June 2023 Summit for a New Global Financing Pact. This will also be at the heart of the Paris Pact for People and the Planet.
- The **Italian Agency for Development Cooperation** has operational tools across all stages of the project cycle to assess the impact of development co-operation on the intersection of poverty and inequalities within the environmental and climate context. These ensure that mitigation and adaptation actions can have a positive impact on the most vulnerable groups in partner countries. Examples of the adopted tools include guidelines on environmental mainstreaming and a specific indicator to monitor the direct and measurable positive impact on poverty reduction of initiatives that have environmental objectives in the short, medium and long term.
- At the country programming level, **Korea** aims to increase climate resilience by implementing a climate-smart agricultural programme in Kenya. This focuses on addressing spatial inequalities through rural empowerment and targets individuals facing group-based inequalities (including refugees, women and youth) and economic inequalities. The smart agriculture programme restored grazing land and increased the use of drought-tolerant crops, making communities more resilient and food secure to climate shocks.
- **Ireland's** climate finance strategy largely focuses on adaptation, which supports populations the most vulnerable to climate impacts, and it channels the majority of its funding to least developed countries and small island developing states. This commitment aligns with the primary objective of its international development policy, A Better World, to direct development co-operation to reach the furthest behind first.

Source: OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequality in development co-operation.

Survey respondents emphasise different dimensions of poverty in their programming

DAC members responding to the survey have different institutional approaches when it comes to defining poverty, with 15 of 21 mentioning more than one dimension of poverty. Iceland, for example, reported that its institutional definition of poverty is based on the human rights-based approach, material monetary deprivation and also other multidimensional factors.[8] Similarly, half (10 of 20) of the respondents said they

use more than one poverty indicator. As part of the survey, members provided multiple written definitions, which have been interpreted and categorised. For poverty, most respondents either favour multidimensional definitions (10) or base their definitions on institutionally set definitions of poverty such as the SDGs or United Nations (UN), OECD-DAC or World Bank definitions (10). In addition, seven respondents mentioned that they define poverty as monetary poverty. Human rights-based definitions (2), the "furthest left behind" (1) and others are less commonly used. In terms of poverty indicators, the World Bank's poverty line was the most frequently mentioned (11), followed by SDG indicators (7 mentions), the UN Global Multidimensional Poverty Index or the Human Poverty Index (4), and group-based poverty measures (2).

The programming approach for inequality reduction, including who is targeted, varies across providers

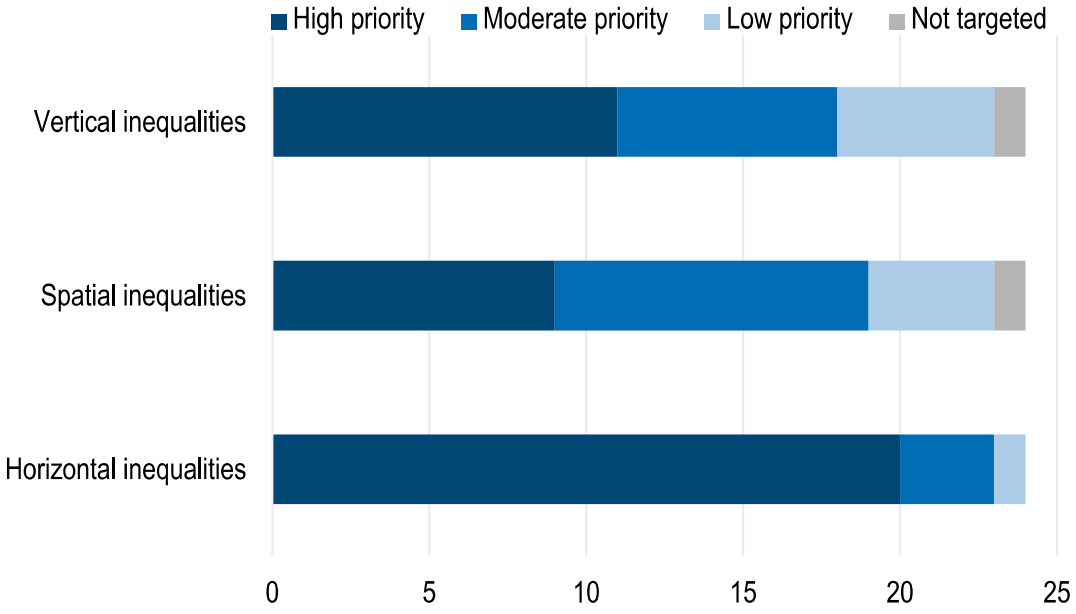
Likewise, different approaches and emphasis are used in DAC members' programmes aimed at reducing inequalities. Among survey respondents, 7 (of 16) mentioned more than one definition of inequalities, for instance.[9] The most frequently mentioned were those related to reducing unequal access to resources or rights (six) and multidimensional inequalities (five). Vertical inequality definitions (two mentions) and intersectional approaches (one) were indicated less frequently. In terms of indicators measuring inequalities, 7 (of 14) respondents use more than one inequality indicator. Multidimensional indicators (eight mentions) and gender-related indicators (four) are preferred; disability-related indicators received only one mention.

All 24 survey respondents reported they are targeting horizontal inequalities, with 20 out of 24 DAC members assigning it high priority (Figure 12.2). However, relatively few DAC members' focus on horizontal inequalities extends beyond gender although some providers have detailed plans on tackling different dimensions of horizontal inequalities.[10] For 11 members, targeting vertical, or economic, inequalities is a high priority. The publication of strategies, policies or guidance on vertical inequalities has been a relatively recent development, suggesting growing interest in expanding focus on income inequality in development co-operation.[11] Sida's uses a Multidimensional Poverty Analysis framework for country-level analysis, informing its country strategies and contributing to programme ex ante appraisals. All programmes are required to align with the conclusions of the framework and must clearly explain how they will benefit people living in poverty.

The publication of strategies, policies or guidance on vertical inequalities has been a relatively recent development, suggesting growing interest in expanding focus on income inequality in development co-operation.

Though almost all (19 of 24) DAC members responding to the survey mentioned targeting spatial inequalities as a moderate to high priority area for their development co-operation (Figure 12.2), there do not appear to be any dedicated strategies for this.[12]

Figure 12.2. Reducing horizontal inequalities is a higher priority in DAC members' programming than either vertical or spatial inequalities

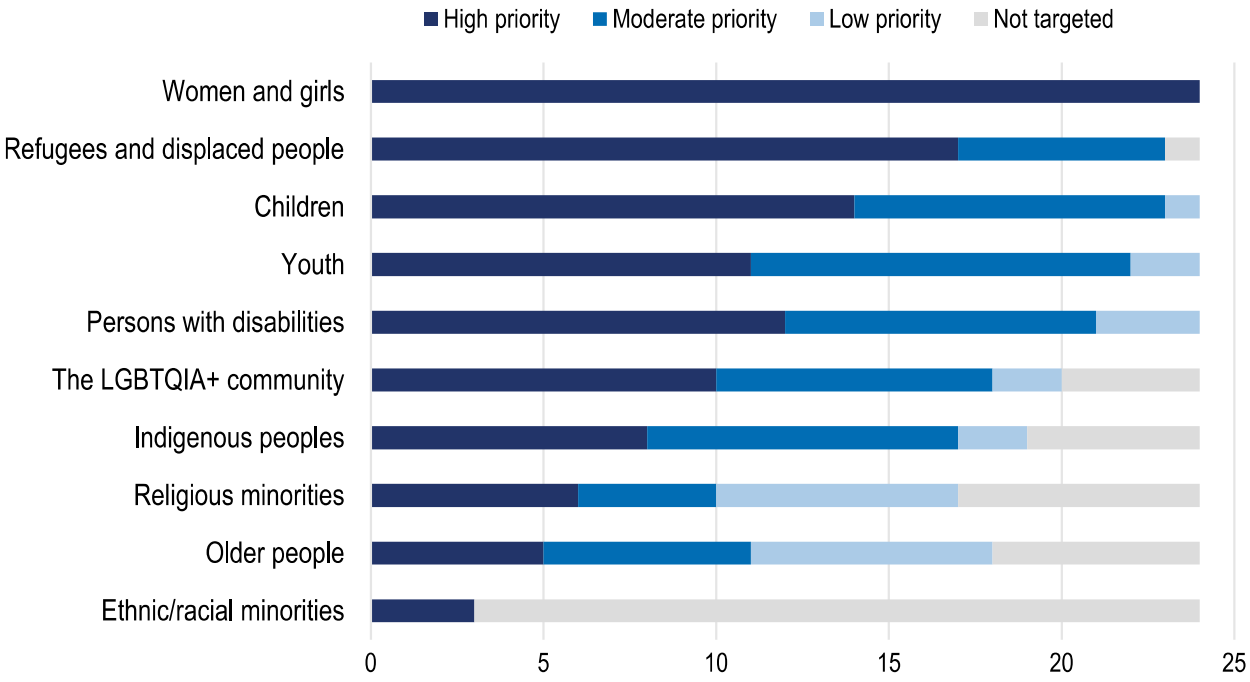


Note: This graph reflects a sample of 24 DAC members.
Source: OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequality in development co-operation.

Across different forms of horizontal inequalities, the priority assigned to marginalised groups or individuals experiencing inequalities varies greatly. All 24 DAC providers that participated in the survey reported that they consider inequalities experienced by women and girls to be a high priority area, followed closely by inequalities experienced by refugees and displaced people.[13] As illustrated in Figure 12.3, prioritisation and targeting of horizontal inequalities experienced by other groups, such as children and persons with disabilities, varied significantly. Similarly, the qualitative study on DAC members' approaches indicated that most have dedicated guidance on gender equality, some have dedicated guidance on disability, and a small number have guidance specific to children and youth, LGBTQIA+ and Indigenous groups.[14] The United States Agency for International Development, for example, has a policy on promoting the rights of Indigenous peoples.[15]

All 24 DAC providers that participated in the survey reported that they consider inequalities experienced by women and girls to be a high priority area, followed closely by inequalities experienced by refugees and displaced people.

Figure 12.3. All DAC members surveyed give top priority to horizontal inequalities affecting women and girls and lowest priority to those affecting ethnic and racial minorities



Note: This graph reflects a sample of 24 DAC members.
Source: OECD analysis (2024) based on a survey of OECD DAC members on approaches to targeting poverty and inequality in development co-operation.

Some DAC members reported that their interventions do not prioritise a specific dimension of inequalities but rather take an intersectional approach to identify and target populations experiencing overlapping forms of discrimination. There are opportunities to embed intersectional approaches more consistently in DAC members' development policies (Box 12.3).

Box 12.3. Embedding an intersectional approach in development co-operation can help target multiple forms of overlapping inequalities

The term intersectionality was coined in the 1980s to describe the double bind of simultaneous racial and gender prejudice endured by black women and girls and the ways in which the intersection of race and gender yields different forms of discrimination and oppression (Crenshaw, 1989[3]). Women and girls can face other dimensions of vulnerability that overlap with gender, including those related to ethnicity and national origin, minority or Indigenous status, faith or religion, education level, class, socio-economic status, caste, geographic location, age, disability, sexual orientation, gender identity and sex characteristics, and migration situation. It is crucial to consider the intersections between various forms of discrimination to more effectively address gender inequality as well as poverty.

Many DAC members are formulating policies and strategies to embed intersectional approaches in their development co-operation. A review by the DAC Network on Gender Equality found that half of DAC members explicitly refer to adopting an intersectional approach, linking it to gender, either in their development strategies, policy frameworks or in some type of practical tool or guidance.[1] Several other members are formalising their institutional approach to intersectionality. While some members do not explicitly use the term intersectionality, they still apply its principles through frameworks that contain language such as “supporting women and girls in all their diversity”, “addressing compound and complex vulnerabilities”, and “leaving no one behind”. Members also identify marginalised groups in different ways, in recognition that these can differ depending on the country context. Such flexibility helps avoid the creation of rigid lists of marginalised groups and ensures inclusivity and responsiveness to diverse and evolving needs.

Note: 1. OECD analysis (2024) based on inductive interviews with DAC on approaches to intersectionality and gender

Policy areas for DAC members’ poverty and inequality focus

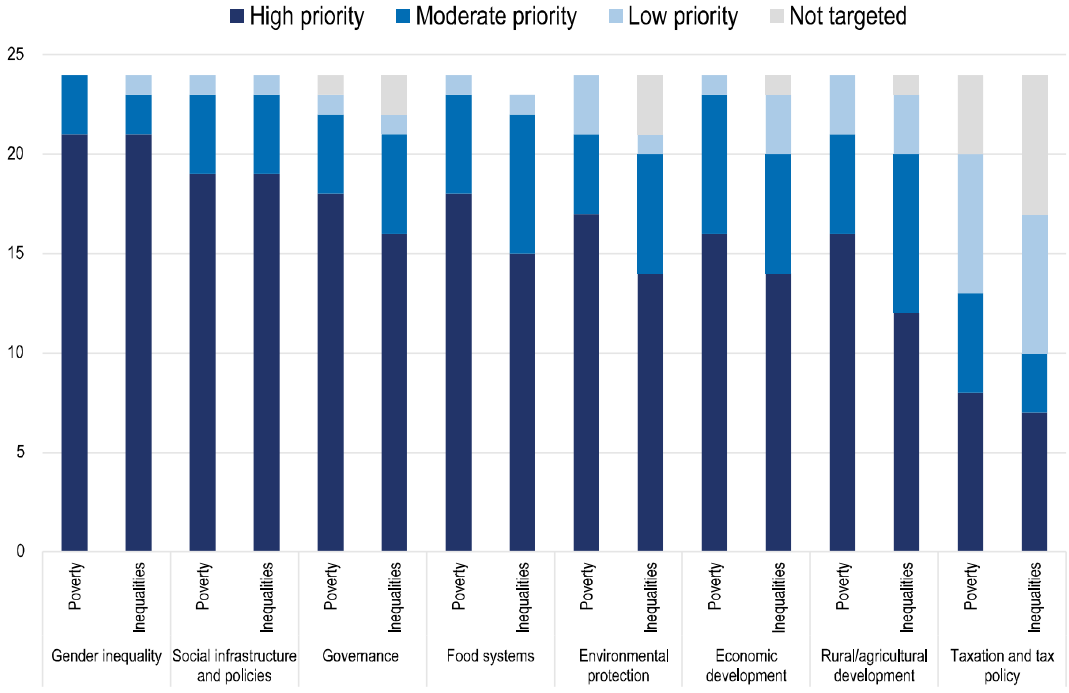
Gender inequality, social infrastructure and policies, governance, food systems, and environmental protection are the most frequently identified policy focus areas for DAC members’ work on both poverty and inequality reduction (Figure 12.4). For instance, in line with its Feminist International Assistance Policy, Canada supports the Equality Fund, which applies an innovative financing model to create long-term, sustainable and flexible funding for feminist movements worldwide and women’s rights organisations, crucial in advancing gender equality and reducing poverty. Australia’s Department of Foreign Affairs and Trade prioritises rural and agricultural development in development co-operation, as evidenced by its programme in Indonesia that leverages private sector investments for agricultural innovations for smallholder farmers. Spain’s first social impact fund, the Huruma Fund, helps to fill the funding gap for smallholder and marginalised farmers in partner countries by leveraging public resources to attract private investment in areas of high risk but with a large impact on poverty.

Interestingly, tax policy, rural and agricultural development, and economic development are identified as lesser priorities for poverty and inequality reduction, though these are widely considered in the literature as pro-poor policy areas for development co-operation (See Chapter 2 and Chapter 10). Only seven DAC members identified tax policy as a priority of their development interventions, despite its linkages with vertical inequalities.

Survey respondents also indicated which policies outside their development co-operation have significant positive impacts on poverty and inequality outcomes in partner countries. These include health, environment, trade, migration and agriculture –policy areas emphasised for achieving policy coherence for

sustainable development.[16] Digital, defence and taxation policies were considered less important.[17] Improving policy coherence both within and beyond development co-operation can mitigate the potentially adverse impacts of DAC members' wider policy choices – regarding climate and environment, taxation, trade, defence and migration,[18] for instance – on poverty and inequalities. Norway's development co-operation policy includes a section on policy coherence beyond development co-operation that requires the Ministry of Foreign Affairs to maintain a constant dialogue with other ministries to monitor potential spillover effects of their policies and to report on this dialogue to the parliament annually.[19] To ensure policy coherence in its portfolio, the Belgian Development Agency Enabel has created a tool to analyse if its proposed interventions and programme formulations have possible unintended adverse side effects that increase inequalities.[20]

Figure 12.4. DAC members prioritise policies targeting gender inequality to address both poverty and inequalities



Note: This graph reflects a sample of 24 out of 32 DAC members.
Source: OECD analysis (2024) based on a survey of OECD DAC members on approaches to targeting poverty and inequality in development co-operation.

Translating policy commitments into strategies and programmes to reduce poverty and inequalities

DAC members translate policies to reduce poverty into practice in a variety of ways. According to survey results and qualitative research, some members have specific projects or programmes focused on different dimensions of poverty, with interventions based on a sectoral, thematic or geographical context. Others focus on a single dimension such as gendered poverty or a human rights-based approach to poverty. Most members reported that they focus on non-monetary dimensions of poverty such as education, health and safety; those targeting monetary poverty also integrate other dimensions into their approach as shown by the following examples:

- Job creation is a high priority for Swedish International Development Cooperation Agency's (Sida) efforts to reduce multidimensional poverty. By creating productive jobs and fostering employability,

Sida's approach focuses on improving the functioning of the labour market and decent working conditions, striving for sustainable employment results and poverty reduction at scale.

- Germany's Global Project on Reducing Inequality provided partner countries with tailored cross-sectoral expertise, capacity development and peer-to-peer exchange to put inequality reduction at the heart of policy making, exploring collaborative models with partner countries.
- Belgium is supporting nationwide social health protection for people working in the informal economic sector in low-income countries in sub-Saharan Africa.

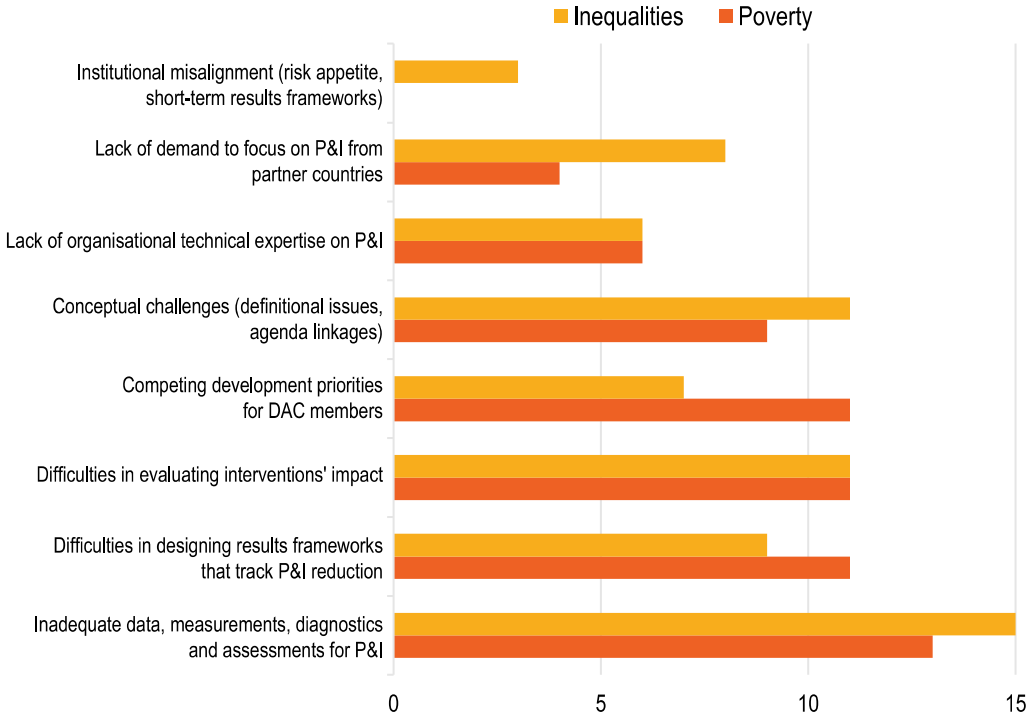
Nevertheless, while most DAC members have explicit commitments to both poverty and inequality reduction, they are not always supported by dedicated frameworks, strategies, guidance or toolkits for addressing delivering on both.[21] Only five respondents indicated they have a dedicated strategy for inequalities or poverty; four are currently developing new strategies; and two have no strategies or no plans to develop them.[22]

Likewise, not all have theories of change, which are important tools to guide strategies.[23] While many DAC members' strategies and policies consider factors that cause poverty and inequalities, about 14 (of 23) have detailed theories of change.[24]

Constraints limiting DAC members' programming of poverty and inequalities

Figure 12.5 highlights the primary challenges cited by DAC members related to programming, which include inadequate data, measurement, diagnostics and assessments, particularly for inequalities; difficulties designing results frameworks that effectively track inequalities and especially poverty reduction; and difficulty in evaluating the impact of interventions.

Figure 12.5. Main reported challenges that may limit development co-operation's prioritisation on reducing poverty and inequalities in partner countries



Notes: P&I: poverty and inequalities. This graph reflects a sample of 24 members. The list of challenges was provided to members for selection.
Source: OECD analysis (2024) based on a survey to DAC members on approaches to targeting poverty and inequality in development co-operation.

While DAC members report difficulties in evaluation and assessments, more than half of respondents (16 out of 23) have established processes to critically evaluate ex ante how proposals address poverty and inequalities. This includes utilising policy markers or other scoring tools to assess proposals' integration of aspects of poverty and inequalities.[25] Germany for example, ensures that the core, cross-sectoral objective of reducing multidimensional poverty is considered across all regional or country strategies, in policy for all sectors, and throughout a project's programming cycle.[26] This is measured through a poverty marker (non-DAC marker) it created to monitor poverty reduction as a primary or secondary objective in projects.

Successful examples also exist where aspects of poverty and inequality reduction have been effectively integrated into programming cycles. For instance, the Swiss Agency for Development and Cooperation has taken steps to operationalise the leave no one behind objective into the programming phase. This involves understanding the factors driving exclusion; incorporating these considerations into intervention designs, especially in developing theories of change; and continuously monitoring and adapting programmes to account for both direct and indirect effects of interventions.[27] These efforts can be supported by global knowledge-sharing initiatives and capacity support for local analytical work on poverty and inequalities, allowing DAC members to work collectively with partner countries and civil society to achieve more evidence-based programming (Box 12.4).

Box 12.4. Sharing evidence and data across regions and countries

Facilitating cross-country knowledge sharing is crucial to gaining deeper, evidence-based insights into the factors driving poverty and inequalities globally as well as for identifying and sharing solutions. Local analytical work is also essential to understanding the diverse dynamics of poverty and inequalities across countries. DAC members' research budgets can support this. Examples of country-spanning knowledge-sharing efforts are the Research Facility on Inequalities, an initiative of the European Union and the French Development Agency, and the Data and Evidence to End Extreme Poverty, or DEEP, funded by the Foreign, Commonwealth & Development Office in the United Kingdom. The two research initiatives focus on narrowing knowledge gaps around poverty and inequality reduction. Together, the initiatives have worked in over 25 countries with local and national partners to design solutions that address country-level poverty and inequality challenges.

Global research initiatives enable development co-operation actors to support more contextually tailored policies for poverty and inequality reduction. By recognising the diversity among countries and reducing between-country knowledge gaps, collective research initiatives hold the potential to significantly enhance local evidence-based knowledge production for the creation of more effective poverty- and inequality-reducing policies.

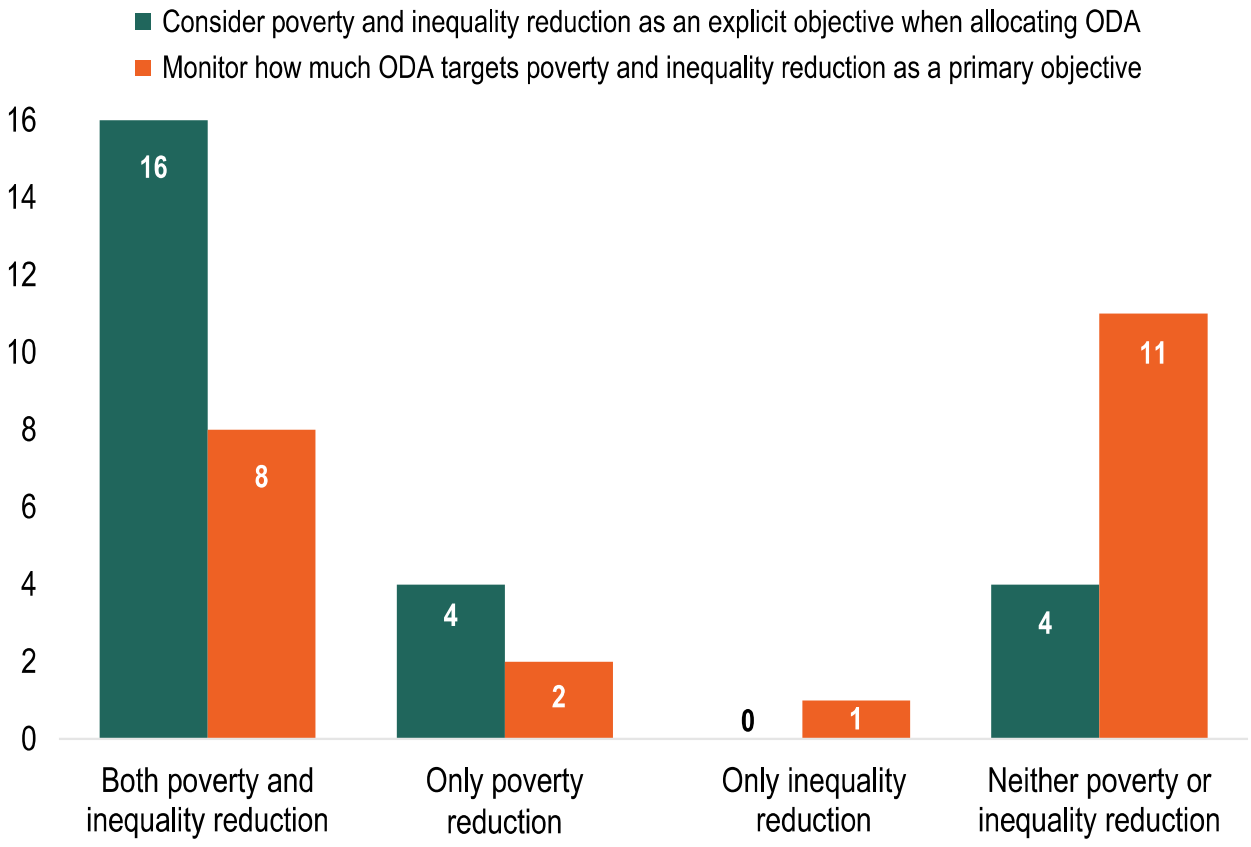
Most DAC members do not measure how much of their development co-operation targets poverty or inequality reduction

The majority of survey respondents (20 of 24) stated that the reduction of poverty and/or inequalities is included or considered as an explicit objective in their official development assistance (ODA) allocation decisions, though 4 members only consider poverty as an explicit objective (Figure 12.5). Canada's Official Development Assistance Accountability Act for example, creates a legal requirement for all Canadian ODA to be provided with a central focus on poverty reduction, aligned with international human rights standards. Both France and the United Kingdom set a target for 50% of their bilateral ODA to be allocated to least developed countries; the United Kingdom's approach to target least developed countries is motivated by the fact that they have higher poverty rates, levels of fragility and conflict, and vulnerability to climate change.[28]

For allocations to vulnerable groups, nine survey respondents said they use OECD-DAC tools and policy markers to track ODA targeting gender and disability objectives. Some members use alternative measures such as internal markers and DAC purpose sector codes as proxies for poverty- and inequality-reducing interventions. For example, New Zealand created a child and youth well-being marker and a human rights marker; Austria and Germany both created a poverty marker.[29] Switzerland tracks progress towards the SDGs by mapping to OECD markers (such as SDG 10.2 to the DAC disability policy marker) and assigning SDG 1 and SDG 10 to certain DAC purpose sector codes, aligning them with sectors that are proven to be poverty and inequality reducing, such as social protection.[30] Finland also focuses on horizontal inequalities in its development co-operation, using OECD DAC policy markers, and other tools to ensure that projects comply with minimum standards for gender equality and disability inclusion.

Eight respondents said they monitor, in practice, how much ODA actually targets the reduction of poverty and inequalities (Figure 12.6). Cursory qualitative research in a sample of 23 DAC members has found that most members have taken steps to incorporate at least one dimension of poverty and/or inequalities into their monitoring processes. A wide diversity of approaches is used, ranging from the development of markers to track project objectives to the collection of quantitative and qualitative data to monitor project results.[31]

Figure 12.6. Most members consider the reduction of poverty and/or inequalities as an explicit objective when allocating ODA, but do not monitor how much ODA actually targets the reduction of poverty and/or inequalities



Note: This graph reflects a sample of 24 DAC members. 2 members did not answer the question on ODA monitoring.
Source: OECD analysis (2024) based on a survey to DAC members on approaches to targeting poverty and inequality in development co-operation.

Engagement with people experiencing poverty and inequalities more often occurs before and during programme implementation than during the monitoring and evaluation phases

Most DAC members surveyed (19 of 24) reported that they occasionally or always ensure that people experiencing poverty or inequalities are represented or participate in the framing, design and delivery phase of the programme cycle.[32] Yet only four members said they ensure that these people participate or are represented in the accountability phase, which includes the monitoring, evaluation and learning stages.[33] A few DAC members have worked to enhance stakeholder participation in the accountability phase, demonstrating potential opportunities to scale up action. For instance, the Swiss Agency for Development and Cooperation has published guidance on conducting beneficiary assessments to involve people at risk of being left behind in evaluation processes.[34] In addition, Slovenia aligns its projects with principle of local ownership and supports mutual accountability by ensuring projects are being monitored by local partners, Slovenian non-governmental organisations and representatives of the national co-ordinator/ministry.[35]

Research take aways: Opportunities to better integrate poverty and inequalities into development co-operation

The comparative survey and qualitative research on DAC members' approaches to poverty and inequality reduction show there is considerable scope to sharpen their focus on poverty and inequalities and translate commitments into action more effectively. Further guidance can help DAC members step up the integration of poverty and inequalities into development co-operation; contribute to improving the quality, effectiveness and impact of their policies, practices and financing in targeting these issues; and support progress on the pledge to leave no one behind. This take away section looks at some of these opportunities and how they might be addressed going forward.

Manage policy evaporation risks amid competing priorities

Reducing poverty and inequalities is often in competition with other priorities such as climate change, macroeconomic stability and health emergencies (see also Chapter 14 and Chapter 26). This competition can lead to policy evaporation where initial commitments to reduce poverty and inequalities may lose importance as they move from being planned to being implemented. This risk is increased when these goals are not fully integrated into DAC members' broader development policies and strategies.

To mitigate the risk of policy evaporation, clear guidance can help safeguard the focus on reducing poverty and inequalities across programmes and throughout the programming cycle. For example, embedding poverty and inequality reduction objectives into all relevant policy areas ensures they remain a priority, and establishing clear implementation frameworks with specific targets and robust monitoring mechanisms helps maintain focus and accountability. Additionally, peer learning and knowledge exchange, sharing best practices and strategies with other providers and partners can deepen the evidence base and guidance for keeping poverty and inequality reduction goals at the forefront of development co-operation.

Staffing constraints can also stifle DAC members' ability to comprehensively integrate poverty and inequality considerations across the development co-operation portfolios and creating synergies (see also Amitabh Behar, Oxfam International's "In my view" article in Chapter 13). The qualitative study on DAC members' approaches reveals that some members struggle to fully capitalise on poverty and inequality reduction opportunities due to low staff numbers. Survey results indicate that most DAC members have at least one dedicated staff member focused on reducing poverty and inequalities, with team sizes varying significantly. Employing specialised staff could improve the evidence base and decision making in these efforts.

Refine definitions and measures for better coherence and alignment to partner countries' priorities

Definitions of poverty and inequalities matter and can influence where, how and for whom resources are allocated and actions directed. The varying definitions and indicators that DAC members use to describe poverty and inequalities allow for a more nuanced understanding and adaptation to local contexts. But they also complicate the pursuit of a coherent approach to global poverty and inequality work. More discussion is needed on both definitions and measurement frameworks, particularly in the context of green transitions and their implications for development co-operation policy, programming and finance (see Chapters 2 and 14). Aligning measurement and definitions to partner countries' priorities also can contribute to better targeting actions and resources to poverty and inequality reduction.

More comprehensive focus on income and group-based inequalities

DAC members have expressed a desire for more guidance on how to approach and target different and new forms of inequalities such as climate-related vulnerabilities, unequal digital access and political economy issues. Most prioritise horizontal inequalities over vertical or spatial inequalities with a strong focus on gender inequalities. There is scope to broaden the range of inequalities being addressed so as not promote inclusive economic growth and include different groups experiencing inequalities and leave them further behind. New guidance could assist DAC members in incorporating an intersectional perspective into their development interventions, including in collaboration with local civil society and multilateral organisations. Additionally, it could help in monitoring and evaluating results to assess the interventions' impact on different individuals. Guidance could also help identify more suitable policy and strategic frameworks for the specific contexts of DAC members' institutions and the countries they support.

Better align ODA spending priorities and allocation with evidence and assessments of poverty and inequalities

ODA can directly or indirectly contribute to reducing poverty and inequalities depending on the dimensions being considered and the groups targeted (e.g. "bottom" 40% or "poorest of the poor"). Survey respondents reported that evidence on poverty and inequalities do not always influence their decisions on how ODA is spent in terms of priority countries, sectors and modalities. The qualitative study on DAC members' approaches suggests that more explicit and granular analysis of the poverty and inequality impacts associated with ODA allocation options can help DAC members more effectively translate overarching goals on poverty and inequality reduction into detailed spending priorities. This implies that DAC members may miss opportunities to invest ODA in activities with the highest poverty and inequality reduction impacts. They may even opt for investments that are unintentionally harmful – for example, if ODA is spent on projects that unintentionally widen the income gap.

Improve policy coherence in relation to poverty and inequality reduction

Improving policy coherence both within and beyond development co-operation can mitigate the potentially adverse impact of DAC members' wider policy choices – for instance on climate and environment, taxation, trade, defence, and migration – on poverty and inequalities. DAC members have made commitments to ensure coherence with policies and strategies beyond their ODA programmes. These include the OECD Recommendation of the Council on Policy Coherence for Sustainable Development (OECD, 2019[4]), which explicitly recognises the importance of considering poverty reduction throughout all policy coherence frameworks. The Recommendation also calls for an intersectional governance approach and analysis of interactions between equality and inclusion and other goals when designing and implementing policies to understand the ways in which policy can impact socially disadvantaged groups differently. However,

external analyses and recent OECD-DAC peer reviews suggest that policy coherence challenges persist across all the DAC members included in the qualitative study of DAC members' approaches.

Develop more robust frameworks for poverty and inequalities

Survey findings flagged demand from development agencies for advice on building robust evaluation frameworks to enhance the effectiveness of their poverty- and inequality-reduction efforts. Effective development co-operation also requires appropriate data, well-defined objectives and a thoughtful application of evaluation criteria to support high-quality, useful evaluations (OECD, 2021[5]). Several DAC members have developed tools and methods for analysing poverty and inequalities within specific contexts or at the subnational level.[36] However, members highlighted that a principal challenge limiting their development initiatives is the lack of adequate data, measurements and diagnostics.[37] But while some members have systems that annually assess programmes against specific quality criteria (including gender and disability)[38], many face difficulties due to limited capacity in their current frameworks. Such capacity constraints hinder the effective analysis and evaluation of the impacts of multidimensional interventions on poverty and inequalities and make the necessary adjustments.

Engage a range of stakeholders, including people experiencing poverty and inequalities, throughout the programming cycle

Enhancing the engagement of people experiencing poverty and inequalities in the monitoring and evaluation phases of the programme cycle, while also prioritising participant safety is tricky and challenging for development actors. Meanwhile, locally led development and including local stakeholders in decision-making often results in greater relevant, culturally appropriate, and sustainable programmes (OECD, 2023[6]).

Some providers are enhancing stakeholder participation in the accountability phase, demonstrating potential opportunities to scale up action. For instance, Iceland's development co-operation employs a programme-based approach at the local government level, supporting national decentralisation efforts and locally led development. Long-term partnerships with district authorities in partner countries have improved their performance and enhanced service provision, addressing poverty and inequalities within the population. At the same time, development programmes need to be sensitive to local social, economic and political dynamics when engaging with local actors[39] so as not to inadvertently exacerbate inequalities in partner countries. A particular risk emerges when financial support or opportunities for partnerships at the local level benefit holders of power and privilege rather than people experiencing poverty and inequalities. Planned new DAC guidance on poverty and inequalities and forthcoming (2024) OECD synthesis report on locally led development can also inform strategies that mitigate the risk of compounding inequalities and promote inclusive local engagement processes when working in partnership with local actors for poverty and inequality reduction programming.

Close data gaps, leverage knowledge and share good practices

By leveraging the experiences, lessons learnt and knowledge shared by others, DAC members can significantly benefit from each other's practices and analyses, maximising collaboration to address challenges and avoiding duplication.[40] Survey respondents showed demand for more systematic sharing of evidence on the most effective policies and programmes and on scaling impact. Local-level analytical work and research findings also offer invaluable granular data that can inform more effective policy making for poverty and inequality reduction. In addition to sharing knowledge among DAC members, institutional mechanisms for co-ordination between different agencies within a DAC member can also serve as a model, helping address potential misalignments and inconsistencies across diverse policies and budget priorities.

Box 12.5 describes the contributions to knowledge sharing by the OECD-DAC Community of Practice on Poverty and Inequalities.

Box 12.5. Knowledge-sharing guidance on poverty and inequalities: The DAC Community of Practice on Poverty and Inequalities

The Development Assistance Committee's (DAC) Community of Practice on Poverty and Inequalities (CoP-PI) supports knowledge sharing among DAC members and a broader community of stakeholders, by fostering peer learning, inclusive knowledge exchanges and analyses on how to sharpen development co-operation's focus on poverty and inequality reduction. Since its inception in 2021, the CoP-PI has helped DAC members to translate their commitments to poverty and inequality reduction into practice throughout the policy and project cycle as well as in the targeting and tracking of official development assistance allocations to these objectives. With a view to providing more detailed guidance, the CoP-PI Secretariat carries out analysis to learn from members' good practices and unpacks key challenges they face in embedding a poverty and inequality lens throughout their development co-operation. Exchanges of the CoP-PI have also explored the complex interlinkages between poverty, inequalities and major development challenges such as food security, climate action, domestic resource mobilisation and social protection.

Embed poverty and inequality considerations into climate action

By embedding and mainstreaming poverty and inequality considerations into strategies and support for green transitions, development co-operation actors can ensure that environmental and climate initiatives contribute to a sustainable future and more equitable social systems. It can also foster comprehensive solutions that address both environmental and socio-economic challenges, ensuring that advancements in one area do not come at the expense of another.

Survey respondents stressed the importance of taking marginalised and vulnerable populations into account in their climate and environmental policies and country-specific programming.[41] As one member put it, "We see work on climate and the environment as interconnected and mutually reinforcing with efforts to reduce poverty and inequality."[42] However, the systematic integration of core goals to end poverty and reduce inequalities is not yet common practice climate and environment programmes (see Chapters 14 and 26). Strategies tend to pay less attention to possible tensions between ODA for climate-related purposes and ODA for poverty and inequality reduction but there are good practice examples to follow such as Luxembourg's commitment to keeping its climate finance additional to its ODA budget.[43]

> We see work on climate and the environment as interconnected and mutually reinforcing with efforts to reduce poverty and inequality.

In conclusion, the research highlights significant opportunities for DAC members to enhance their integration of poverty and inequalities into development co-operation. Key takeaways include the need for clearer policy guidance to prevent the risk of "policy evaporation" amid competing priorities like climate change and health emergencies. Furthermore, refining definitions and measurement frameworks can improve coherence and alignment with partner countries' priorities, ensuring more targeted actions and resource allocations. Addressing a broader range of inequalities, including new and intersectional forms, requires updated guidance and strategic frameworks. Developing robust evaluation frameworks and engaging diverse stakeholders throughout the programming cycle are essential steps toward enhancing the quality and impact of poverty and inequality reduction efforts. Moving forward, new shared guidance

can support development co-operation to translate high-level and core commitments into tangible actions, effectively contribute to eradicating poverty and leaving no one behind.

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Annex 12.A. Survey and qualitative research of DAC members' approaches

OECD survey of DAC members on approaches to targeting poverty and inequalities in development co-operation

The OECD Secretariat designed and conducted the survey in February 2024. The survey was disseminated to all members of the DAC, and had a 75% response rate. The 24 (out of 32) DAC members that responded to the survey were Australia, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Korea, Luxembourg, the Netherlands, Norway, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States. The OECD received a total of 25 responses, as one DAC member submitted two responses - one per institution.

Qualitative research on DAC members' approaches to reducing poverty and inequalities through development co-operation

The OECD-DAC Community of Practice of Poverty and Inequalities (CoP-PI) commissioned qualitative research, which was conducted from late 2023 to early 2024 and drew on previous scoping work in 2022.

This desk review looked at 23 DAC members: Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. The methodology involved analysis of publicly available documents along with a review of essential documents from the CoP-PI. Where relevant, the review also drew on evidence gathered for a preliminary scoping study conducted in 2022. The research was enriched by interviews with specialists from eight DAC member countries, prioritising those not covered in the previous year's preliminary study. Additionally, email inquiries were sent to additional DAC member representatives to refine the findings and clarify particular aspects.

Notes

[1] The chapter draws on a survey on approaches to poverty and inequality reduction conducted by the OECD Secretariat in Spring 2024 and qualitative research in 2023 and 2024 (See annex 12.A). The authors thank Polly Meeks for her research support, inputs and review.

[2] See: https://www.oecd.org/dac/dac-hlm.htm.

[3] Qualitative research commissioned by the OECD CoP-PI (2024).

[4] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequality in development co-operation.

[5] See: https://www.jica.go.jp/english/activities/issues/gender/materials.html and https://www.mofa.go.jp/policy/oda/page24e_000410.html.

[6] See: https://www.jica.go.jp/Resource/english/our_work/thematic_issues/gender/c8h0vm0000f3jmj6-att/gender_mainstreaming_07.pdf

[7] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[8] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[9] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[10] Qualitative research commissioned by the CoP-PI (2024).

[11] Qualitative research commissioned by the CoP-PI (2024).

[12] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[13] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[14] Qualitative research commissioned by the CoP-PI (2024).

[15] See: https://www.usaid.gov/policy/indigenous-peoples.

[16] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[17] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[18] See, for example, https://one.oecd.org/document/DCD/DAC(2022)57/FINAL/en/pdf, p. 21.

[19] See: https://www.regjeringen.no/en/dokumenter/meld.-st.-24-20162017/id2547573.

[20] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[21] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[22] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[23] See: https://one.oecd.org/document/DCD/DAC(2022)57/FINAL/en/pdf, p. 22.

[24] Qualitative research commissioned by the CoP-PI (2024). The Belgian Development Agency Enabel also conducts comprehensive analyses on the root causes of inequalities and recommends systemic actions grounded in a human rights framework - See: https://www.enabel.be/app/uploads/2022/11/concept_note_inequalities_fullreport.pdf.

[25] Qualitative research commissioned by the CoP-PI (2024).

[26] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[27] Survey of DAC members on approaches to targeting poverty and inequality in development co operation.

[28] See: https://data.aide-developpement.gouv.fr/pages/accueil.

[29] Qualitative research commissioned by the CoP-PI (2024).

[30] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[31] Qualitative research commissioned by the CoP-PI (2024).

[32] The framing stage involves identifying challenges, needs and priorities and setting principles; the design phase involves designing strategies, partnerships, programmes and collaboration mechanisms; and the delivery phase involves funding, managing and implementation processes.

[33] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[34] Qualitative research commissioned by the CoP-PI (2024).

[35] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[36] OECD analysis (2024) based on a survey to DAC members on approaches to targeting poverty and inequalities in development co-operation.

[37] OECD analysis (2024) based on a survey to DAC members on approaches to targeting poverty and inequalities in development co-operation.

[38] For example, Australia annually scores programmes over AUD 3 million against four quality criteria, including a criterion on gender equality and one on disability equity. Results are tracked through the Department of Foreign Affairs and Trade's corporate performance framework.

[39] Local actors include grassroots associations, community-based organisations, non-governmental organisations that are locally founded, government (national and subnational entities), parliaments, traditional and spiritual leaders, academia, media, and the private sector. They can include regional organisations, confederations, coalitions, and networks if member organisations maintain independent fundraising and governance systems.

[40] For more information on the benefits of knowledge sharing see GPEDC (2020), https://www.effectivecooperation.org/book-page/why-knowledge-sharing-matters-development-co-operation.

[41] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation.

[42] OECD analysis (2024) based on a survey of DAC members on approaches to targeting poverty and inequalities in development co-operation. See also, for example, research on the potential tension between ODA and climate finance in 2022 https://www.afd.fr/en/ressources/official-development-assistance-age-consequences.

[43] See: https://cooperation.gouvernement.lu/content/dam/gouv_cooperation/publications/strat%C3%A9gies/strategie-generale/Strat%C3%A9gie-MAEE-EN.pdf.

13 In my view: Ending inequality is a political choice, and aid can play a pivotal role

Amitabh Behar, Executive Director, Oxfam International

Since 2020, the five richest men in the world have doubled their fortunes, yet 5 billion people are worse off. The gap between rich nations and the rest of the world is growing for the first time in 25 years. Tensions between the Global South and the Global North are running high. At four years into the 2020s, this is already fast becoming the decade of division.

It is a fact that inequality undermines all aspects of successful development. This is not just the view of Oxfam or civil society. It is based on clear and compelling evidence from the United Nations, the World Bank, the International Monetary Fund and extensive academic research. We know more equal societies grow faster; reduce poverty more quickly; and are happier, healthier, safer and less politically polarised. We know that the richest people are the biggest emitters of carbon and that reducing inequality is essential if we are to stop climate breakdown. We also know that reducing inequality is perfectly possible; many countries have successfully done so. This means that today's extreme levels of inequality are a political choice, not an inevitability.

Sustainable Development Goal (SDG) 10, focused on reducing inequalities, has been one of the worst performing of the SDGs (Martin, 2023[1]). OECD Development Assistance Committee members have been slow to take the practical, proven steps needed to support governments in rapidly reducing the gap between the richest and the rest. Fortunately, this is changing. For the first time in history, the World Bank has set a corporate goal targeting a reduction in inequality, and several donor countries are sharing best practices on how this can be done through their development co-operation. But much more needs to be done.

First, as bilateral donors, rich countries need to start by taking inequality seriously. This means equipping their political and technical staff with the tools and expertise to mainstream inequality reduction. Every development co-operation agency should have an expert team providing support to their colleagues to factor inequality reduction into the design, implementation and evaluation of programmes. Some are already trying to do this, such as the European Commission with the appointment of an advisor on SDGs and inequalities.

Every development co-operation agency should have an expert team providing support to their colleagues to factor inequality reduction into the design, implementation and evaluation of programmes.

Second, they should prioritise supporting countries to develop clear, ambitious and timebound targets to reduce inequality. To support these, we need a revolution in inequality data to capture what happens at the top as well as at the bottom of the economic ladder. Income and wealth inequality must be regularly measured and shared publicly so policy makers can take informed decisions about the impact of reforms on distribution and citizens can hold them to account.

Third, we need to see far greater investment in sectors proven to reduce inequality fast such as health, education and other universal public services as well as wide-scale social protection programmes for all. Classrooms, clinics, taps, toilets, delivered by the public sector, make all the difference to closing the divide. Conversely, evidence tells us that private health and education are not a solution (Seery, 2014[2]); they drive up inequality, making health or education only available to those who can pay.

We need to see far greater investment in sectors proven to reduce inequality fast such as health, education and other universal public services as well as wide-scale social protection programmes for all.

Another key area is progressive taxation. Governments need more revenue, but they must raise it in ways that ensure the richest pay more and not in ways that will increase poverty and inequality. We need to see higher rates of income tax at the top. Many countries lack property taxes, capital gains taxes or inheritance taxes. We need to see action to stop industrial levels of tax dodging by rich individuals and corporations. Let's see every country increase the taxation of the richest in the next few years to help close the gap.

When operating at the multilateral level, donors have a whole set of spaces available to join efforts in pursuit of an inequality reduction agenda. Take the International Development Association, for example, whose replenishment is currently being negotiated. The International Development Association's impact could be maximised if it had inequality reduction as its key goal.

Platforms like the OECD's Community of Practice on Poverty and Inequality are key. It is crucial that donors maintain their support of these spaces while opening new ones in every organisation with a role in development co-operation.

We urge donors to make this the year where they truly invest in tackling inequality. The Financing for Development process, culminating in Madrid in 2025 and with the Summit of the Future in September 2024 as a key milestone, offers a precious opportunity to build a global consensus on tackling economic and power inequalities for the achievement of the SDGs. Let's build a Madrid Inequality Consensus where rich donor nations agree to support and underwrite a historic move by nations across the world to build more equal societies. That would be a wonderful thing.

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14 Poverty and inequalities focus of official development assistance and its measurement

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To what extent does development finance, specifically official development assistance (ODA), target the reduction of poverty and inequalities? After analysing the results from existing measures of aid targeting, this chapter shares findings from innovative approaches to provide a more complete view of the current state of targeting for poverty and inequalities across bilateral and multilateral providers, relevant sectors and geographies. It provides new evidence on ODA allocations relative to where the poorest and most vulnerable people are living. The chapter concludes with suggestions for development co-operation providers to reinvigorate the fight against poverty and inequalities in the context of the green transition agenda by improving resource allocations, targeting and measurement.

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Key Messages

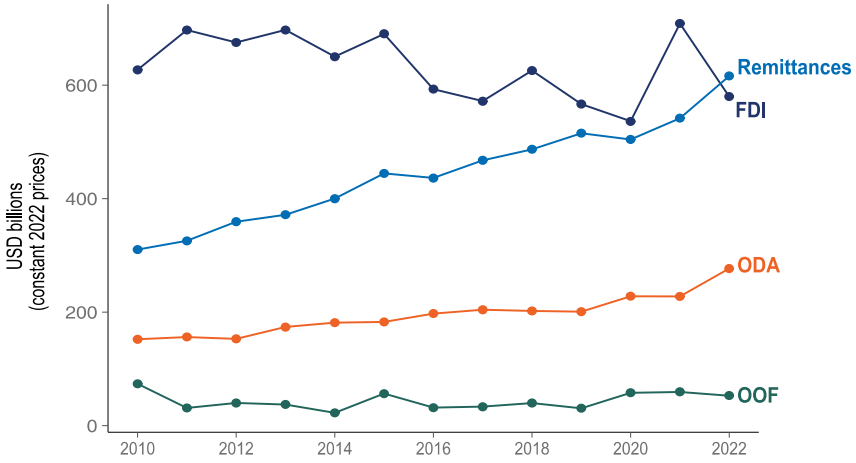
- New and better measures are needed to understand how official development assistance (ODA) is targeting poverty and inequalities worldwide – and how it can do better in observing relationships between aid, poverty and inequalities.
- 9.5% of DAC members' bilateral ODA in 2022 (USD 19.6 billion) went to grants for poverty-reducing sectors as measured by indicator SDG 1.a.1. This is down from a historical high of 11.5% in 2021 and consistent with the average from 2012 to 2022.
- Comparison of ODA allocations across regions shows that providers collectively allocated the biggest share of their ODA (2020-22 average) to sub-Saharan Africa, where poverty and inequalities are most heavily concentrated.
- Amidst a changing context for ODA, the findings in this chapter suggest a waning focus on poverty and inequalities despite policy commitments. When adjusting for the distribution of poverty worldwide, upper middle-income countries (UMICs) received more aid than least development countries (LDCs) in 2022. This was not the case in 2012.
- Investing aid to facilitate the green transition and address the climate crisis will not automatically address the poverty and inequalities crisis. Providers need to make their climate finance more poverty- and inequality-sensitive, and vice versa.

ODA has an important role to play in reducing poverty and inequalities, but better measures of this relationship are needed to inform better targeting

International agendas to foster a just and equitable world that leaves no one behind highlight the goals of eradicating poverty and reducing inequalities. These objectives feature prominently in the OECD Development Assistance Committee's (DAC) current mandate (1960[1]) and in the latest DAC High Level Meeting communiqué, in which the DAC committed to helping partner countries manage potential trade-offs involved in reducing poverty and inequalities while achieving sustainable development and net zero transitions (OECD, 2023[2]). ODA is called on to support partner countries to achieve and balance these myriad goals. While it is not the sole resource available for low-income countries (LICs) or middle-income countries (MICs), and providers are not always meeting their international targets to provide ODA (OECD, 2023[3]), ODA is a stable and predictable source of external funding for sustainable development (Figure 14.1).

Figure 14.1. ODA is a dependable source of external financing that has increased gradually in recent years

Official development assistance, other official flows, foreign direct investment, and remittances for ODA-eligible low- and middle-income countries, 2010-22



Note: FDI = foreign direct investment; OOF = other official flows. ODA and OOF are measured in net terms from all official providers. Figures for FDI, OOF, and remittances are converted to USD constant (2022) prices using the "TOTAL DAC" deflator.
Source: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database)*, https://data-explorer.oecd.org/; OECD (2024[5]), *Other official flows (OOF) and export credits [DAC2B] (database)*, https://data-explorer.oecd.org/; World Bank (2024[6]), *Personal remittances, received (current US$)* (database), https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT; World Bank (2024[7]), *Foreign direct investment, net inflows (BoP, current US$)* (database), https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.

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The findings presented in this chapter confirm the need for a more comprehensive, granular and nuanced menu of indicators to help ODA reach the poorest and most vulnerable countries, as well as the poorest and most vulnerable people within those countries. Standard measures provide a useful but still piecemeal view of whether ODA is going where needs are greatest. With rising demands on development finance (see Chapter 12), better targeting tools can guide providers in allocating aid according to where and in what form it will have mutually beneficial outcomes for poverty and inequalities reduction and net zero transitions. The analysis and suite of indicators tested in this chapter, based on measures of ODA overall and to key sectors and cross-cutting priorities across countries, can inform discussions on how to measure whether ODA is doing its job.

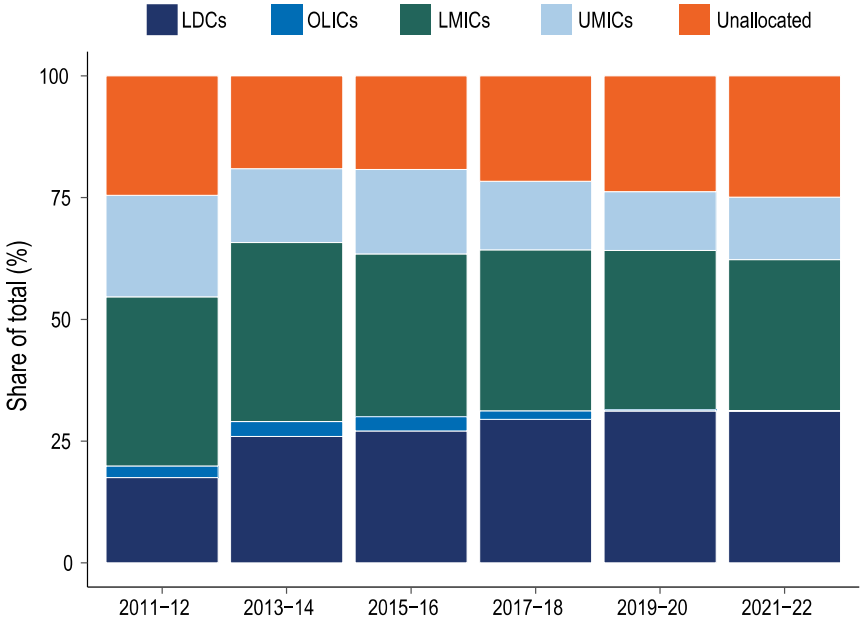
> The ten countries with the highest extreme poverty headcount in 2022 received on average just 8.6% of concessional development finance for climate and environment from official sources in 2021-22.

Better targeting to reduce poverty and inequalities is an especially important ambition given that providers are spending more of their development finance to promote the green transition (OECD, 2023[8]). Climate finance from official bilateral and multilateral sources almost doubled over the period from 2013 to 2021 (OECD, 2023[8]). While the increased attention to climate is welcome, it is important for climate finance – and development finance more broadly – to tackle climate change while also benefitting the world's poorest and most vulnerable. However, the top ten countries with the highest extreme poverty headcount in 2022 received on average just 8.6% of concessional development finance for climate and environment[1] from

official sources in 2021-22 (OECD, 2023[9]). Ensuring that efforts to tackle climate change also address poverty and inequalities is especially important given that LDCs, where poverty and inequalities are concentrated, are receiving a growing share of concessional development finance for climate and environment, which increased from 17.5% on average in 2011-12 to 31.1% in 2021-22 (Figure 14.2). In the same period, the share of such finance to MICs declined from 55.7% on average in 2011-12 to 43.8% in 2021-22. The decline to MICs was especially pronounced in UMICs: their share of such finance dropped from 20.9% on average in 2011-12 to 12.8% in 2021-22, while the share to lower middle-income countries (LMICs) dropped from 34.8% on average in 2011-12 to 31.0% in 2021-22.

Figure 14.2. LDCs are receiving greater shares of concessional development finance for climate and environment from official sources, with corresponding declines in the share of such financing to MICs

Development finance for climate and the environment, all official providers, 2011/12-2021/22 (2-year averages)



Note: Concessional development finance for climate and the environment from official sources captures concessional and developmental flows from official bilateral and multilateral providers. OLICs = other LICs. Unallocated means unallocated by region. All categories are mutually exclusive; therefore, the categories of OLICs, LMICs and UMICs capture countries in these categories that are not already LDCs.
Source: OECD (2023[9]), *Climate-related development finance datasets - Recipient perspective* (database), https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm.

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Based on existing indicators, ODA is not targeting poverty and inequalities well

Fresh crises and expanded global goals have placed additional demands and pressures on ODA. The findings presented in this section, based on commonly used measures of the relative share and volume of ODA by region or across and within country income groupings, suggest that ODA is not targeting needs arising from poverty and inequalities worldwide.[2] In response to a changing global context for development co-operation, ODA is also focusing on certain priorities instead of or at the expense of others (Calleja and Cichocka, 2022[10]), and there are signs that ODA has not adapted to the nature of poverty in the wake of the COVID-19 pandemic, particularly extreme poverty. Current measures of ODA allocations for poverty

and inequalities reduction, however, give a fragmented picture, are over-reliant on proxies (such as the share of ODA to LDCs or to sub-Saharan Africa), and are narrow relative to the scale of the problem. They also fall short in providing a comparative perspective that can guide better allocations, especially to where the poorest and most vulnerable are actually living, and towards the policies that are more conducive to the reduction of poverty and inequalities (see Chapters 3 and 4). Respondents to a DAC survey on poverty and inequalities (see Chapter 12) cited a lack of data, measurements, and diagnostics as a primary challenge to the better targeting of poverty and inequalities.

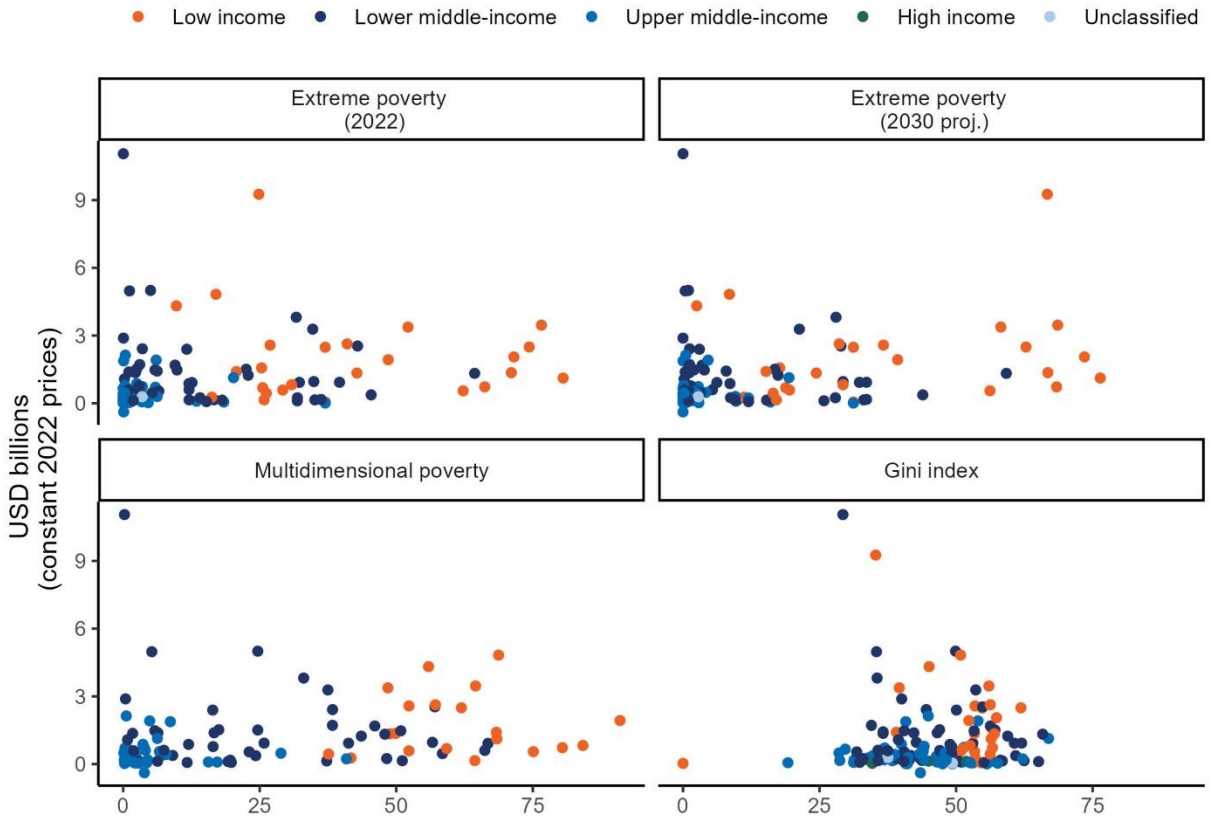
Correlating ODA with national-level poverty and inequalities measures shows no clear relationship

A typical approach to measuring the relationship between ODA, poverty and inequalities is to examine the allocation of ODA across partner countries against common measures of poverty and inequalities such as extreme poverty, multidimensional poverty or the Gini index. Strikingly, for the most recent data on ODA allocations, these correlations do not show a clear relationship between aid, poverty and inequalities (Figure 14.3). If a clear pattern were to exist, a diagonal line would be evident in the figure suggesting higher or lower levels of aid with increasing levels of poverty or inequalities. Figure 14.3 does suggest that some of the LICs with high levels of extreme poverty, both in 2022 and projected in 2030, are receiving low amounts of aid. This finding highlights the value of observing relationships between aid, poverty and inequalities disaggregated by income groups, which is further explored in this chapter.

One explanation for the lack of correlation is that ODA is allocated to address a variety of development challenges, which have evolved over time. Historically, reducing poverty and inequalities has just been one of many reasons for giving ODA (Kenny and Yang, 2021[11]; OECD, 2019[12]). Providers also are motivated by national interest and, as in the case of aid for the environment or disease preparedness, a desire to preserve the global commons (Gulrajani and Calleja, 2019[13]; Melonio, Naudet and Rioux, 2022[14]). These reasons may change over time and may or may not be co-ordinated across providers. It is important for future work to enable more fine-grained analysis across provider groups or between providers that considers their motivations and relative ability to target poverty and inequalities.

Figure 14.3. No clear correlation between ODA, poverty and inequalities

Official development assistance from all official providers (2020-22 average), by partner country, relative to extreme poverty in 2022, projected extreme poverty in 2030, multidimensional poverty, and Gini index



Notes: ODA to each recipient country shows the average from 2020 to 2022. The most recent year of data for each indicator is used for all indicators. Income groups are based on the latest (fiscal year 2024) World Bank country groupings.
Sources: OECD (2024[4]), Aid (ODA) disbursements to countries and regions [DAC2A] (database), https://data-explorer.oecd.org/; World Bank (2024[15]), World Bank Poverty and Inequality Platform (PIP) version 20240324, https://pip.worldbank.org/ and World Bank staff estimates; UNU-WIDER (2023[16]), World Income Inequality Database (WIID). Version 28, https://doi.org/10.35188/UNU-WIDER/WIID-281123; UNDP-OPHI (2023[17]), 2023 Global Multidimensional Poverty Index (MPI): Unstacking global poverty: Data for high impact action, https://hdr.undp.org/content/2023-global-multidimensional-poverty-index-mpi#/indicies/MPI; World Bank (2024[18]), World Bank Country and Lending Groups, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

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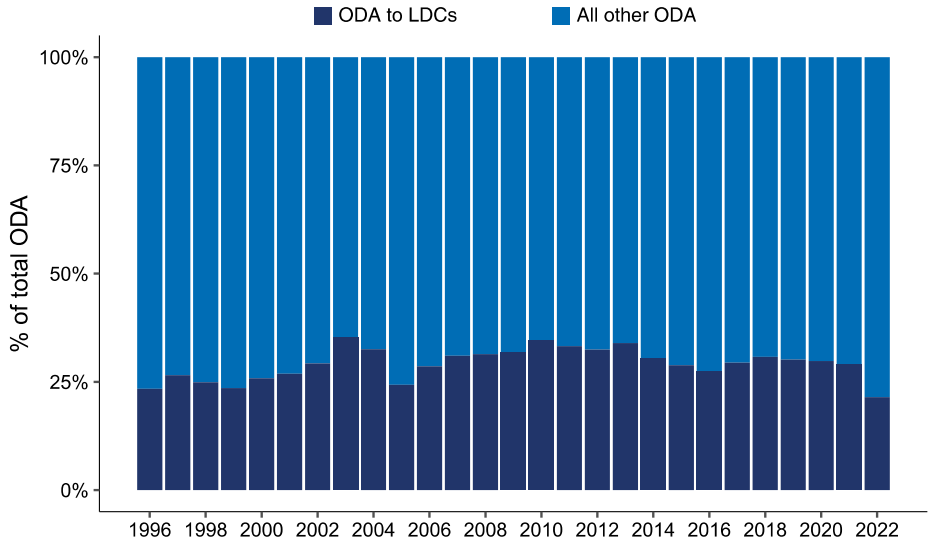
Measuring ODA to LDCs is not sufficient to assess targeting to poverty and inequalities

LDCs face structural barriers to their sustainable development, including persistent high rates of poverty and inequalities (see Chapters 2 and 3). In 2022, these countries accounted for 14% of the world's population but half the number of people in extreme poverty worldwide and just over a third (36%) of people in absolute poverty (World Bank, 2024[15]; UN, 2022[19]; Castaneda Aguilar et al., 2024[20]). In recognition of these challenges, Sustainable Development Goal 17.2 sets a target for providers to allocate between 0.15% and 0.20% of their gross national income in ODA to LDCs. In 2022, though, only 3 of 31 DAC member countries met this target and overall, DAC members' ODA to LDCs amounted to just 21.5% of their total ODA – the lowest share in the period analysed from 1996 (23% of the total) forward (Figure 14.4).

This share reflects, in part, an increase in members' aid to Ukraine in response to Russia's aggression, as well as increased support for the costs of processing and hosting Ukrainian refugees in provider countries. Based on the volume and share of ODA to LDCs, a frequently cited measure of targeting to poverty and inequalities, ODA is therefore not aligned to needs. However, on its own, this indicator is not enough to guide providers on the extent to which their aid is targeting to poverty and inequalities. For one, ODA to LDCs is merely a proxy in relation to the concentration of poverty and inequalities in this country grouping. Second, it does not indicate whether LDCs received aid that was proportional to their levels of poverty or inequalities or to that of other countries.

Figure 14.4. The share of DAC countries' total ODA to LDCs in 2022 was the lowest in the period analysed from 1996 forward

Share of DAC countries' total (bilateral and imputed multilateral) official development assistance to Least Developed Countries, 1996-2022



Note: The country grouping of LDCs varies based on the countries considered to be LDCs in each year.
Source: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database)*, https://data-explorer.oecd.org/.

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Measuring ODA relative to levels of extreme poverty across income groups gives a more comprehensive view

An alternative to the LDC proxy is measuring aid across DAC income groups relative to their levels of poverty, specifically by comparing shares of ODA received relative to shares of people in poverty in each group. This approach moves beyond the broad measure of the share of ODA to poorer countries (e.g. LDCs or sub-Saharan Africa) towards considering the distribution of ODA and poverty across groups. As illustrated in Figure 14.5, findings from this approach suggest that ODA, as measured by country programmable aid (CPA) received[3], was not targeting extreme poverty more in poorer countries (e.g. LDCs) than in richer ones (e.g. UMICs) in 2022. The data suggest that ODA did a better job targeting country groups that had the highest share of people in extreme poverty ten years earlier – in 2012. At that time, development co-operation was operating in a different global context that, in turn, led to different purposes for ODA (Calleja and Cichocka, 2022[10]).

Analysing these findings against the hypothesis that global shares of CPA would correlate with global distribution of extreme poverty by country grouping provides another perspective on aid targeting.[4] The LDCs would have received 33% of CPA in 2012 and 51% of CPA in 2022, while the data show little alignment: they received 40% of CPA in 2012 and 34% in 2022. LMICs on the other hand received less CPA than their share of extreme poverty in 2012 and a higher share relative to their share of extreme poverty in 2022. At the same time, while UMICs' relative share of extreme poverty dropped from 16.2% in 2012 to 4.7% in 2022, they received more aid than their share of people in extreme poverty would imply in both years. While the influx of aid to Ukraine (USD 23.7 billion from all official providers) may have partly contributed to the finding in 2022, the data in 2019 also suggest a misalignment: LDCs accounted for 49% of people in extreme poverty in 2019 and received 44% of CPA, while LMICs accounted for 45% but received 41% of CPA. Meanwhile, 5.5% of the world's extreme poor in 2019 were in UMICs, which received 14% of CPA.

Testing these relationships using the multidimensional poverty indicator produces the same findings. Based on the latest available data for each individual country, 48% of people in multidimensional poverty live in LDCs, 44% live in LMICs and 8% in UMICs. Both LMICs and UMICs received a larger share of CPA than their share of multidimensional poverty would imply in 2022, and LDCs received a lower share, across DAC income groups.

Wealthier countries' ability to pay for social services buttresses the case for targeting ODA to LDCs, where it can have a greater impact in filling financing gaps and helping the poorest.

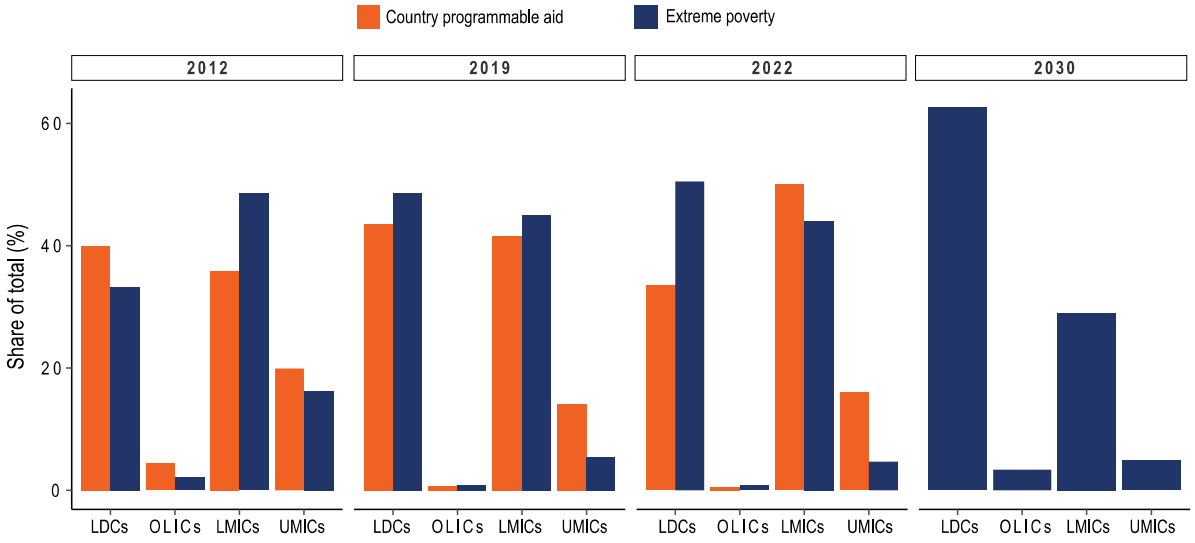
Figure 14.5 further suggests that current aid targeting is overestimating extreme poverty in MICs and underestimating it in LDCs and LICs. Additionally, many MICs have the ability to raise sufficient revenue to finance social sectors that address poverty and inequalities, though political and technical constraints explain why some MICs may not do so (Manuel et al., 2020[21]). Countries' response to the COVID-19 pandemic offers an illustration: to mitigate the pandemic's impacts in 2020 and 2021, UMICs spent 2.5% of their gross domestic product (GDP) on social protection and labour programmes while LMICs spent 1.7% and LICs spent 1.3% of GDP (Gentilini et al., 2022[22]). Indeed, in some of the largest UMICs, governments' fiscal support to households mitigated the impact of the pandemic on poverty and even led to reductions in poverty in some cases (World Bank, 2022[23]). Wealthier countries' ability to pay for social services buttresses the case for targeting ODA to LDCs, where it can have a greater impact in filling financing gaps and helping the poorest.

Aid in MICs

At the same time, the findings should not discount the value of aid to MICs for poverty and inequalities reduction. They accounted for 55% of the world's extreme poor in 2024[5] (World Bank, 2024[24]). Inequalities are also persistent challenges in MICs, highlighting the need for a balance between investments in poverty and inequality objectives (UNU-WIDER, 2023[16]). Fragile contexts are also increasingly middle income, underscoring the multidimensional challenges to their development beyond national wealth (OECD, 2022[25]). Aid in MICs can also address important development priorities or pockets of poverty, particularly among vulnerable populations such as refugees or other populations that are the furthest behind (Kenny, Dissanayake and Plant, 2020[26]; OECD, 2023[27]; OECD, 2019[12]). These findings highlight the value of additional work within the DAC to clarify the role of aid in MICs, a recommendation first presented in the High-Level Panel report for the DAC in 2017 (OECD DAC, 2017[28]).

Figure 14.5. Aid allocations relative to the global distribution of extreme poverty suggest that in 2022, providers underestimated levels of extreme poverty in LDCs and overestimated them in LMICs and UMICs

Share of country programmable aid from all official providers and share of people in extreme poverty by DAC income group, 2012, 2019, 2022, and 2030 (projected)



Notes: The share of aid for each DAC income group (based on the DAC List of ODA Recipients) is its share of total CPA; extreme poverty is the number of people in extreme poverty in the DAC income group as a share of the total number of people in extreme poverty. Poverty figures are based on available estimates in the World Bank's Poverty and Inequality platform (March 2024 vintage), as well as World Bank staff estimates for projections of extreme poverty up to 2030.

Sources: OECD (2024[29]), *Creditor Reporting System (database)*, https://data-explorer.oecd.org/; *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/ and World Bank staff estimates.

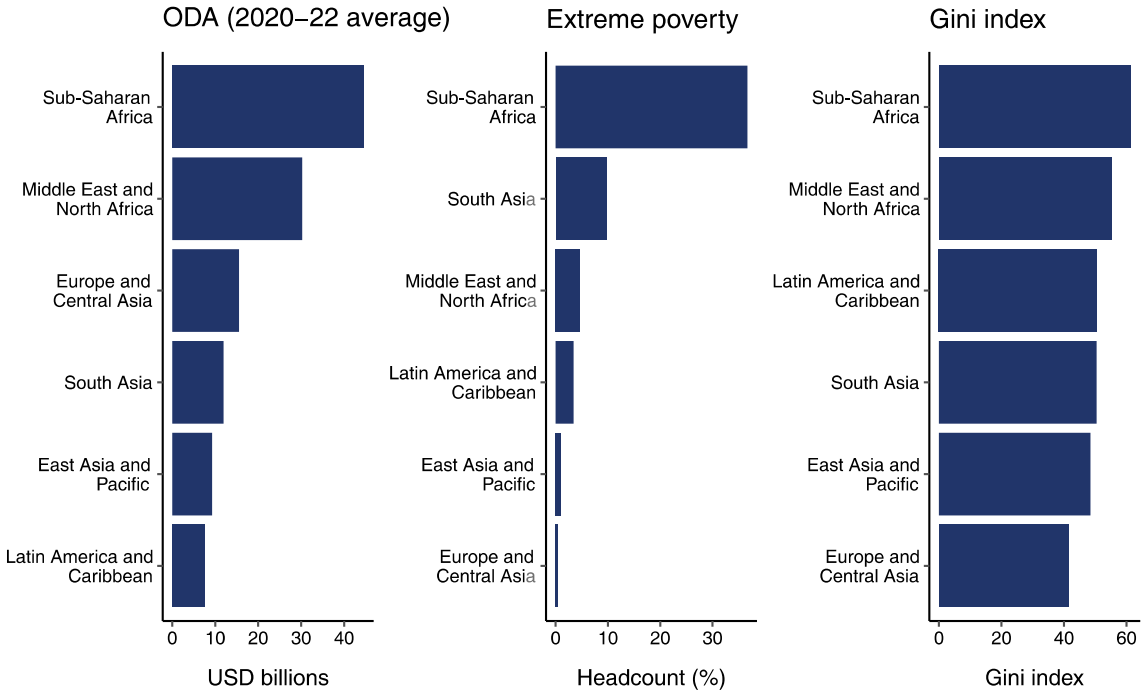
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Regional allocations suggest aid prioritises poverty and inequalities hotspots, such as sub-Saharan Africa, with some gaps

Another way to assess the targeting of ODA is to compare ODA allocations across regions. This approach shows that providers collectively allocated the biggest share of their ODA (2020-22 average) to sub-Saharan Africa, where poverty and inequalities are most heavily concentrated (Figure 14.6). However, it does not show whether sub-Saharan Africa received levels of ODA that were proportional to its levels of poverty and inequalities, or how ODA to sub-Saharan Africa compared in this regard with ODA to other regions. The regional comparison also highlights an additional challenge: the poorest regions are not necessarily places where inequality is high, and apart from sub-Saharan Africa, bilateral ODA allocations did not align with a region's level of needs as defined by poverty and inequalities. South Asia, for instance, has a higher rate of extreme poverty than other regions but received less ODA in terms of volume. This finding is driven by India, which has the largest number of people in extreme poverty worldwide but is not among the top recipients of net ODA. Similarly, the Latin America and Caribbean region received a lower share of ODA than other regions yet has the third-highest rate of inequality after sub-Saharan Africa and Middle East and North Africa. These comparisons broadly illustrate the challenges in optimising ODA allocations and the potential trade-offs between a poverty and an inequality focus. The share of ODA unallocated by region is also rising and increased from 29.5% in 2012 to 38.4% in 2022, which further assesses aid targeting across regions difficult as these allocations are multi-regional or global in nature.

Figure 14.6. Providers are allocating their ODA to sub-Saharan Africa, where poverty and inequalities are most concentrated, but ODA to other regions does not align as well with vulnerabilities

Official development assistance (2020-22 average), extreme poverty headcount, and Gini index, by World Bank region



Notes: ODA to each region shows the average of aid allocated to all countries in the region (using World Bank country groupings) from 2020 to 2022. While regional aid is included based on an indicative mapping between OECD regional codes and World Bank regions, a perfect correspondence between these two code lists is not possible. Further details on this indicative mapping are available upon request.
Sources: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database),* https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/; UNU-WIDER (2023[16]), *World Income Inequality Database (WIID). Version 28*, https://doi.org/10.35188/UNU-WIDER/WIID-281123.

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Sectoral allocations: potential for improving indicators for better targeting

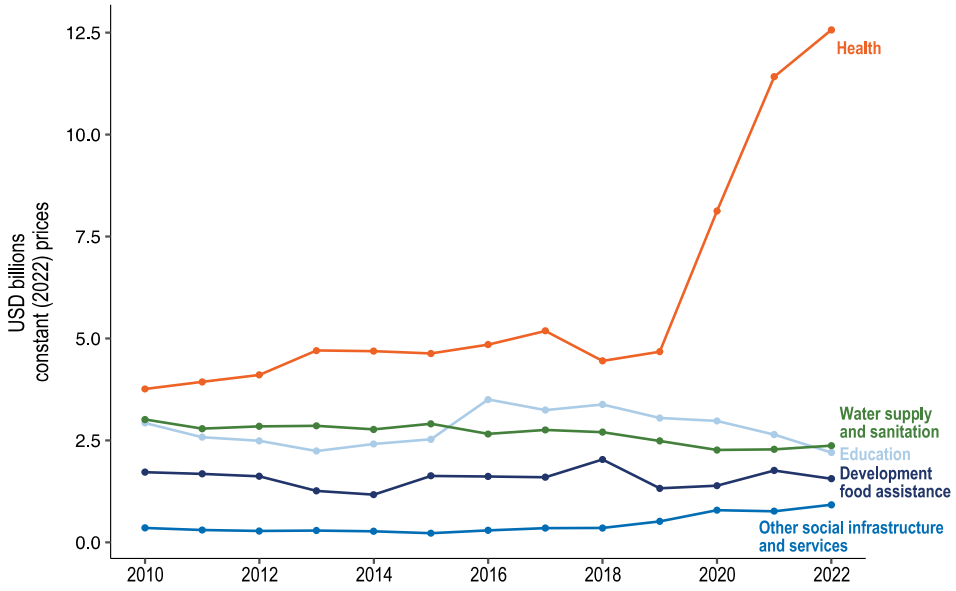
The UN Sustainable Development Goal (SDG) indicator framework also provides a basis for measuring ODA to poverty and inequalities, specifically through SDG 1.a.1.[6] The OECD is the custodian agency of this indicator, which allows for a disaggregated analysis of each provider's allocation to key sectors that matter for reducing poverty and inequalities. It thereby provides insight into how ODA can be spent better for these objectives. Though the indicator's definition is too narrow to sufficiently capture the extent of ODA's contribution to reducing poverty and inequalities, it is an important part of a broader framework of measurement. For example, the indicator could be broadened to include sectors such as social protection and justice, as well as to include concessional loans rather than only grants in its measurement.

Using this indicator, 9.5% of DAC members' bilateral ODA in 2022 (USD 19.6 billion) went to grants for poverty-reducing sectors, down from a historical high of 11.5% in 2021 and consistent with the average from 2012 to 2022. Analysis across specific sectors shows a growing concentration of ODA grants to health services since the start of the COVID-19 pandemic, with ODA to basic health services within the health sector increasing by 169% from 2019 to 2022. ODA to basic education and to water supply and sanitation

declined by 27.9% and 4.7%, respectively, over the same period while other poverty-reducing sectors experienced modest increases (Figure 14.7). These trends highlight the balancing act inherent in targeting ODA to both poverty and inequalities. While investments in health were undoubtedly important to help countries respond to the pandemic, such a concentration in this sector risks fostering aid dependency and undermining the resilience of health systems (OECD, 2023[30]); additionally, corresponding declines in other sectors could be a concern for specific strategies that aim to address both poverty and inequalities. Increasing ODA to health while decreasing it for education is a prime example of a potentially self-defeating trade-off given the links between investments in human capital formation and reductions in intergenerational poverty and inequalities (Collin and Weil, 2018[31]; OECD, 2023[3]).

Figure 14.7. DAC members have concentrated their bilateral aid to poverty reduction on health services since the pandemic

Official development assistance disbursements from DAC members to poverty reduction, 2010-22



Note: ODA to poverty reduction is defined as ODA grants to basic social services (basic health and education, water supply and sanitation, multisector aid for basic social services) and development food aid. For further detail, see https://unstats.un.org/sdgs/metadata/files/Metadata-01-0a-01.pdf.
Source: OECD (2024[29]), *Creditor Reporting System (database)*, https://data-explorer.oecd.org/.

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Testing a new approach for measuring ODA targeting of poverty and inequalities

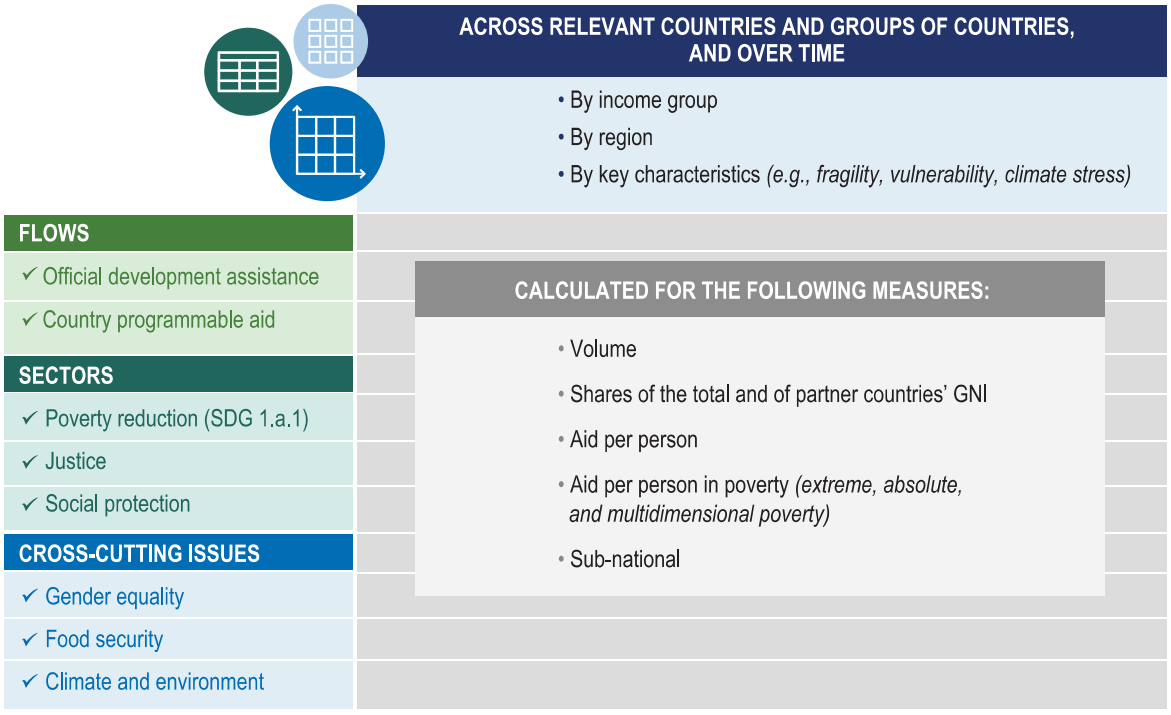
To address and overcome the limitations of current proxies and measures, this section proposes and tests a new approach built around a coherent set of indicators, with the objective of allowing a better understanding of the extent to which ODA targets poverty and inequalities – and how it can do this better in the future. The list of indicators is not exhaustive; rather, it is intended as a contribution to an ongoing conversation about measuring aid targeting in forums such as the DAC, the OECD-DAC Community of Practice on Poverty and Inequalities and other international initiatives. The discussion here is therefore a starting point to reach a common standard that can guide better allocation, monitoring and accountability.

The novelty of this method is its combination of statistical presentations of ODA with poverty and inequalities indicators in a way that can inform policy discussions on the targeting of ODA. It aims to balance the measurement of ODA's contribution to poverty and to inequalities, as these are complementary but distinct objectives. It therefore uses distinct measures for these objectives rather than conflating them. At the same time, as ending poverty and inequalities is a linked-up mission, ODA has a vital role in tackling them together (Seery and Seghers, 2019[32]).

It includes the following key features (Infographic 14.1):

- Comparisons across key sectors and country groups: Analysing ODA and CPA overall, as well as to key sectors and thematic areas that affect poverty and inequalities across groups of countries. Despite its potential drawbacks, a sectoral and thematic approach to measuring aid targeting has some important advantages: it is scalable to different policy objectives and vulnerable demographic groups, comparable across providers, and capitalises on the level of detail provided in the OECD's database on aid activities.
- Demographic characteristics of partner countries: Assessing ODA allocation per person and per person in extreme or absolute poverty.[7] These measures adjust for the size of the population in partner countries, as well as the number of people in extreme or absolute poverty and therefore in greatest need of aid, thereby enabling for a disaggregated understanding of aid targeting that facilitates reliable comparisons across countries or groups of countries.
- Sub-national targeting: Opening the door to measure aid targeting within countries at the sub-national level. This perspective can help address an important limitation in current approaches that measure aid targeting across countries but not whether the aid reaches the poorest within countries.

Infographic 14.1. More comprehensive framework for measuring aid targeting in relation to poverty and inequalities



The sectors included in the framework as shown in Infographic 14.1 reflect key priorities identified by DAC members, international policy commitments and other relevant sectors that merit further consideration in

an analysis of poverty and inequalities[8] (OECD, 2022[33]). The justice sector,[9] for example, merits further analysis given recent research on the links between justice, inclusive growth, and the reduction of poverty and inequalities worldwide (OECD/Pathfinders for Peaceful, Just and Inclusive Societies, 2023[34]; OECD, 2022[25]). Another example is food security,[10] reflected most prominently in the Brazilian G20 Presidency's call for a global alliance against hunger and poverty (G20 Brasil 2024, 2024[35]).

The following subsections show findings from testing the framework and investigating whether its measures can better guide the allocation of ODA to poverty and inequalities and therefore be developed by DAC members.

Test 1: Geographic allocations according to per capita levels of extreme poverty

The analysis in this section focuses on extreme poverty in consideration of the ambition of SDG 1.1 to eradicate extreme poverty for all people everywhere. Extreme poverty is still prevalent, and as a result of recent crises, the number of people living in extreme poverty has increased (Castaneda Aguilar et al., 2024[20]). At the same time, as shown in Chapter 2, even if extreme poverty is eradicated, at least a billion people would still be living in absolute poverty. Additionally, even countries with low levels of extreme poverty could face high inequalities. Therefore, where relevant, the framework also allows for an analysis of aid targeting to higher poverty lines and in support of addressing inequalities. The following discussion draws insights from measuring aid per person in extreme poverty. First, disaggregated groups of LDCs are compared with UMICs and LMICs and aid to LICs is compared with aid to MICs (Figure 14.8). Second, a comparison is made across provider groups, including multilateral versus bilateral providers, rather than by aid overall, which indicates that certain providers may target their aid better than others (Figure 14.9).

Historically, the LDCs have received a larger volume of ODA (including concessional outflows from multilateral organisations) than LMICs or UMICs (Figure 14.8). 2022 was an exception due to the influx of ODA to Ukraine, which is an LMIC. Additionally, when allocations are tracked and measured using ODA per person, the LDCs have also generally received more ODA than LMICs or UMICs. However, the finding reverses when measuring ODA relative to the global distribution of extreme poverty and using ODA per person in extreme poverty. In 2022, LDCs received about six times more aid per person than UMICs. UMICs, however, received three times more ODA per person in extreme poverty than LDCs. Similarly, LDCs received twice more ODA per person than LMICs, but LMICs received 1.3 times more ODA per person in extreme poverty than LDCs.

In 2012, however, LDCs received more ODA per person in extreme poverty than UMICs or LMICs. This finding is in line with the analysis of the distribution across income groups of CPA relative to extreme poverty, which indicated that it targeted extreme poverty more closely in 2012 than in 2022. From 2012 to 2022, ODA per person in extreme poverty jumped by 471% in UMICs and 218% in LMICs but increased only modestly in LDCs (by 12%) (Figure 14.8). Yet over the same period, the volume of ODA and concessional flows to UMICs and LDCs rose at similar rates (26% and 31%, respectively), while increasing by 120% to LMICs, based on countries that were in a given DAC income group at that time.[11]

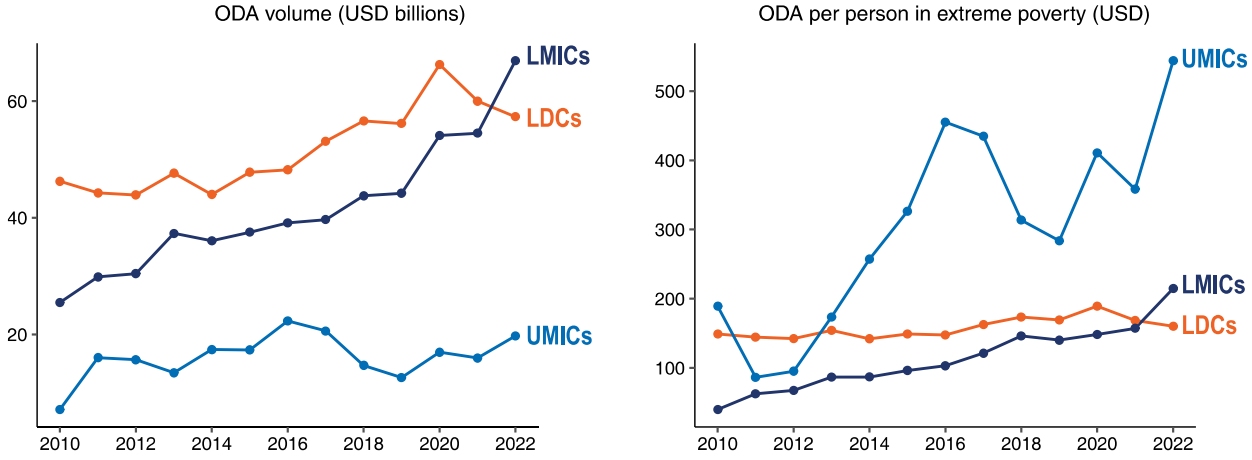
> ...should DAC members decide to target aid more explicitly to extreme poverty, that is to allocate according to per person in extreme poverty, then current ODA would need to be re-allocated.

Therefore, the different growth rates of ODA per person in extreme poverty reflect the number of people in extreme poverty increasing in LDCs (by 16%) but declining in LMICs (by 31%) and UMICs (by 78%) over time, with allocations not having adapted to this change. For LDCs and UMICs to receive equal levels of ODA per person in extreme poverty in 2022, there would need to be a trade-off: ODA to UMICs would

have to be reduced by two-thirds and that entire amount reallocated to LDCs. Therefore, should DAC members decide to target aid more explicitly to extreme poverty, that is to allocate according to per person in extreme poverty, then current ODA would need to be re-allocated. The general finding on ODA per person in extreme poverty also holds when assessing ODA targeting for absolute poverty. In 2012, LDCs received twice as much ODA per poor person than did UMICs; ten years later, in 2022, UMICs received twice as much per poor person than LDCs. Therefore, across both poverty lines, UMICs received more aid than LDCs when adjusting for the number of people in poverty.

Figure 14.8. While LDCs have received a greater volume of ODA than LMICs or UMICs historically (except in 2022), ODA per person in extreme poverty has grown significantly in UMICs but only modestly in LDCs over time

ODA from all official providers, volumes and per person in extreme poverty, Least Developed Countries, lower middle-income countries, and upper middle-income countries (DAC income groups), 2010-22



Notes: Group aggregates are calculated using an average of aid per person in extreme poverty across all countries in the group (for which data are available), weighted by the number of people in extreme poverty. Data on extreme poverty are unavailable for Saint Helena, Montserrat, Niue, and Wallis and Futuna, all of which are UMICs in the latest DAC List of ODA Recipients. The composition of DAC income groups varies across years, based on the countries in each group in each year.

Sources: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/.

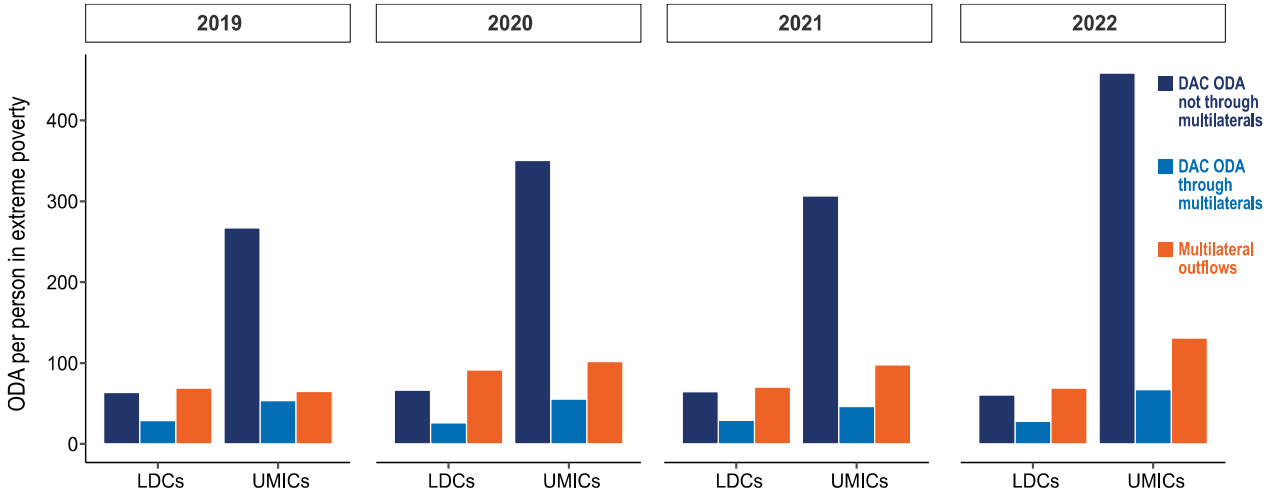
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Allocations to and through multilateral organisations

Measured as per person in extreme poverty, outflows from multilateral organisations also did not target LDCs over UMICs in recent years, with the exception of 2019 (Figure 14.9). Nonetheless, their targeting has systematically been more pro-poor than that of bilateral providers. Bilateral ODA channelled through the multilateral system was also more pro-poor than bilateral ODA channelled in other ways. This finding highlights the importance of the multilateral system in the mission to end poverty and inequalities, a theme that is explored further in the forthcoming OECD Multilateral Development Finance Report 2024.

Figure 14.9. Aid per person in extreme poverty from and through multilateral organisations did not target LDCs over UMICs, except in 2019

ODA per person in extreme poverty, least developed countries and upper-middle income countries (DAC income groups), 2019-22, based on DAC countries' ODA earmarked through multilateral organisations, DAC countries' ODA not earmarked through multilateral organisations, and outflows from multilateral organisations



Notes: Group aggregates are calculated using an average of aid per person in extreme poverty across all countries in the group (for which data are available), weighted by the number of people in extreme poverty. Data on extreme poverty are unavailable for Saint Helena, Montserrat, Niue, and Wallis and Futuna, all of which are UMICs in the latest DAC List of ODA Recipients. The composition of DAC income groups varies across years, based on the countries in each group in each year.

Sources: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/.

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Across World Bank income groups

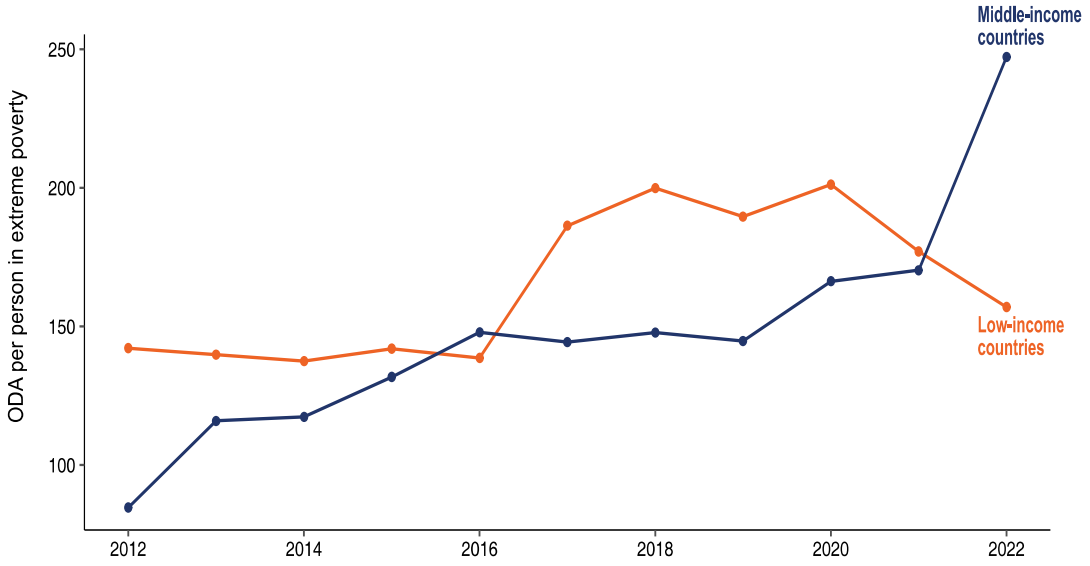
Tracking ODA per person in extreme poverty across World Bank income groupings shows divergence over the last ten years. In 2012, LICs received 1.8 times more ODA per person in extreme poverty than MICs. Ten years later, in 2022, MICs received 1.6 times more ODA per person in extreme poverty than LICs (Figure 14.10). This shift can partly be explained by crisis responsiveness of ODA:

- Ukraine received a significant volume of ODA in 2022 (USD 28.7 billion) but had a very low number of people in extreme poverty (less than one million people). However, the data suggest that the increase of ODA to Ukraine in response to Russian aggression does not entirely explain the finding.
- Extreme poverty rose worldwide after the COVID-19 outbreak; by 2022, it had declined to pre-pandemic levels in MICs but not in LICs (Yonzan, Gerszon Mahler and Lakner, 2023[36]). Meanwhile, ODA to MICs increased by 66% from 2019 to 2022, while ODA to LICs declined by only 10% over the same period.
- At the absolute poverty line, LICs have historically received higher ODA per poor person than MICs. The gap, however, has been shrinking: LICs received almost three times more ODA per poor person than MICs in 2012 but only 1.2 times as much per poor person in 2022.

These findings suggest that ODA has not adapted to the geography of poverty after the outbreak of the COVID-19 pandemic, particularly extreme poverty.

Figure 14.10. ODA has yet to adapt to the geography of poverty post pandemic

Total ODA per person in extreme poverty, low-income countries and middle-income countries (World Bank income groups), 2012-22



Notes: Group aggregates are calculated using an average of aid per person in extreme poverty across all countries in the group (for which data are available), weighted by the number of people in extreme poverty; data on extreme poverty are unavailable for Saint Helena, Montserrat, Niue, and Wallis and Futuna. Income groups are based on World Bank country groupings.
Sources: OECD (2024[4]), *Aid (ODA) disbursements to countries and regions [DAC2A] (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/; World Bank (2024[18]), *World Bank Country and Lending Groups*, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

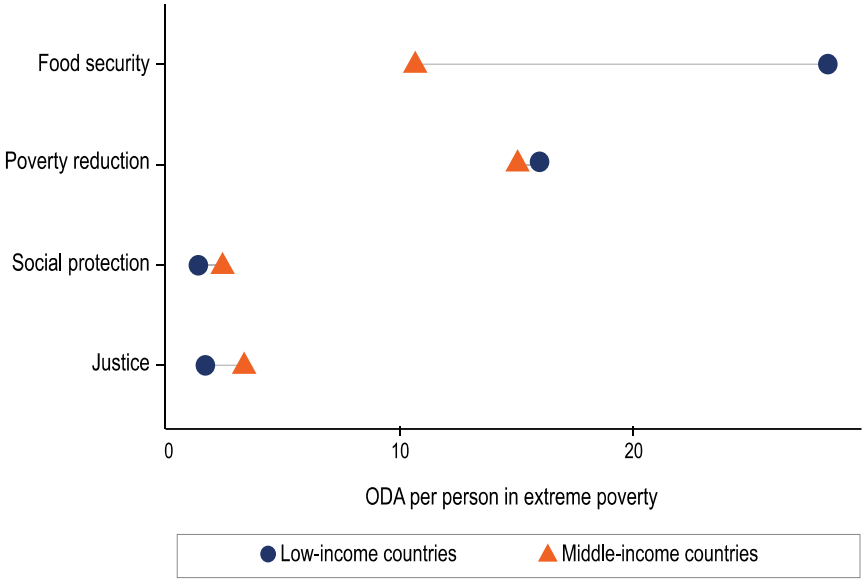
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Test 2: Allocations to poverty-focused sectors relative to per capita poverty levels

A sectoral approach to measurement can redirect attention to opportunities for win-win outcomes rather than trade-offs. Certain sectors – chiefly food security, justice, poverty reduction (basic social services) and social protection – matter more than others for poverty and inequalities reduction. Overall, these four sectors received only 19.5% of DAC members' bilateral ODA in 2022. Tracking allocations by geography found that LICs received more DAC bilateral ODA than MICs per person in extreme poverty in only two of these sectors: food security and poverty reduction (Figure 14.11). In 2022, LICs received almost three times more food security ODA per person in extreme poverty than MICs. LICs also received slightly more aid per person in extreme poverty for poverty reduction than MICs. Nevertheless, the gap between LICs and MICs in this regard has narrowed since 2012. Tipping the balance back to favour LICs more significantly will be important to ensure that aid in the green transition continues to benefit poverty- and inequality-reducing sectors in the poorest countries.

Figure 14.11. DAC members' bilateral ODA to food security and poverty reduction sectors, measured as aid per person in extreme poverty, targeted low-income over middle-income countries in 2022

DAC members' bilateral ODA per person in extreme poverty, low-income countries and middle-income countries (World Bank income groups), 2022, across food security, poverty reduction, social protection, and justice sectors



Note: ODA to social protection is defined using the OECD DAC sector code 16010, "Social protection".
Sources: OECD (2024[29]), *Creditor Reporting System (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/.

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Test 3: Inequality-focused ODA

As discussed, the pandemic ushered in shifts in ODA allocations by sector, with more aid concentrated in the health sector and aid declining, or only modestly increasing, to other sectors associated with poverty reduction (Figure 14.7). The picture shifted as well for aid to specific inequality-reducing sectors, namely social protection and justice, in terms of volume and aid per person in extreme poverty in different country groupings (Figure 14.12). Historically, these sectors have received a low share of DAC bilateral ODA – 1% for social protection and 1.0-3.5% for justice – compared with sectors such as health (9-14%) and education (5-8%). Another indicator of a inequality-focused ODA – aid to gender equality and women's empowerment – also suggests a declining focus.

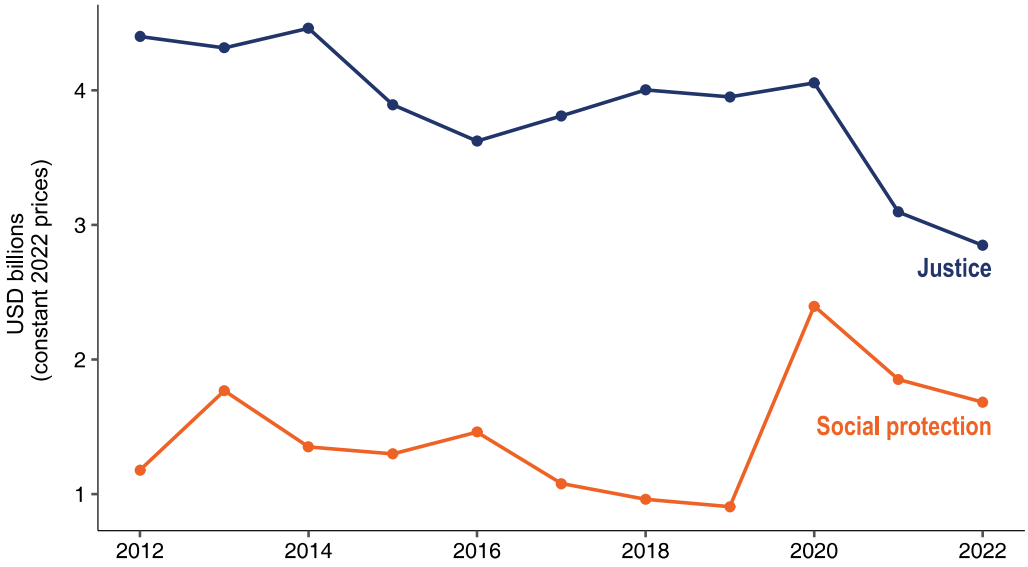
Social protection and justice

In response to the COVID-19 pandemic, providers nearly tripled the volume of their ODA to social protection from 2019 to 2020, with social protection as a share of DAC members' bilateral ODA rising from 0.6% to 1.6% of the total. From 2020 to 2022, such ODA declined by almost a third but was still higher than pre-pandemic levels. This suggests providers recognise the importance of sustained investments in social protection, though their reduced investments since 2020 are a cause for concern. Additionally, the bulk of the increase from 2019 to 2020 was concentrated in three providers: France, Germany, and the European Union Institutions, in descending order.

On the other hand, ODA to justice declined from 3.3% of total aid in 2012 to 1.4% in 2022, with declines in volume each year from 2018 to 2022. This trend indicates a missed opportunity for providers to address important drivers of inequality, particularly horizontal inequalities, with their aid (OECD, 2022[25]).

Figure 14.12. DAC members' bilateral ODA to social protection and justice, already a small share of total ODA, has declined since 2020

Bilateral official development assistance from DAC members to justice and social protection, 2012-22



Sources: OECD (2024[29]), *Creditor Reporting System (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/.

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Gender equality and women's empowerment

Overall, the focus of DAC members' aid to gender equality and women's empowerment is declining. After consistently increasing in volume and as a share of DAC members' bilateral allocable ODA over the years, gender focused aid dropped from 45% of the total from 2019-20 and 43% of the total in 2021-22 (OECD, 2023[37]). This decrease is concerning given the feminisation of poverty, particularly since the pandemic and in the face of concurrent crises (UNDP and UN Women, 2023[38]), and is inconsistent with findings from the OECD survey of donor approaches that DAC members measure their targeting of inequality principally through the lens of gender (see Chapter 12). Other OECD research explores trends in finance for gender equality, with a breakdown across sectors and thematic areas relevant to women's empowerment. Box 14.1 reviews other initiatives developed by DAC members, civil society organisations and multilateral institutions to better measure how development co-operation is targeting dimensions of poverty and particularly inequalities.

Box 14.1. Initiatives to better track development finance targeted to reducing poverty and inequalities

There are a number of initiatives underway by providers, civil society and others to measure poverty and inequalities in a more granular way and provide a deeper understanding of trends and gaps in the targeting of poverty and inequalities.

- In June 2023, the European Union Directorate-General for International Partnerships introduced the Inequality Marker (I-Marker) to "reinforce the inequality reduction effect of development interventions by assessing whether, and to what extent, inequality reduction is an objective of a donor's intervention and, therefore, how likely it will have an impact on reducing within country inequalities" (European Commission, 2023[39]).
- Sightsavers, an international non-government organisation, has developed a data visualisation dashboard on the disability and gender markers used by DAC members that draws from OECD Creditor Reporting System data from 2018 to 2022 (Sightsavers, 2024[40]). The interactive dashboard breaks down the allocation of OECD funding by disability and gender to track the use and coverage of each DAC markers. Data can be disaggregated by country, year, and score or objective. The dashboard also provides a comparative analysis of the intersection of different markers – for instance, the share of ODA marked as gender equitable that is also disability inclusive.
- UN Women has explored options for introducing disability inclusion markers to its results monitoring and reporting systems with the aim of enhancing data on development co-operation interventions that "aim to promote rights and equality for persons with disabilities" (UN Women, 2022[41]).
- With its Shandia platform, the Global Alliance of Territorial Communities aims to monitor funding allocated for and received by Indigenous peoples and local communities. The Alliance collects these data with a view to developing a simple methodology or framework that would improve reporting on and tracking of funding and could also be used by its institutions, donors, allies and partner organisations (Global Alliance of Territorial Communities, 2023[42]).

Source: Sightsavers (2024[40]), View our disability and gender markers https://www.sightsavers.org/policy-and-advocacy/ (please note: the link to the dashboard appears next to the section, "Our key policy and advocacy achievements"); UN Women (2022[41]), Disability Inclusion Markers, https://www.unwomen.org/sites/default/files/2022-01/Brief-Disability-inclusion-markers-en.pdf; Global Alliance of Territorial Communities (2023[42]), Shandia, https://globalalliance.me/shandia/#top; European Commission (2023[39]), The European Commission Inequality Marker (I-Marker), https://data.europa.eu/doi/10.2841/637400.

Test 4: Aid to global environmental objectives

Ahead of COP26, the DAC issued a joint declaration to align its aid to the goals of the Paris Agreement, including an acknowledgement of the links between tackling climate change and reducing poverty and inequalities (OECD, 2021[43]). Among other commitments in the Declaration, the DAC committed to adaptation finance for LDCs and small island developing states. From 2010 to 2018, DAC members committed more of their bilateral ODA towards mitigation than adaptation objectives, with both objectives receiving roughly equal amounts in 2019-20 and 2021-22. At the same time, LDCs received almost twice as much bilateral ODA from DAC members for adaptation than for mitigation on average in 2021-22, a higher ratio than in the years prior to the COVID-19 pandemic. Additionally, more bilateral climate adaptation ODA from DAC members went to LDCs than to UMICs or to LMICs.

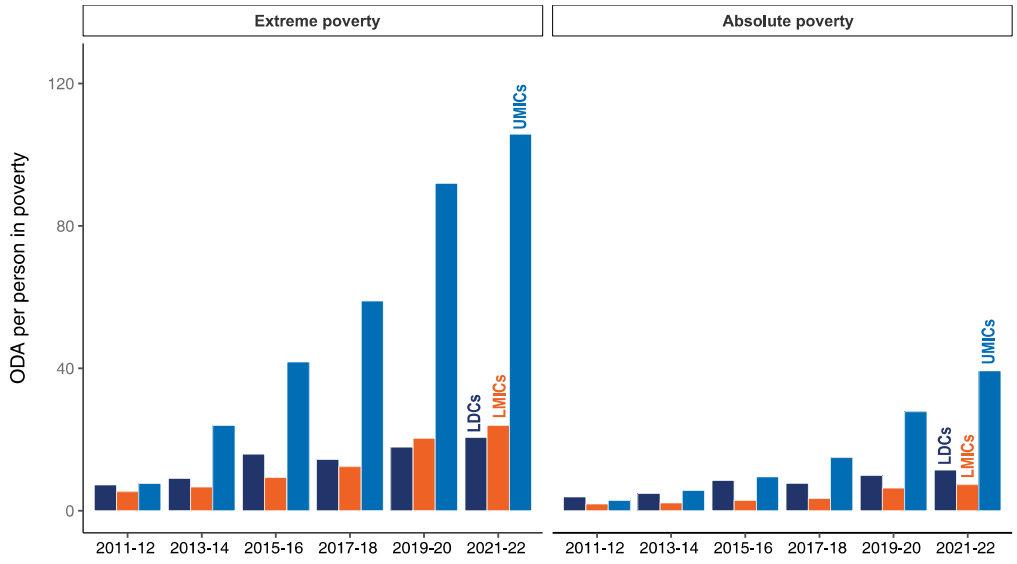
However, data on the distribution of ODA per person in extreme poverty show a different picture on the poverty and inequalities focus of this aid. Adaptation ODA has not kept up with the concentration of extreme poverty in LDCs over time. In 2011-12, LDCs and UMICs received roughly equal levels of adaptation ODA per person in extreme poverty, while LDCs received slightly more than LMICs. LDCs continued to receive more of such aid per person in extreme poverty than LMICs until 2019-2020. Meanwhile, UMICs received on average five times more adaptation aid per person in extreme poverty than LDCs in 2021-22, and LMICs received on average slightly more than LDCs (Figure 14.13). The evidence therefore suggests that in 2021-22, UMICs and LMICs received more support than LDCs to adapt to the impacts of climate change, relative to their share of the world's poorest. And yet, these LDCs are more exposed to climate change and less able to adapt to it, with the consequences especially concentrated on the poorest and most vulnerable (Georgieva, Gaspar and Pazarbasioglu, 2022[44]). These findings comparing LDCs and UMICs are consistent when measured per person in absolute poverty, while LDCs have consistently received more climate adaptation aid per person in absolute poverty than LMICs over time (Figure 14.13).

At the same time, LDCs received almost twice as much bilateral ODA from DAC members for adaptation than for mitigation on average in 2021-22, a higher ratio than in the years prior to the COVID-19 pandemic.

Climate adaptation can help address climate change, poverty and inequalities simultaneously. However, the mutual benefits are not automatic. Providers cannot assume that they are targeting poverty when they target climate. One way to show this point is to measure ODA per person exposed to extreme weather events, as set out in a pilot methodology for measuring vulnerability to climate shocks[12] described by Doan et al. (2023[45]). In 2022, more ODA went to LDCs than UMICs relative to where people exposed to extreme weather events were living (based on 2019 estimates). Using this measure, LDCs received almost seven times more ODA than UMICs but less ODA than UMICs per poor person exposed to extreme weather events. Therefore, more ODA went to poorer countries (e.g. LDCs) based on their exposure to climate events but not based on their levels of poverty. In other words, aid has targeted climate but not poverty or the intersection of climate and poverty.

Figure 14.13. DAC members' bilateral ODA for climate adaptation has not kept up with the concentration of poverty in LDCs

Bilateral official development assistance for climate adaptation from DAC members, by DAC income group, 2011/12-2021/22 (2-year averages)



Sources: OECD (2024[29]), *Creditor Reporting System (database)*, https://data-explorer.oecd.org/; World Bank (2024[15]), *World Bank Poverty and Inequality Platform (PIP) version 20240324*, https://pip.worldbank.org/.

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Though further work is needed to better define the links between ODA and climate vulnerability, these initial findings suggest that ODA is focused on fostering the green transition, but it could be more poverty and inequalities focused. This is consistent with the findings in this chapter that more ODA is flowing to wealthier countries (e.g. UMICs and LMICs) than poorer ones (e.g. LDCs) based on the distribution of poverty and inequalities worldwide. At the same time, understanding the relationships between aid, climate, poverty and inequalities requires moving "beyond the tyranny of averages" (Custer et al., 2017, p. 2[46]) to assess aid targeting at a subnational level (Box 14.2). Such spatial targeting allows for a more precise exploration of dynamics within countries and across vulnerable groups, reconciling a poverty and inequalities focus in line with the global agenda to leave no one behind (Cohen, Desai and Kharas, 2019[47]).

Box 14.2. A subnational perspective can help reconcile poverty and inequality objectives in the context of the green transition

An analysis of aid targeting at the subnational level has significant potential but faces barriers in terms of the availability of data. Such an assessment requires data on both inputs (aid) and outputs or outcomes (poverty and inequalities) at spatially disaggregated levels worldwide. Various initiatives exist to produce data on outputs and outcomes ranging from applications of remote sensing to the use of household surveys (Doan et al., 2023[45]; Parks, Bergeron and Tierney, 2016[48]). Data on aid at the subnational level, especially data from official sources, are more limited, though partner countries' aid information management systems are a source (Manuel et al., 2019[49]), as are recent unofficial initiatives to geo-reference these data for public use (see, for example, AidData (https://www.aiddata.org/geoquery) and the Geocoded Official Development Assistance Dataset initiative (https://godad.uni-goettingen.de/home/)).

These efforts have facilitated research on the determinants and effects of aid within countries. Though results are varied across studies, there is little evidence that aid systematically targets poorer areas within countries (BenYishay, DiLorenzo and Dolan, 2022[50]; Manuel et al., 2019[49]). It may even target richer areas that are not as remote as poorer ones (Briggs, 2021[51]). A comprehensive review of the literature on subnational targeting is beyond the scope of this report, though Briggs (2024[52]) offers a recent review. However, findings in the literature are largely limited to certain providers or a subset of partner countries, which makes it difficult to generalise the policy conclusions.

The majority of DAC respondents to the survey about their approaches to poverty and inequalities in their development co-operation (see Chapter 12) indicated that they have not developed systems to track aid at the subnational level but are interested in doing so. A systematic initiative to collect and publish these data comprehensively could build further momentum for this work.

Sources: Doan et al. (2023[45]), *Counting people exposed to, vulnerable to, or at high risk from climate shocks*, https://documents1.worldbank.org/curated/en/099602511292336760/pdf/IDU07639ca570f3cb048db09bf60fc2cc82df22d.pdf; Parks, Bergeron, and Tierney (2016[48]), *Foreign aid and conflict: What we know and what we need to know*, https://www.taylorfrancis.com/chapters/edit/10.4324/9781315625614-12/foreign-aid-conflict-bradley-parks-caroline-bergeron-michael-tierney; Manuel et al. (2019[49]), *Subnational Investment in Human Capital*, https://odi.org/en/publications/subnational-investment-in-human-capital/; BenYishay, DiLorenzo and Dolan (2022[50]), *The economic efficiency of aid targeting*, https://doi.org/10.1016/j.worlddev.2022.106062; Briggs (2021[51]), *Why does aid not target the poorest?*, https://doi.org/10.1093/isq/sqab035; Briggs (2024[52]), *Aid targeting*, https://doi.org/10.4337/9781800886810.00016.

Ways forward

This chapter's analysis shows providers are targeting their aid to certain crises worldwide, such as the climate crisis, the crisis arising from the COVID-19 pandemic, or the current geopolitical crisis arising from Russia's aggression in Ukraine. However, as this fast-paced crisis context has placed additional demands on development co-operation, ODA has not kept up in its business-as-usual form with the growing need to address poverty and inequalities more decisively. Additionally, current measures or proxies fall short in guiding allocations. ODA is unique in its ability to support a global redistribution of wealth by providing a concessional resource to countries that need it the most. Even absent large increases in ODA, better targeting of existing ODA could make a significant difference in reducing poverty and inequalities worldwide. The following concrete steps can shift attention to poverty and inequalities in line with ODA commitments.

Even absent large increases in ODA, better targeting of existing ODA could make a significant difference in reducing poverty and inequalities worldwide.

- **Deploy better measures of aid targeting for better monitoring and accountability**. There are different approaches to measuring the targeting of ODA to poverty and inequalities.
  - The measures analysed in this chapter can serve as a starting point for bodies such as the DAC and its Community of Practice on Poverty and Inequalities to develop a shared methodology to assess how their ODA is targeting poverty and inequalities. This initiative can be part of a broader effort to develop DAC guidance on poverty and inequalities reduction as mandated in the 2023 DAC High Level Meeting communiqué.
  - Proposed measures such as ODA per person in extreme poverty raise questions about aid effectiveness and the global distribution of aid relative to the cost of ending poverty and inequalities. Future work should explore these issues, with specific measures developed to enable an evidence-based discussion among providers.
  - There is an opportunity to explore the potential for analysis of aid within countries and make data more readily available for it. As the custodian agency for official aid statistics, the OECD can facilitate efforts to collect, curate and publish geo-referenced aid data. The OECD could also collaborate with partner institutions to pair these aid data with geo-referenced data on outputs and outcomes.
  - There is momentum to use CPA, rather than the broader ODA concept, to measure flows going to partner countries as part of long-term development co-operation arrangements. This measure is especially salient for the analysis of whether aid is targeting poverty and inequalities in partner countries.
- **Develop a toolkit to integrate poverty and inequalities considerations within aid overall and in relation to climate.** Sectors such as social protection, climate adaptation and gender equality, among others, open the door for tackling poverty and inequalities in the green transition. Providers cannot assume that investing in addressing the climate crisis or in facilitating the green transition will automatically mean that support is flowing to poorer countries or people. They should develop explicit criteria, guidelines and measures to integrate a poverty and inequalities perspective in their climate programming and vice versa. Examples are available on the OECD Tools, Insights and Practices platform and can be an avenue for peer learning, much like the Development Co-operation Peer Reviews. Further work by the DAC to define a concrete approach for targeting poverty and inequalities in members' development co-operation can revitalise the role of ODA in supporting the green transition while keeping its focus on the world's poorest and most vulnerable.

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Notes

[1] This development finance for climate and environment refers to concessional and developmental finance from official bilateral and multilateral sources.

[2] See, for example, the following studies that analyse the relationship between ODA and poverty: https://www.cgdev.org/sites/default/files/some-unpleasant-ODA-arithmetic.pdf and https://www.cgdev.org/sites/default/files/Mitchell-Hughes-Aid-Allocations.pdf.

[3] CPA is the portion of aid that providers can programme for individual countries or regions, and over which partner countries could have a significant say. CPA estimates are based on an updated, pilot methodology to the current methodology by the OECD used to publish statistics on CPA; further adjustments to this pilot methodology may be possible until the end of 2024. More details are available upon request at dac.contact@oecd.org.

[4] This share is based on income groups in the year of disbursement and on the OECD DAC List of ODA-eligible recipients, available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-of-ODA-Recipients-for-reporting-2022-23-flows.pdf. These DAC income groups are mutually exclusive as presented; therefore, the categories of OLICs, LMICs and UMICs exclude LDCs.

[5] This 2024 figure is based on projections. Among MICs, 50% of the world's extreme poor are in LMICs and 5% in UMICs.

[6] This indicator is defined as ODA grants to basic social services (basic health and education, water supply and sanitation, multisector aid for basic social services) and development food aid. For further detail, see https://unstats.un.org/sdgs/metadata/files/Metadata-01-0a-01.pdf.

[7] The author thanks Nishant Yonzan and Daniel Gerszon-Mahler, Development Data Group, World Bank for sharing data on poverty rates, including projections up to 2030.

[8] The sectors and themes in the proposed framework were identified based on extensive research by the Community of Practice on Poverty and Inequalities, desk reviews and consultations, and prior work across the Development Co-operation Directorate and DAC. The author thanks Julie Seghers, Julia Schnatz, Carolina Guerra, Isabel Davis, Danielle Mallon, Hector Moreno and José Ignacio Suarez Sarrazin for their earlier work that contributed to this framework.

[9] For the purposes of this report, ODA to justice is defined using the following OECD DAC sector codes: legal and judicial development (15130), human rights (15160), ending violence against women and girls (15180), and labour rights (16070). This approach builds on existing measures of ODA to justice such as those found here: https://odi.org/en/publications/justice-aid-update-2023/..

[10] For the purposes of this report, aid to food security is defined using the OECD DAC sector codes of school feeding (11250), basic nutrition (12240), food crop production (31161), agro-industries (32161), food security policy and administrative management (43071), household food security programmes (43072), food safety and quality (43073), food assistance (52010), and emergency food aid (72040), and any activity that targets nutrition as a principal or significant objective outside of these sectors.

[11] In contrast to other OECD publications, to provide an indication of aid targeting, this analysis uses DAC income group classifications that vary over time, rather than using a fixed list based on the latest DAC List of ODA-eligible Recipients.

[12] Estimates are available for all countries in 2019. A further subset, covering people exposed and vulnerable, is available for 75 countries representing 77% of the world's population.

15 Global citizenship education and public support in OECD countries

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Public support underpins development co-operation and taxpayer support is vital for accelerating efforts to reduce poverty and address climate change. Survey results show public backing for international development initiatives that aim to address poverty and inequality across countries. This chapter focuses on the role of global education and critical thinking and public engagement in countries providing development co-operation, to combat misinformation and to ensure that citizens have a comprehensive understanding of interconnected global issues such as poverty, inequality and climate change. Promoting global citizenship and fostering well-informed civic participation through education can cultivate an informed public discourse. This is essential for mobilizing resources and political will to achieve equitable and sustainable global transitions.

Key messages

- Surveys of public attitudes towards development co-operation have consistently found a solid core of support for public spending to reduce poverty and inequalities and to ensure a just green transition.
- Educating the public and tackling misperceptions about fighting inequality and poverty can spur action; greater public awareness can translate climate change concerns into actionable policy.
- Fostering global education, global citizenship, critical thinking and public engagement can provide the antidote to misinformation and build greater public understanding of global issues such as poverty, inequality and climate change.

Introduction

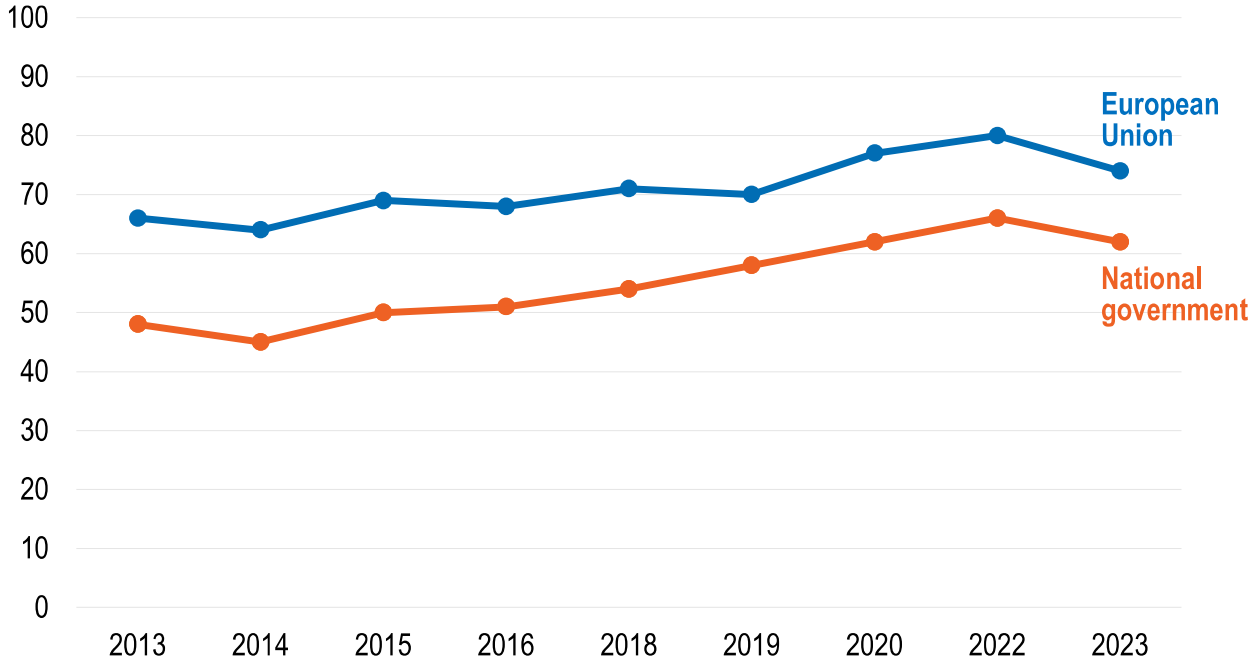
Today's global development challenges are complex and interconnected. Addressing them requires an enormous investment of public resources and political will. Both rely on sustained, strong backing from the public. This is especially true for poverty, inequality and climate action because these challenges present policy makers, politicians and taxpayers with tough choices and trade-offs. A key component of mobilising support is to build greater public understanding of the issues, stakes and importance of engaging in international development co-operation.

There is broad public support for tackling poverty, inequality and climate change

Surveys across the European Union (EU) and OECD countries reveal high support for combating poverty abroad. Support has remained consistently high over a ten-year period since 2013 and even increased over the decade (Figure 15.1). A recent Eurobarometer poll found 74% of respondents think tackling poverty in developing countries should be a main priority for the European Union. While this represents a decline of six percentage points from the previous year, support remains higher than during the 2013 to 2018 period (European Commission, 2023[1]).

This high level of support for action on tackling international inequality and poverty is consistent with research that shows high levels of trust in international organisations to tackle these issues. Available data for France, Germany and the United Kingdom also highlight strong trust in international organisations in addressing poverty. In assessing institutional efficacy in reducing poverty in poor countries, respondents believe that the United Nations and other international organisations can make the most significant impact (61% for Germany, 60% for France and 56% for the United Kingdom).

Figure 15.1. Support among EU countries for tackling poverty in developing countries



Note: Percentage of respondents who think tackling poverty should be one of the main priorities of the European Union and their respective national government.
Source: European Commission (2023[1]), *EU Citizens and Development Cooperation*, https://europa.eu/eurobarometer/surveys/detail/2952.

Public concern about social and economic inequalities is high, with almost 80% of respondents in OECD countries agreeing that economic inequality should be reduced (OECD, 2021[2]). While there may be disagreement over how this should be achieved, International Social Survey Programme polling across 26 countries reveals that 78% of people believe that inequality between countries is too high and most respondents feel angry about this (Steinmetz, Sapin and Joye, 2022[3]). Some opposition to tackling inequality can be solved with framing, for example, members of the public are more supportive of inequality when framed as "ensuring equal opportunity for all".[1]

Support for climate action is notably high. A recent study across 63 countries found that 86% believe that climate change is a serious threat (Vlasceanu et al., 2024[4]). Another study in 125 countries showed 89% desire more political action (Andre et al., 2024[5]). However, support for specific measures like carbon taxes is lower, influenced by perceptions of fairness, effectiveness and personal impact (Dechezleprêtre et al., 2022[6]). This finding underlines the fact that public support for addressing climate change cannot be separated from wider social justice concerns, such as poverty and inequalities. Research on public perceptions suggests policy makers can win support for poverty eradication and tackling inequality by tapping into public support for a just green transition.

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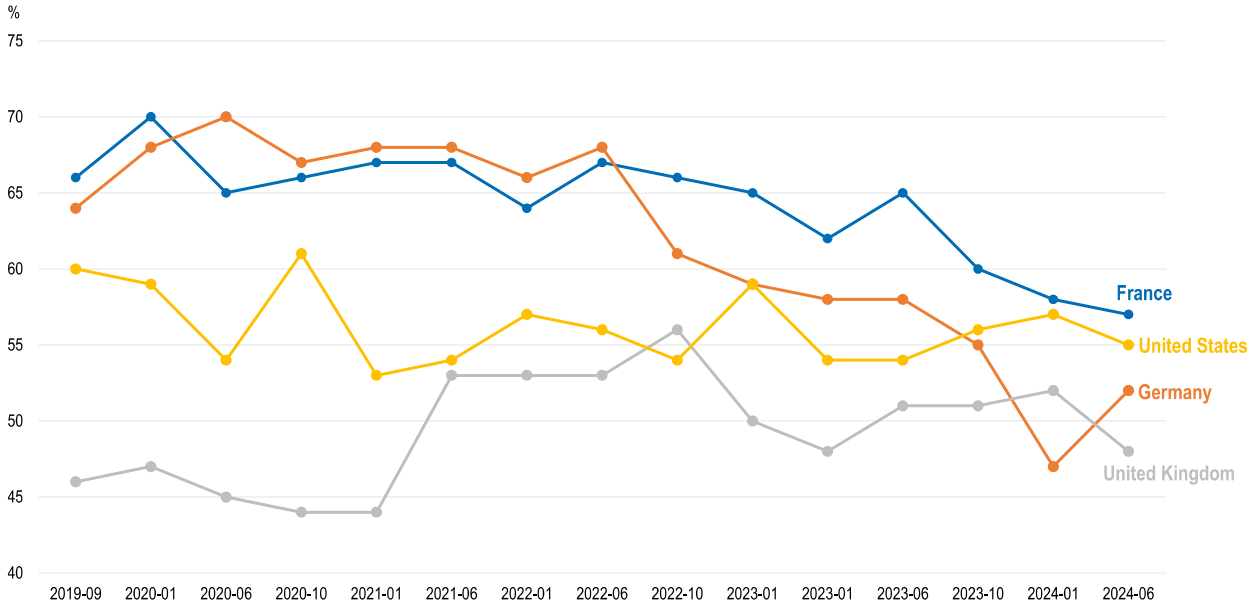
For example, when asked about the right balance of climate action versus tackling inequality in development efforts, pluralities across five European publics believe that the fight against inequality and climate change are indivisible (Harris Interactive, 2024[7]).

Focusing on youth, a 2019 Eurobarometer survey revealed many respondents felt alienated from traditional politics, yet young people are increasingly engaged in non-traditional political participation. In a European survey of 18,156 youths aged 16-30, 87% reported engaging in at least one political or civic activity, such as voting or signing a petition (Ipsos European Public Affairs, 2021[8]). Young people also cited tackling poverty and social inequality (43%) as their top priorities; followed by combating climate change and protecting the environment (39%); and combating unemployment or a lack of jobs (37%).

Public support for continued spending on official development assistance (ODA) to poorer countries is generally strong, though this varies depending on the survey. A recent study of international attitudes toward global policies found that fewer than 16% of respondents wanted their country's foreign aid reduced while 62% expressed support for increasing it, including 17% who supported an unconditional increase (Fabre, Douenne and Mattauch, 2023[9]). In fact, since the mid-1980s, polling has consistently demonstrated high levels of public support for foreign aid, though there are some variations between countries and over time, such as during economic crises (Riddell, 2007[10]).

Public opinion surveys from the Development Engagement Lab in June 2024 indicate majority support for development aid in France (57%), followed by the United States (55%), Germany (52%) and the United Kingdom (48%) (Oh, 2024[11]; Oh, 2024[12]; Oh, 2024[13]; Oh, 2024[14]). In these countries, support is notably higher among younger people, especially those aged 18-24 and 25-34, compared to older age groups. However, support for development aid has been declining since 2020, when it peaked at 70% in France and Germany and 61% in the United States, while it peaked at 56% in 2022 in the United Kingdom (Figure 15.2).

Figure 15.2. Trends in aid support in France, Germany, the United Kingdom and the United States, between September 2019 and June 2024



Notes: Percentage of respondents who think we should keep or increase current expenditure levels. Adults in France, Germany, the United Kingdom and the United States. Data are weighted to be nationally representative. Fieldwork by YouGov, June 2024.
Source: Development Engagement Lab Dashboard. Graph shown on the German (DE) Dashboard June 2024. www.developmentcompass.org.

Public perception surveys show support for development co-operation is underpinned by concerns about global poverty and inequality. However, fluctuations and a recent decline of support in some studies caution against taking this support for granted.

Public perception surveys show support for development co-operation is underpinned by concerns about global poverty and inequality. However, fluctuations and a recent decline of support in some studies caution against taking this support for granted.

Public misperceptions and knowledge gaps can influence public support

What people know, or think they know, about global poverty and inequality trends can influence whether they support public investment in solutions at home and abroad (Rosling, Rosling and Rönnlund, 2018[15]). Providing information about inequality is an important part of shifting these perceptions and creating a common ground for policy discussions (OECD, 2021[16])

Misperceptions can have serious consequences, dampening enthusiasm for investing in poverty and inequalities reduction. A 24-country study conducted just after the agreement of the Sustainable Development Goals found that the great majority did not think there had been progress in reducing extreme poverty, even though it had been nearly halved since 1990 (Lampert and Papadongonas, 2018[17]).

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The belief that aid is ineffective and gets lost to corruption, is an oft-cited reason for lack of support. Informing people about aid effectiveness can create “an optimistic starting point for further engagement”, generating momentum for greater public engagement in achieving the Sustainable Development Goals (Lampert and Papadongonas, 2018[17]).

A study of France, Germany, Spain, the United Kingdom and the United States found that providing accurate information on ODA spending led respondents to express greater preference for more government spending on ODA (Fabre, Douenne and Mattauch, 2023[18]). This supports other research findings that show that providing respondents with accurate information about foreign aid spending as a percentage of the national budget, significantly reduces support for budget cuts (Scotto et al., 2017[19]; Gilens, 2001[20]). Misperceptions about what others believe also affects support. Andre et al. (2022[21]) suggest that correcting such misperceptions would effectively increase pro-climate behaviour.

However, merely correcting such misperceptions may not automatically lead to more support for poverty alleviation or foreign aid. Research by van Heerde-Hudson (2019[22]) found that people frequently overestimate their government’s spending on ODA, often by orders of magnitude, but providing correct data does not always lead to support for increased spending.

Having informed citizens is essential for democratic participation, but public support for the fight against global poverty depends on a variety of factors and a complex web of motivations (Hudson and van Heerde-Hudson, 2012[23]). These findings provide a solid evidence base showing that encouraging deeper

knowledge and engagement with global issues, helps cultivate critical thinking and social and emotional skills such as empathy and open-mindedness.

An engaged, informed public, and deeper understanding is key to tackling poverty, inequalities and green transitions

Fostering global citizenship, critical thinking and public engagement can provide the antidote to misinformation and lack of information about the challenges and benefits of meeting global ambitions on poverty, inequalities and climate. This is also key to translating broad public support for these goals into willingness to invest public finance resources into achieving them. As noted in a recent OECD report on fighting inequality (OECD, 2024[24]) global education also helps ensure the sustainability of interventions over time.

For many years, OECD countries have developed educational programmes to promote active global citizenship, addressing global justice, human rights and sustainability challenges. Global education – a collective noun for these initiatives – has been growing and developing in OECD countries, and globally, for several decades.[2,3] It is being implemented throughout formal schooling and in universities, in non-formal education processes like youth work, and in informal learning processes, often with government support and strong multi-stakeholder involvement (McAuley and Wegimont, 2022[25])[4]. It is now widespread across education systems and many countries have national strategies designed to increase and improve this form of education to include all people, drawing on both development co-operation and national education resources (Box 15.1).

Box 15.1. Development co-operation and global education: Examples from a selection of DAC countries

Global education has been growing in many Development Assistance Committee (DAC) member countries for decades. Members have developed guiding national strategies; lead strong inter-ministerial co-operation; supported co-ordination; and provided annual and multi-annual funding for government, stakeholders and strategic initiatives. Internationally, this work is increasing in quality and network size, with a growing evaluation and research base. Some national examples from European DAC member countries (see below) are sourced from the Global Education Network Europe (GENE).

- **Belgium:** The Belgium Federal Ministry for Development Cooperation adopted a new National Strategic Note on Global Citizenship Education in Belgium during its Presidency of the European Union in 2024. It emphasises the role of global education in transforming international development co-operation – enabling citizens to understand global issues. Official development assistance supports stakeholder-led global education. BeGlobal, run by Enabel, promotes public engagement with international issues and invests in research and knowledge dissemination.
- **Czechia:** The Czech Ministry of Foreign Affairs leads a national strategy group on global education which works with stakeholders and other ministries, including the Ministry of Education, to integrate global education into everything from teacher education to school-level sustainability processes. The Ministry of Foreign Affairs recently hosted a regional roundtable for policy makers from Austria, Estonia, Latvia, Poland, the Slovak Republic and Slovenia to explore the integration of the Dublin Declaration on Global Education to 2050 into national policy and provision.
- **Ireland:** The Ministry of Foreign Affairs has a specialised unit dedicated to the integration of global citizenship education within education provision – formal, non-formal and informal. Policy makers collaborate closely with stakeholders, guided by national strategy documents. They balance funding provisions between strategic partnerships like Development and InterCultural Education (DICE) and sector-wide approaches (for example, schools and the youth sector), while also allowing for stakeholders to create initiatives. Ireland chaired the drafting of the European Declaration on Global Education to 2050, together with Luxembourg, and hosted the Dublin Congress 2022 devoted to these issues.
- **Portugal:** Led by the Portuguese Development Cooperation Agency, Camoes, Portugal is developing its third Global Education National Strategy. Like previous national strategies, it builds on the fact that global education is one of the three pillars of Portuguese Development Cooperation Policy. The process of developing, monitoring and evaluating this national strategy involves a whole-of-government and whole-of-society approach, incorporating all relevant ministries and agencies and significant stakeholder engagement.

Note: See also https://knowledge.gene.eu for a full range of European examples.
Source: GENE (2015[26]; 2017[27]; 2018[28]; 2019[29]; 2021[30]) The State of Global Education in Europe (SOGE) reports and 2022-2023 (forthcoming); GENE (2017[31]), Global Education in Belgium; GENE (2012[32]), Global Education in Ireland; GENE (2014[33]), Global Education in Portugal; GENE (2008[34]), Global Education in the Czech Republic; OECD (2024[35]), *OECD Development Co-operation Peer Reviews*, https://doi.org/10.1787/23097132; Scheunpflug and Wegimont (2024[36]), Global Education in Europe: National Histories.

Global education is designed to dispel myths, encourage critical thinking and engagement, and deals directly with issues of poverty eradication, inequality (local and global) and climate justice. It affirms values of global justice and solidarity and cultivates active global citizenship. Global education also enables civic

participation and active engagement with political debate and other vital components of democracy and is essential to countering shrinking civic space.[5]

The European Declaration on Global Education to 2050 provides a strategic framework for designing and implementing global education in European countries (Box 15.2). This declaration, agreed in November 2022, and follow-up processes are coherent with other regional and global processes such as the European Commission's DG INTPA DEAR Programme; the United Nations Economic Commission for Europe's Education for Sustainable Development Strategy; and UNESCO's 2023 Recommendation on Education for Peace, Human Rights and Sustainable Development.

Box 15.2. The European Declaration on Global Education to 2050

The European Declaration on Global Education to 2050 is a European strategy document outlining the vision and commitments of European countries and various stakeholders to promote global education.

- **The process:** Convened by the Global Education Network Europe (GENE), and led by Ireland and Luxembourg, it involved policy makers, civil society organisations, local and regional governments, academics, "global critical friends" from other regions, and international organisations reflecting the strength in support for global education in many countries.
- **Values and vision:** Global education promotes a vision of education that is raising awareness of social justices, as well as human rights, justice equality, sustainability and peace within an international context. It ensures an understanding of the global challenges and of their root causes. It values different perspectives and knowledge of all cultures, and promotes emancipatory, inclusive and participatory pedagogical practices that enable critical thinking and inspire hope. Global education empowers people to take action for social, economic and ecological transformation.
- **Implementation strategy:** GENE works with ministries and agencies in member states to strengthen global education through:
  - Supporting strategy development, reviewing policy and practices, advising on and affirming good practices, encouraging engagement with stakeholders (e.g., local and regional governments, youth, civil society organisations).
  - Reinforcing collaboration with international organisations such as the European Commission, UNESCO, the United Nations Economic Commission for Europe, and the OECD.
  - Supporting global and international processes in Asia Pacific, Latin America and Africa.
- **National commitments:** It encourages countries to develop national global education strategies, mainstream global education, and strengthen inter-ministerial co-operation and coherence. It emphasises engaging diverse stakeholders, supporting educators and developing resources for global education. Additionally, it advocates for supporting research, including marginalised communities; investing in quality, monitoring and evaluation; and fostering innovation. The declaration also encourages efforts to reach new audiences and active participation in international networks.

Source: GENE (2022[37]), European Declaration on Global Education to 2050, https://www.gene.eu/declaration.

Conclusion

Tackling poverty and inequality and the green transition require strong investments of public resources. Without broad public support, the interventions and policy actions required to address these global and local challenges will not be effective or sustainable. Measuring public support for development co-operation and investment in global goals is a first step. Engaging the public in political and civic debate, dispelling misperceptions and raising awareness of what is at stake can maintain the momentum for co-operation at the global level. Global education programmes supporting deeper understanding of global problems and engagement of global citizens, encouraging critical thinking and providing avenues for action are increasingly at the heart of education systems and can deepen critical public support for and engagement with international action towards a more just and sustainable world.

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Notes

[1] For example, a 2022 report noted that anti-poverty policies at home, often unpopular, may resonate more with the British public if they are instead framed as efforts to provide equal opportunities given "widespread public sympathy for those perceived to be denied opportunities" (Hewlett et al., 2022[38]).

[2] DAC Peer Reviews: https://doi.org/10.1787/23097132.

[3] GENE Peer Reviews: https://www.gene.eu/peer-reviews.

[4] See also the GENE knowledge platform: https://knowledge.gene.eu and the ANGEL GEL Global Education Research GEL database.

[5] For more on GENE's work in networking policy makers across Europe see: www.gene.eu. For more on research in this field, consult the work of ANGEL: www.angel-network.net.

Part II Policies and good practices to end poverty, reduce inequalities and synergies with green transitions

16 In my view: Development co-operation and climate action are fundamentally linked

Simon Stiell, Executive Secretary, United Nations Framework Convention on Climate Change

Development co-operation and climate action are fundamentally linked. They present us with both an urgent need that we cannot ignore and an extraordinary opportunity we cannot miss.

More climate action is crucial to curb the growing frequency and intensity of climate disasters, which decimate progress right across the Sustainable Development Goals. It is essential for better prepared communities and faster recovery. And more development co-operation increases resilience, underpinning the social and economic transitions already underway towards clean and accessible energy and climate resilience for all.

Acting together, climate action and development power each other up, and if we get the intersections right, we have the chance to leave no community behind, making sure that the new economic and social opportunities that spring from both are truly inclusive.

This is backed by science. As the Intergovernmental Panel on Climate Change *Synthesis Report 2023* put it, “Accelerated and equitable action in mitigating and adapting to climate change impacts is critical to sustainable development.” Reports like the OECD *Development Co-operation Report* help us build a stronger case for sustainable development and specific climate actions to work hand-in-hand. They help us understand and address knowledge gaps on the interactions between development co-operation and climate action. And they help build a stronger, wider evidence base on which policy makers and leaders from the real economy and civil society can draw.

Acting together, climate action and development power each other up, and if we get the intersections right, we have the chance to leave no community behind, making sure that the new economic and social opportunities that spring from both are truly inclusive.

Take energy access. Developing nations need more energy, both to power the modernisation of their economies and to improve living standards, for example by fully electrifying rural areas. Energy access dramatically increases opportunities for people, communities and economies – today and in the future. It means more children have adequate lighting to do homework, or microenterprises and small businesses have potential access to digital forms of finance, or digital means of reaching more customers, and receiving more secure and efficient digital payment, which benefits women in particular.

The type of energy available is key. Renewable energy – notably wind and solar – are now cheaper to build than fossil fuel plants in 85% of the world. Yet, the remaining 15% face profound structural barriers, especially regarding access to the necessary finance for this transition, and other major fiscal headwinds, such as spiralling debt crises, combined with urgent development needs, such as nutrition, clean water and sanitation, shelter, and healthcare. This is why it's so crucial for nations – together with other key institutions, particularly multilateral development banks, and the private sector – to work more closely together to deliver the finance breakthroughs needed. Doing so will give us an opportunity to both bridge the energy access gap for almost 1 billion people who still lack access to electricity while also making deeper inroads into the carbon pollution causing the climate crisis.

Which brings us to this moment, this critical decade. In 2023, my organisation – United Nations Framework Convention on Climate Change – conducted a stocktake of climate action. The results were clear: we are well off-track. We need whole-of-society and whole-of-economy action to fill the gap. Emissions must fall by 43% by 2030. At the same time we must dramatically boost climate resilience for 8 billion people, especially the most vulnerable.

At global climate negotiations in December 2023 in Dubai, all countries committed to transitioning away from all fossil fuels – and once again recommitted to keeping the 1.5°C temperature goal within reach. At negotiations in Baku in 2024, we will need to go one step further, and further delivery on the means for implementation: fit-for-purpose finance.

This means agreeing on a new global climate finance goal – a New Collective Quantified Goal as we call it – and working towards a global finance system aligned with climate action and sustainable development. Transparency is equally essential, and biennial transparency reports – due by the end of this year – will enable much better assessments of global climate progress and where more action, capacity building or funding is needed to enable stronger national climate policies.

This means agreeing on a new global climate finance goal – a New Collective Quantified Goal as we call it – and working towards a global finance system aligned with climate action and sustainable development.

Now, we need all countries to put forward investable and implementable climate plans – the new generation of nationally determined contributions – that cover every sector and all greenhouse gases, and that unlock more finance.

In all aspects of climate policy making, government leadership is crucial. But we won't succeed with a purely top-down process. The voices of those impacted by climate action and the energy transition – as well as those in the real economy, on the ground, developing solutions – all must be heard, including workers, women and Indigenous communities.

In practice, this means going far beyond giving people a voice. We need to give them a real role, putting in place the policies, regulatory framework and resources they need to take climate actions at every level. So that the transition, and indeed all our work in both climate action and development co-operation, amounts to more than words on paper, so that it amounts to real impact in real people's lives and in the economies we all depend on to survive and to thrive.

17 In my view: Human rights, not gross domestic product, must be our guiding star

Olivier De Schutter, UN Special Rapporteur on extreme poverty and human rights

The global economy, fuelled by the pursuit of growth, is hurtling us towards climate collapse. Yet even with the fires, floods and other environmental alarm bells, our approach to poverty eradication remains much the same: grow the economy first, then redistribute the wealth through social policies at home, or official development assistance overseas.

This is the time-honoured approach, despite the fact that while the world has never been wealthier, about 700 million people are still living in extreme poverty (World Bank Group, 2024[1]). Billions more lack access to the most basic of human needs such as food, water, sanitation and healthcare. In a world that is on track to have its first trillionaire within a decade but to not eradicate poverty for another two centuries, something clearly isn't working (ILO, 2021[2]; Oxfam, 2024[3]).

And this is a horrible irony that while the conventional recipe for combating poverty is increasing economic growth, people in poverty are hardest hit by the ensuing environmental destruction this growth brings about. People living in poverty are the first victims of air pollution, landslides and flooding because they are forced to live wherever they can afford housing, and they are overrepresented in the 1.2 billion jobs (40% of the world's total) that depend on healthy ecosystems (United Nations, 2020[4]; ILO, 2018[5]). How credible are poverty eradication strategies that destroy the very foundations of the livelihoods of people in poverty?

This is not to say that growth does not have an important role to play in low-income countries, where significant investment is still required for the improvement of public services. In practice however, this growth has often relied on the exploitation of a cheap workforce and the plundering of natural resources, ultimately leaving a small number of individuals in control of vast amounts of wealth (Chiengkul, 2018[6]).

It is time for a new approach – one that leads with addressing the interrelated challenges of poverty eradication and environmental sustainability, rather than seeing these challenges as an afterthought or a hoped-for by-product of increased gross domestic product (GDP).

This will require a global reckoning with what we consider "progress". Already, new alliances are emerging that were impossible to imagine even ten years ago, gradually coalescing into a counter-movement to the dominant narrative of progress. This movement sees no trade-off between poverty eradication and a liveable planet, and indeed, it is only by addressing both at the same time that we can succeed in tackling either (Raworth, 2024[7]).

The OECD itself has made an invaluable contribution to this "beyond growth" movement and the search for alternative measures of progress to GDP, commissioning in 2018 an Advisory Group on a New Growth

Narrative. As the group's report states: "For most people today, rising GDP is no longer a sufficient measure either of their own well-being or their sense of society's economic progress" (OECD, 2020[8]).

One way development co-operation actors can move this agenda forward is through supporting measures that produce a "triple dividend": reducing our ecological footprint while at the same time creating employment opportunities and improving access to the goods and services essential to the enjoyment of human rights (United Nations, 2020[4]).

> ...no trade-off between poverty eradication and a liveable planet, and indeed, it is only by addressing both at the same time that we can succeed in tackling either.

In the energy sector, for example, the shift from fossil fuels to renewable sources of energy has important job-creation potential. Spending on renewable energy produces nearly 70% more jobs than spending on fossil fuels per US dollar of expenditure. Measures to promote energy efficiency more generally will reduce energy bills for people facing poverty, thereby decreasing both the environmental impact of households and energy poverty (Chen, 2018[9]).

The same is true for the building sector, where focusing on delivering energy-efficient homes would cut energy consumption, create jobs and ensure access to decent housing; the food sector, where more sustainable agricultural practices would reduce the environmental impact of food production, create jobs and ensure access to healthy and nutritious diets; and other sectors such as transport.

These sector-specific measures would go a long way towards reconciling poverty eradication with the need to remain within planetary boundaries. They will remain insufficient, however, unless more structural changes take place to address inequality (De Schutter, 2024[10]).

As long as wealth is held by a small elite, their investment choices and lavish consumption patterns will continue to pummel the planet; since 1990, the wealthiest 1% of the world's population has been responsible for 23% of the total increase in greenhouse gas emissions. And these powerful economic actors will veto any change that might challenge the status quo they benefit from (Chancel, 2022[11]).

A radical course correction is needed. I urge the development co-operation community to prioritise the fight against inequality over the pursuit of growth. Human rights including the right to a healthy environment, not GDP, must be our guiding star.

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18 Lessons from OECD countries on just climate transitions

Shashwat Koirala, Development Co-operation Directorate, OECD

Cian Montague, Environment Directorate, OECD

The climate transition fundamentally alters patterns of production and consumption. Its viability and effectiveness depend on navigating disruptions equitably – sharing costs and benefits. This is the essence of calls for a just transition. Drawing on the OECD Horizontal Project on Climate and Economic Resilience (Net Zero+) and other OECD research, this chapter takes stock OECD countries' experiences with the just transition, how developing countries' own low-carbon trajectories may resemble or diverge from these approaches and what role development co-operation has to play in supporting a globally just transition that is tailored to each developing country context and a systematic consideration of transnational spillovers of advanced economies' own climate policies on their developing counterparts.

Key messages

- A just transition is conceptually broad and context-specific. Its benefits must be shared fairly, costs mitigated, and those negatively affected both within and between countries compensated. This increases political acceptability and makes it practically viable and resilient.
- While OECD countries' experiences offer lessons for managing within-country distributional consequences of the climate transition, fundamental differences in resources and capacity shape developing countries' policy responses.
- Ensuring a globally just transition implies that advanced economies identify and manage the spillover effects of their climate policies on developing countries.
- By respecting established principles such as national ownership and prioritising greater policy coherence, development co-operation providers can build mutual trust, enhance their climate-related development actions and provide mutually beneficial outcomes for global just transitions.

Introduction

The climate transition, much like industrialisation, automation and other economic transformations, is disruptive, fundamentally altering patterns of production and consumption. It can benefit or disadvantage different groups in society. Climate action is also indispensable for development: it both limits the potentially enormous socio-economic costs of climate change and unlocks new economic opportunities for developing countries.

The crux of the challenge, then, is how to navigate the transitionary disruptions in an equitable and just manner. This question – which developing as well as OECD countries are grappling with – has practical implications for the viability of the climate transition. Unlike other economic transformations, the climate transition is largely policy-driven (OECD, 2024[1]), and this makes public support, which is predicated on perceived equity and justice, indispensable for its success. As a concept that emerged in OECD countries, just transition has not always been considered in terms of impacts on developing countries specifically, but there is growing recognition of the need to consider justice at a global scale through the transition (OECD, 2024[2]; Wang and Lo, 2021[3]). In other words, a successful climate transition ought to necessarily be a just transition. But what does this actually imply for developing countries? [1]

While approaches vary across contexts, a just transition ensures that benefits and costs are shared fairly both within and between countries

Though just transition is widely used as a guiding principle for climate policy, there is no precise definition of it. The concept emerged from 1980s trade union activism in the United States around protecting workers in industries subject to more stringent environmental standards and has since evolved to encompass a wide range of socio-economic concerns linked to the transition to low-carbon, resource-efficient economies (OECD, 2024[2]).[2] Appetite is growing, among both developed and developing countries, for a holistic approach that considers justice at the global level.

Calls for a just transition stress the need to account for the opportunities created by this global transformation of societies and economies but also for the impacts, including on labour markets, households' economic costs and energy access. Under the rubric of just transition, however, the type of justice considered and the nature of the transition vary significantly by context (Box 18.1). How a just transition is defined also influences which stakeholders have a voice in and responsibility for the transition. For instance, guidelines provided by the International Labour Organization (ILO, 2016[4]) are primarily

addressed to policy makers and focus on labour-related issues, while the OECD Centre for Responsible Business Conduct focuses primarily on action by businesses (OECD, 2024[5]).

Increasingly, just transition is considered not only in terms of justice within countries (e.g. managing domestic labour market shifts as a result of decarbonising the economy) but also justice between countries. Policies to tackle climate change in one country frequently have impacts beyond its borders, as evidenced by the spillover effects of developed countries' actions on climate in developing countries.

Increasingly, just transition is considered not only in terms of justice within countries (e.g. managing domestic labour market shifts as a result of decarbonising the economy) but also justice between countries.

In sum, a just transition is conceptually broad and context-dependent. In practice, it encompasses the need to manage the distributional impacts of the transition, ensure benefits are shared fairly, mitigate costs, and compensate those negatively affected both within and between countries.

Box 18.1. Defining the "just" and the "transition" elements of just transition

Conceptualising a just transition implies understanding the nature of both the justice and the transition in question, and these can differ depending on the context.

Justice as a multi-faceted concept

A just transition is considered to touch on multiple dimensions of justice, including distributive (i.e. the extent to which benefits or drawbacks of transitions accrue to particular social groups, geographies, economic sectors, etc.); procedural (i.e. that the process through which transitions take place are fair, transparent and inclusive); and recognitional (i.e. that the diverse values, experiences, cultural identities and heritages of different communities are respected) (OECD, 2024[2]). Just transition is sometimes conflated with the related but distinct concepts of climate and environmental justice. There are significant overlaps, and all three concepts emphasise principles of equity and fairness, highlighting that some communities have distinct vulnerabilities and bear heavier burdens. However, there are also important differences. For instance, issues related to loss and damage from climate impacts, and environmental challenges beyond climate change, are more likely to be covered by climate and environmental justice, respectively, than by just transition (OECD, 2024[2]).

Each country's transition will be different

The nature of the transition is context-dependent, and no two national transitions will be alike. Countries' economic structures and emissions profiles necessarily influence the policies their government implements and the most affected sectors. For instance, emissions from fuel combustion comprise 43% of net greenhouse gas emissions in Latin America and the Caribbean, far below the OECD average (84%). Agriculture represents 25.0% of the region's net emissions, compared with the OECD average of 8.5%. Land use, land-use change and forestry account for 20% of the region's total emissions but are a net sink for the OECD (2023[6]). As a result, the relative impacts of the transition on sectors in each region will vary considerably. Concerns over energy access, which is also important to shaping a just transition, will appear different (though frequently still significant) in countries rich in energy resources (whether fossil fuels or renewables) and those relying more heavily on imports. Thus, the

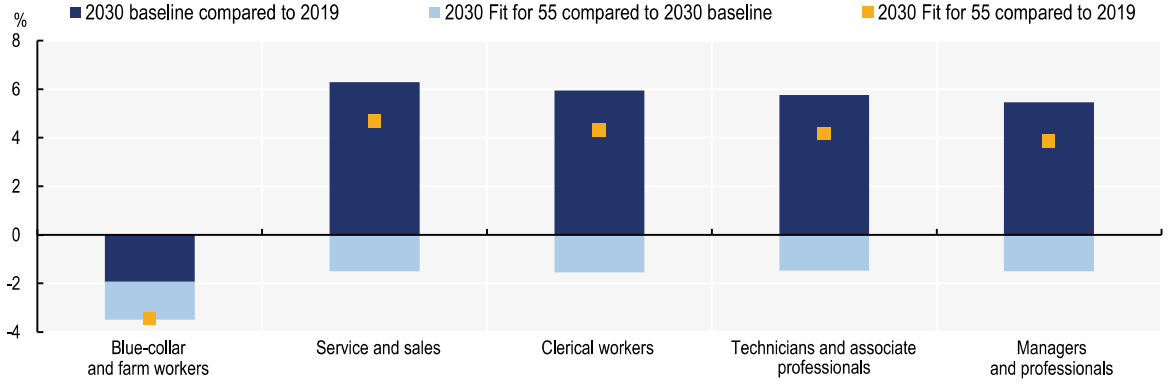
nature and approaches to the transition will differ both between developed and developing countries, and between countries in these groups, reflecting their unique experiences.

Sources: OECD (2024[2]), *Environmental Justice: Context, Challenges and National Approaches*, https://doi.org/10.1787/57616eb4-en; OECD (2023[6]), *Environment at a Glance in Latin America and the Caribbean: Spotlight on Climate Change*, https://doi.org/10.1787/2431bd6c-en.

The uneven distribution of transitionary costs and benefits is an issue in all countries, but can manifest differently in developing countries

OECD countries' experiences illustrate the various within-country distributional consequences of the climate transition, but different starting points for the transition shape developing countries' trajectories. While the overall picture is mixed, evidence from OECD countries on labour market consequences suggests the green transition results in declining employment prospects for blue-collar and farm workers (Figure 18.1), a larger reskilling burden for lower skill workers, and the concentration of the relative advantages of green occupations in high-skilled jobs (OECD, 2024[1]).[3] The effects of the transition are also regionally heterogeneous, with elevated risks in areas with a heavy concentration of emissions-intensive sectors and benefits accruing to areas endowed with the human capital (OECD, 2023[7]) and resources (e.g. critical minerals) (OECD, 2023[8]) required for the climate transition. At the household level, carbon-pricing schemes tend to be regressive in the absence of corrective measures (Immervoll et al., 2023[9]; OECD, 2024[1]). At the same time, climate policies are likely to impose higher burdens on small- and medium-sized enterprises (SMEs), as an example, because they have less capacity to comply with standards and reporting requirements[4] (OECD, 2023[10]).

Figure 18.1. Projected impact on employment of the European Union's Fit for 55 package, a set of proposals to reduce the EU's greenhouse gas emissions by at least 55% by 2030



Notes: The figure shows changes in employment in the baseline scenario from 2019 to 2030 (dark blue bars), as well as the additional changes that take place in 2030 with the Fit for 55 scenario (light blue bars). The figure also displays the overall net change in employment in the Fit for 55 scenario from 2019 to 2030 (markers).
Source: OECD (2023[11]), *OECD Skills Outlook 2023: Skills for a Resilient Green and Digital Transition*, https://doi.org/10.1787/27452f29-en.

To some extent and to varying degrees, these issues from OECD countries find an echo in developing countries, where the transition also can affect labour market outcomes unevenly. In major fossil fuel-producing developing countries, for example, the negative impacts on workers employed directly or indirectly by the energy sector are particularly significant (OECD, 2022[12]). For example, coal-mining value chains in Southeast Asia, tend to be heavily concentrated in a few regions, raising the risk that the transition will deepen regional inequalities (OECD, 2024[13]). Similarly, fossil fuel subsidy reforms, for instance in

extractive-based developing economies, can generate negative distributional effects especially for households that spend a relatively larger share of their total expenditure on energy (OECD, 2022[12]).

> The green transition results in declining employment prospects for blue-collar and farm workers, a larger reskilling burden for lower skill workers, and the concentration of the relative advantages of green occupations in high-skilled jobs.

But developing countries also face distinct issues. For example, in developing countries with nascent energy systems, the climate transition implies tackling energy poverty through renewable sources (OECD, 2023[14]), and this makes energy access an important variable for assessing inequalities. More generally, projections of the implications of the climate transition – still incomplete in OECD countries[5] – are even blurrier in developing contexts due to financing and data gaps, human capacity constraints, and governance challenges (OECD, 2023[15]). Investment in and supporting such diagnostic work is a prerequisite for designing and fostering a just transition in developing countries.

Tailored policy responses and dialogue with affected stakeholders can help weather transitionary disruptions, but limited resources and capacity constrain developing countries' options

The different dimensions along which distributional consequences materialise demand different policy responses. For labour market shifts, OECD research underscores the importance of education and skills policies as well as social protection mechanisms (e.g. wage insurance) to smooth transition costs (OECD, 2023[11]; 2023[7]; 2024[1]). Compensatory government transfers also can counteract the regressive patterns of carbon-pricing schemes (Immervoll et al., 2023[9]; OECD, 2024[1]). In addition, financial and technical support combined with standards tailored to their specific situation[6] can help ease constraints for SMEs (OECD, 2023[10]).

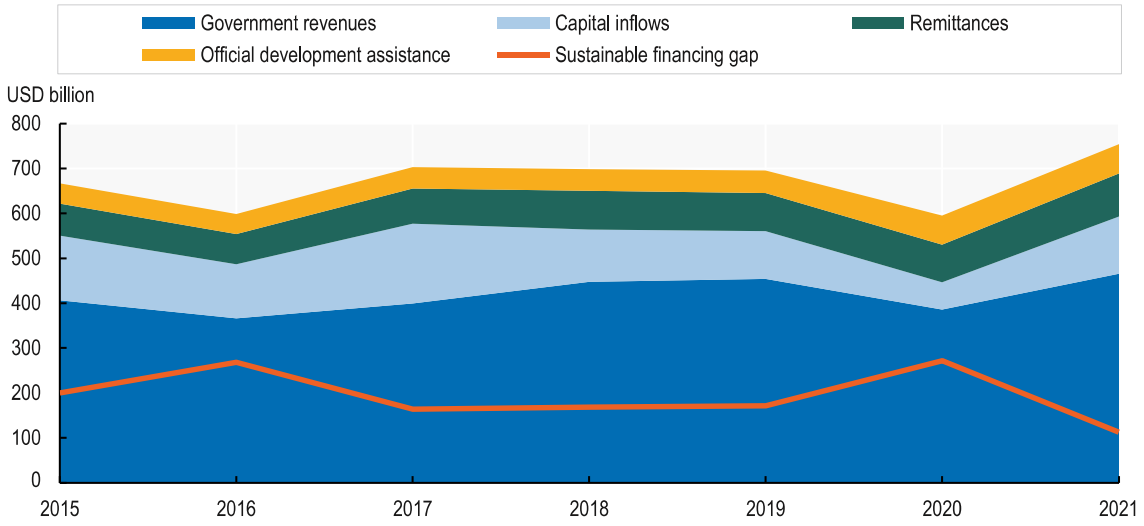
A common thread in the research is the importance of sufficiently granular information – not only about the consequences of the transition[7] but also regarding the impediments to and drivers of policy solutions. For example, in OECD countries, the uptake of training programmes remains low among workers in emissions-intensive jobs, who are at risk of job displacement (OECD, 2023[7]). Understanding the internal (e.g. motivation) and external (e.g. cost) barriers to uptake is critical in designing effective labour market policies (OECD, 2023[16]; 2023[11]). Another cross-cutting element is the importance of social dialogue. Distributional consequences create winners and losers: in this context, OECD experiences show that dialogue and inclusive decision making can alleviate resentment, build trust and strengthen public acceptance of climate policies.[8]

> Informal labour markets also limit the potential for social protection schemes to reduce transition costs. In fact, formal workers are twice as likely to contribute to and/or benefit from social protection schemes.

Fundamental differences especially in resources and capabilities affect the extent to which the policy responses of OECD economies are applicable to lower income countries. Fiscal constraints (OECD/African Union Commission/African Tax Administration Forum, 2023[17]; African Union Commission/OECD, 2023[18]) and gaps in financing in developing countries (see, for example, Figure 18.2 for the case of Africa), combined with limited government capacity (OECD, 2022[12]), tend to preclude large-scale public spending

on social protection and retraining programmes.[9] Informal labour markets also limit the potential for social protection schemes to reduce transition costs. In fact, formal workers are twice as likely to contribute to and/or benefit from social protection schemes (Kolev, La and Manfredi, 2023[19]). Lack of trust is a barrier to the green transition in non-advanced economies (OECD, 2024[20]; Cologna and Siegrist, 2020[21]). Social dialogue is also more challenging, as the participatory governance systems and deliberative processes used in OECD countries (such as tripartite dialogue mechanisms and citizen conventions)[10] are generally weaker in developing countries.

Figure 18.2. Africa's sources of finance and its sustainable financing gap, 2015-21



Note: Sustainable financing gap refers to the difference between the financing needed to achieve the Sustainable Development Goals and the availability of financial resources.
Source: African Union Commission/OECD (2023[18]), *Africa's Development Dynamics 2023: Investing in Sustainable Development*, https://doi.org/10.1787/3269532b-en.

A just transition considers between-country impacts, including managing the spillovers of OECD countries' policies on developing countries

There is increasing recognition that a just transition involves accounting for impacts not only within countries but also between countries and along international value chains. A common thread emerging in OECD work is that environmental and climate policies in developed countries frequently affect the calculus for developing countries' own transitions.[11]

Carbon leakage is an example of an important potential spillover effect. This occurs when foreign emissions increase as a result of the introduction or intensification of domestic climate policies (OECD, 2020[22]). Leakage from developed to developing countries can occur through the trade and investment channel if stricter climate policies in the developed country, unmatched by the developing country, raise costs for businesses and reduce return on investment. While ex post evidence on carbon leakage to date is limited, this spillover effect may also work to induce shifts in production – including the relocation of emissions-intensive and highly polluting industries such as chemicals, cement and steel – to developing countries in line with the so-called pollution haven hypothesis (Prag, 2020[23]). At the same time, unilateral efforts to address potential carbon leakage such as border carbon adjustments and local content requirements have potential implications for competition and international trade. Designing these complex instruments requires careful consideration to ensure that they support mitigation efforts while maintaining a level playing field and not privileging advanced economies, especially compared to those developing

countries with more carbon-intensive production processes and lower capacity to meet measurement and reporting requirements.

Other examples of climate action with possible spillover effects are the large-scale green industrial policy packages implemented in advanced economies in recent years such as the Inflation Reduction Act in the United States and the European Union's Green Deal Investment Plan. These have significant potential for stimulating low-carbon industry, and from a political economy perspective, can also be important for supporting domestic jobs and industries. However, their domestic benefits may come at a cost to developing countries, which typically lack the capacity and finance to fund such vast programmes (with the exception of the People's Republic of China, Indonesia and some other large emerging economies). There is a risk that green industrial policy packages could result in developing countries being passed over for low-carbon investment in favour of advanced economies, widening the already substantial gap in low-carbon investment (Montague, Raiser and Lee, 2024[24]). There is also a risk of developing country actors being increasingly excluded from supply chains where they are unable to meet the required standards to benefit from government industrial policy support.

There is a risk that green industrial policy packages could result in developing countries being passed over for low-carbon investment in favour of advanced economies, widening the already substantial gap in low-carbon investment (Montague, Raiser and Lee, 2024[24]).

Recent EU efforts to stop imports of timber and agricultural commodities linked to deforestation through the 2023 Deforestation Regulation met with strong criticism from some developing producer countries, which argue the regulation would be burdensome and unfair. Several developing countries raised concern about the reputational damage associated with a classification of high risk under the regulation and about spillover effects on market access and export levels. Ultimately, the European Union chose to delay implementation of this classification system (Bounds, Hancock and Beattie, 2024[25]).

By combining effective development co-operation support with coherent national policies, providers can support just transitions in developing countries

The full suite of development co-operation tools is required to support developing countries in navigating a just transition. This includes making financial resources available, accessible and affordable to partner countries; helping them establish appropriate regulatory and policy environments; and supporting the development of requisite capacities (OECD, 2019[26]). The objective should be to enable partner countries to first identify the exact nature of their climate transition, including possible frictions and opportunities, and then undertake concrete actions to execute their priorities.

...recognising the transversal nature of the climate transition, development co-operation stands to benefit from adopting a systems approach that considers the impacts of the transition holistically and promotes co-ordination across ministries and other stakeholders.

Well-established development principles can be tailored to the climate context to effectively support partner countries. As the approach to a just transition is context-specific, development co-operation efforts in this

domain need to be owned by partner countries and driven by partner country realities. The principles of aid effectiveness – namely partner country ownership, a focus on results, inclusive development partnerships, and transparency and mutual accountability (GPEDC, 2024[27]) – are already familiar and must guide climate-related development support. More broadly and recognising the transversal nature of the climate transition, development co-operation stands to benefit from adopting a systems approach that considers the impacts of the transition holistically and promotes co-ordination across ministries and other stakeholders.

Prioritising policy coherence can augment the effectiveness of development support. Climate action is a global undertaking, with consequences that transcend borders and vary within and between countries. Truly supporting a just transition for developing countries necessitates a global view. For development co-operation providers, this means monitoring and evaluating the transboundary impacts of public policies (OECD, 2019[28]) and promoting climate solutions that account for these impacts. Such efforts, especially if rooted in consultations with developing countries, can build mutual trust, ensure that providers' approaches to climate action accentuate rather than detract from their climate-related development efforts and support a just transition at a global scale.

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Notes

[1] This chapter contributes to the OECD Horizontal Project "Net Zero+: Climate and Economic Resilience in a Changing World", as part of its cross-cutting work on developing country perspectives on climate action. It draws on a focus group discussion attended by experts from the OECD, the International Energy Agency ("IEA"), and the Institut du Développement Durable et des Relations Internationales ("IDDRI"). The authors would like to thank Ida Mc Donnell, Jens Sedemund, Eleanor Carey, and Kilian Raiser for their guidance and feedback. The authors would also like to acknowledge and thank colleagues from the following OECD Directorates: General Secretariat (Joscha Rosenbusch), Centre for Entrepreneurship, SMEs, Regions and Cities (Marija Kuzmanovic, Marco Marchese), Directorate for Financial and Enterprise Affairs (Noemi Gietemann, Sophia Gnych, Iris Mantovani, Benjamin Michel), Development Co-operation Directorate (Özlem Taskin), Directorate for Education and Skills (Diana Figueroa Toledo), Directorate for Employment, Labour and Social Affairs (Katharine Mullock), Environment Directorate (Yuko Ishibashi), Directorate for Science, Technology and Innovation (Alice Holt), and the Development Centre (Luis Cecchi, Andrea Cinque, Olivia Cuq, Juan De Laiglesia, Jason Gagnon, Lahra Liberti, Arthur Minsat, Jan Rielaender). The authors would also like to acknowledge and thank IDDRI (Henri Waisman) and the IEA (Jane Cohen).

[2] Several OECD countries have formalised their commitments to just transition as part of their efforts on climate action. For instance, Costa Rica has been incorporating principles of just transition into its nationally determined contributions under the United Nations Framework Convention on Climate Change, and has made just transition a part of the country's development planning. While the implementation of this plan has been primarily led by the Minister of Environment and Energy, the process includes the participation of a wide range of stakeholders, including vulnerable groups. Similarly, in New Zealand, the Just Transitions Partnership team, part of the Ministry of Business Innovation and Employment, works across government departments and agencies and with regional partnerships to plan and navigate the transition in a fair and equitable manner, while ensuring alignment with the central government's objectives, see https://doi.org/10.1787/cbd31b13-en.

[3] For example, while high-skill workers in green occupations receive a significant wage premium, lower skill workers in green occupations are usually paid less than those in other low-skill jobs, according to the OECD's forthcoming *Employment Outlook 2024*.

[4] The higher unit cost of energy and limited access to and eligibility for green fiscal incentives also mean that the climate transition puts a disproportionate burden on SMEs. For further details, see https://doi.org/10.1787/6813bf38-en.

[5] For a discussion of data limitations in mapping the labour market implications of the green transition in OECD countries, see, for example, https://doi.org/10.1787/27452f29-en.

[6] The *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* promote proportionate and risk-based mitigation action. They guide businesses to adapt and tailor their due diligence according to their size, involvement in any adverse impact and the severity of this impact to ensure that due diligence expectations are practicable. See https://doi.org/10.1787/81f92357-en.

[7] Even among OECD countries, there is notable heterogeneity in the underlying green skill supply and hence the reallocation potential of the workforce. For further discussion, see https://doi.org/10.1787/3d5554fc-en.

[8] See, for example, OECD work, https://doi.org/10.1787/4abdba16-en, https://doi.org/10.1787/76972a4a-en and Dechezleprêtre et al. https://doi.org/10.1787/3406f29a-en.

[9] For example, only 15% of workers in Latin America and the Caribbean receive some form of training compared with 56% of workers in OECD countries. See https://doi.org/10.1787/3d5554fc-en .

[10] For example, in several European countries, tripartism is embedded in social legislation, see https://www.imperial.ac.uk/grantham/publications/briefing-papers/towards-a-just-and-equitable-low-carbon-energy-transition.php. Consultative processes also underpin phase-out strategies for fossil fuels such as coal, see https://doi.org/10.1787/21db61c1-en. Other examples of deliberative processes used in OECD countries to address climate-related issues are discussed in OECD, https://doi.org/10.1787/76972a4a-en.

[11] The inverse can also be true – for example in the case of export restrictions implemented by developing countries with large reserves of critical minerals, see https://doi.org/10.1787/c6bb598b-en. This is also discussed in a forthcoming OECD paper on trade and domestic effects of export restrictions that draws on case studies of cobalt, lithium and nickel.

19 Principles guiding welfare impacts of climate action

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Reducing the impact of climate change on poor and vulnerable households is essential to hastening poverty reduction. Policy makers can usefully adapt the hazard, exposure and vulnerability framework that is often used to assess the physical impacts of climate change to identify, measure and monitor the welfare benefits and costs of climate action. This chapter starts by discussing how climate change disproportionately affect poor and vulnerable populations and policy priorities that reduce hazards and/or vulnerability while bringing non-climate benefits. It then proposes a framework for assessing the welfare impacts of climate action and examines the three channels through which climate policy affects welfare before putting forth two principles to guide climate policy decisions: prioritise triple and double win policies and identify and minimise costs to poor households.

Key messages

- Climate change disproportionately affects poor and vulnerable people whose livelihoods often depend on natural resources and whose lack of access to savings, credit and insurance makes hazards more costly.
- Policies that address climate hazards or reduce exposure and vulnerability and bring non-climate benefits for poor and vulnerable people – so-called double or triple wins – should be prioritised.
- Addressing the trade-offs inherent in climate policies requires a nuanced understanding of the diverse impacts that these policies can have across different populations and time horizons. While the long-run benefits are clear, it is important to measure and manage them and design compensatory actions to ensure an equitable transition.
- Development co-operation actors play a crucial role in fostering equitable and sustainable transitions. By prioritising strategies with multiple benefits and monitoring and compensating trade-offs as much as possible, achieving a prosperous, equitable and resilient future is within reach.

Poverty reduction and climate change are inextricably linked

Climate change disproportionately impacts poor and vulnerable populations. Poor households often rely on natural resources for their livelihoods, which makes their incomes more dependent on the weather and thus highly susceptible to changes in the climate. Additionally, the lack of capital that accompanies a life in poverty makes hazards more costly. Inadequate insulation, lack of weatherproofing and substandard construction materials are common characteristics of houses inhabited by poor households, rendering these households more susceptible to weather extremes. Because they live in remote locations, the prices of the goods they buy are more likely to be affected by local weather events. They are less likely to be able to rely on savings, access to credit or insurance to manage their losses of income or assets. The impact of shocks can last for many years after the event itself. In addition, extreme weather events impact welfare not only during disasters but also through the costly behaviours driven by uninsured risk. With climate change altering the frequency and intensity of hazards, poor households and those living just above the poverty line will increasingly face a higher risk of welfare losses from extreme climate events.

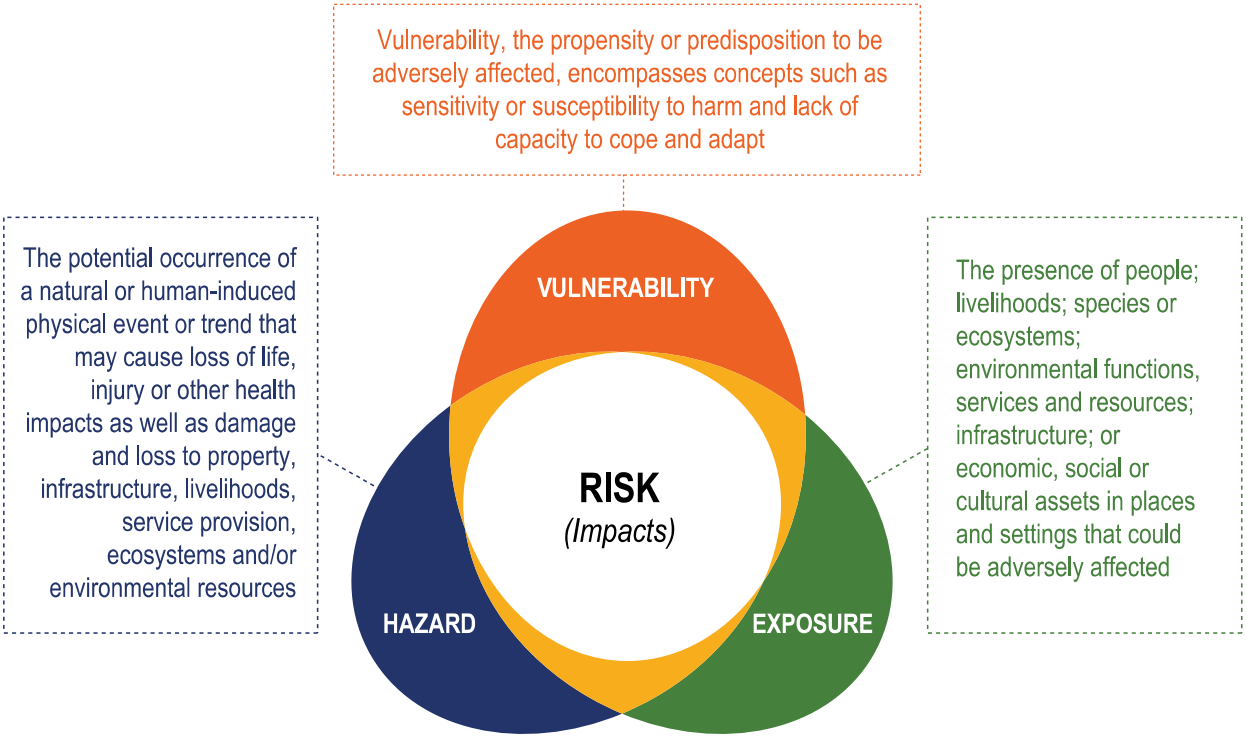
Assessing how the green transition impacts poor and vulnerable people is essential to ensuring that policies are designed to facilitate a just transition – one that addresses social, employment and welfare impacts and ensures that the benefits are equitably shared.

The transition to a low-carbon, climate-resilient economy is crucial to securing progress on poverty reduction in both the short and the long run. However, this transition may involve short-term costs, such as higher energy prices and job losses in carbon-intensive industries, that can be particularly hard for poorer people to manage. Assessing how the green transition impacts poor and vulnerable people is essential to ensuring that policies are designed to facilitate a just transition – one that addresses social, employment and welfare impacts and ensures that the benefits are equitably shared.

A framework for assessing the welfare effects of climate action

Climate research typically follows the hazard, exposure and vulnerability framework proposed by the Intergovernmental Panel on Climate Change to assess the potential adverse impacts on people (Reisinger et al., 2020[1]). As Figure 19.1 shows, this framework highlights that the nature of the hazard and the population's exposure and vulnerability both influence the severity of a weather event's impact. It is a useful framework for thinking through the welfare impacts of both climate change and climate action.

Figure 19.1. The hazard, exposure and vulnerability framework



Source: Authors' elaboration based on definitions in IPCC (2022[2]), "Annex II – Glossary", https://doi.org/10.1017/9781009325844.029.

While hazards are shared by all households in a given location, vulnerability varies across households based on the characteristics of the household. A household's vulnerability (and to some extent its exposure) depends on its ability to accumulate and use various assets: human capital (education, skills and health); physical capital (livestock and tools); natural capital (land and ecosystems); financial capital (savings and loans); and social capital (norms and mutual support networks) (López-Calva and Rodríguez-Castelán, 2016[3]). For instance, access to efficient irrigation technology can reduce the impact of agricultural losses caused by droughts (Herwehe and Scott, 2018[4]), and education and financial assets enable households to switch to a more climate-resilient livelihood and recover swiftly from the shocks (Erman, Obolensky and Hallegatte, 2019[5]; Tesfaye and Tirivayi, 2020[6]).

Climate policy affects welfare through three channels

Climate actions provide welfare benefits by altering the probability distribution of hazards and/or reducing exposure and vulnerability. Additionally, climate actions can also affect welfare separately from their impact on hazard, exposure and vulnerability; for instance, they can come with additional costs or benefits that

directly affect welfare. Figure 19.2 illustrates how climate policy impacts welfare through the channels of hazards, exposure and vulnerability, along with other household-related benefits or costs.

Figure 19.2. Ways in which climate policy impacts the welfare costs of climate shocks



The probability distribution of future hazards can be altered through mitigation policies. An example is carbon taxes, which reduce emissions particularly in high-emitting countries. Other policies, such as those that encourage increasing tree cover, can bring more immediate changes in local weather conditions. Exposure can be altered by policies that enable households to move themselves and/or their assets to less hazard-prone locations. Policies that change a household's vulnerability to hazards include those focused on adaptation, such as encouraging households to invest in water management and soil quality or in better quality housing, as well as more general development policies that increase the capital of poor households, thereby allowing them to better cope with climate shocks or earn more income from activities less affected by hazards. For example, increasing the quality of education, building better roads that connect households to markets, improving city planning, adopting early warning and evacuation systems, or facilitating financial inclusion can all contribute to reducing a household's vulnerability. Many policies affect both exposure and vulnerability. Education, for example, reduces exposure by helping a household migrate and change its livelihood; it also reduces vulnerability by increasing a household's ability to adapt to changes. For the remaining discussion, vulnerability and exposure (as set out in the Intergovernmental Panel on Climate Change's framework) are combined, with no loss of key insights.

If these non-climate impacts are overlooked and not explicitly considered, there can be significant adverse consequences, particularly for poor and vulnerable households.

Climate actions can also bring about additional non-climate benefits or costs that directly impact welfare. These should be assessed at the policy design and implementation stage. For example, upgrading water and sanitation infrastructure in flood-prone areas to be flood-resilient not only reduces exposure to waterborne diseases in the wake of a disaster but also enhances a household's overall health, thereby increasing its productive capacity and income (Hallegatte, Rentschler and Rozenberg, 2019[7]). Likewise, the air pollution benefits of mitigation policies can bring immediate health and productivity benefits. On the other hand, the removal of energy subsidies or the introduction of carbon pricing, such as the reduction in the net returns earned from livelihoods that use carbon, can create additional costs (Dorband et al., 2019[8]). There also are opportunity costs related to financing climate action in the form of less funding for other development projects. If these non-climate impacts are overlooked and not explicitly considered, there can be significant adverse consequences, particularly for poor and vulnerable households.

Crucially, the welfare valuation of any policy will vary across people, and it cannot be assumed that the impacts on hazards and vulnerability or other direct effects on welfare will be uniform across a population. Some households may experience large welfare gains from a climate action. For others, the gains could be smaller, especially if the cost to these individuals is high. While actions that change the hazard

distribution bring broad benefits across people and generations, the costs are borne now and by some groups more than others. A policy's total social welfare impact on a society will be the sum of the welfare impacts on each person across the welfare distribution taking into account social welfare weights.

Principles to guide climate policy choices

Policies should be selected that bring the greatest increases in social welfare, and also meet general cascade principles for prioritisation of the use of public finances. Identifying these policies is not easy: it requires long-run valuations of the welfare benefits of policies across people as well as in different countries and over the very long run. As shown by Hendren and Sprung-Keyser (2020[9]), the evidence required to make these choices is often not available, but there are some principles that can guide policy making with regard to the welfare implications of climate policies.

The first principle is to prioritise triple and double wins. Triple win policies for poor people are those that have positive welfare impacts across all three channels (positively impact future hazards, reduce exposure and vulnerability, and bring about additional non-climate benefits or reduce costs that directly impact welfare) for people at the bottom of the income distribution. Although few in number, there are clear sets of policies that can be considered triple wins.[1] Some examples include:

- **Climate-smart agricultural practices such as crop diversification or soil conservation.** These policies and practices not only mitigate climate change effects but also enhance crop yields and farmers' incomes, particularly in vulnerable regions (World Bank, 2012[10]; Aker and Jack, 2023[11]; Baquie and Hill, 2023[12]).
- **Sustainable forest management initiatives,** which not only safeguard biodiversity and ecosystem services but also create livelihoods for local communities, thereby reducing poverty and enhancing resilience to climate-related disasters (Das, Das and Tah, 2022[13]; Grosset, Papp and Taylor, 2023[14]; Zaveri, Damania and Engle, 2023[15]).
- **Investments in clean energy access,** which deliver triple win outcomes by providing affordable clean energy to underserved populations and reducing reliance on fossil fuels.
- **Reducing inefficiencies in trade,** which are often exacerbated by regulations that limit competition and lead to inefficient fleet management or the prevalence of empty cargos, can simultaneously reduce emissions, improve market integration (reducing vulnerability) and promote economic growth.
- While identifying the triple wins is useful, what matters is not the number of areas of positive impact but the overall welfare benefit from each policy. Many policies offer significant benefits in terms of reducing vulnerability and improving income growth, even after accounting for their costs, but have minimal impacts on the future distribution of hazard. This is particularly the case in low- and lower middle-income countries where growth in incomes will have a limited impact on the local climate or on global emissions. It is, therefore, particularly important to prioritise such policies in these countries. These include, for example, **mobile money services** that facilitate development and enable swift receipt of transfers during crises (Jack and Suri, 2014[16]; Batista and Vicente, 2023[17]).
- **Better road infrastructure** that improves access to remote areas also enhances market connectivity, thereby lessening the impact of droughts and other weather shocks on local food prices (Burgess and Donaldson, 2010[18]).
- **Education**, which not only increases lifetime earnings beyond the initial cost (Hendren and Sprung-Keyser, 2020[9]) but also equips households to adapt to changing economic conditions due to climate shocks (Skoufias and Vinha, 2012[19]).

Given that these actions are so beneficial, what is constraining their take-up? Identifying the underlying constraints – for example, knowledge, financing or existing policies that are disincentives to adoption – will allow policy makers to design climate action to more effectively increase take-up.

The second principle is to identify and minimise costs to poor households. While there are often synergies in achieving progress on poverty and climate goals, there are often trade-offs, and these need to be identified. The costs of transition policies inevitably will worsen welfare for some and must be measured and managed with compensatory finance or other support.

In the case of exposure and vulnerability, many of the available risk reduction and risk management strategies come with a cost for average incomes.[2] For example:

- In the case of risk reduction, agricultural practices that reduce vulnerability by reducing yield losses under weather extremes often also result in lower agricultural income in normal weather years (Hultgren et al., 2022[20]; Kala, 2023[21]).
- In the case of risk management, the cost of private insurance is always higher than the actuarially fair price of insurance.

The cost of publicly financing shock-responsive safety nets may or may not be recovered through the income growth that these enable; currently, there is not enough evidence in this area to say. The welfare benefit of spending towards reducing vulnerability derives from the fact that individuals are risk-averse and prefer less variable consumption even if it is lower on average. Reducing the variance of consumption is costly, so welfare is maximised when the variance in consumption is reduced to acceptable levels given this cost. Thus, it follows that policies that increase the availability of low-cost risk reduction and management strategies need to be prioritised. Frameworks such as those developed by Gollier and Mahul (2017[22]) and Ehrlich and Becker (1972[23]) highlight the need to think about optimising investments in risk reduction and risk management concurrently.

Policies that reduce future climate hazards also carry costs. Transitioning to renewable energy sources, for instance, can impose costs on communities that rely on fossil fuel industries. Likewise, rising energy prices and job losses in carbon-intensive sectors can significantly affect poorer and more vulnerable communities. Addressing the trade-offs inherent in climate policies requires a nuanced understanding of the diverse impacts that these policies can have across different populations and time horizons.

To ensure an equitable transition, it is important to also monitor policies' outcomes and costs to affected individuals and communities and to design targeted and compensatory actions. Compensatory actions should aim not only to offset losses but to also actively provide opportunities for disadvantaged households to navigate the transition. Policy makers should play particular attention to monitoring outcomes and costs in relation to:

- The impact of policies on real household consumption and on labour market outcomes. Targeted social assistance can minimise the impact of climate action on real household consumption, and poor households can be supported in the shift to lower and clean energy consumption through subsidies and behavioural nudges.
- Targeted policies to support job creation in places most affected by employment losses, support to climate-smart agricultural practices, and job and skills training are needed to support the transition to low-carbon and low-methane employment and livelihoods.

The intertwined challenges of climate change and poverty demand a co-ordinated and inclusive response from the global community. Development co-operation actors play a crucial role in fostering equitable and sustainable transitions. By prioritising strategies with multiple benefits and monitoring and compensating trade-offs as much as possible, achieving a prosperous, equitable and resilient future is within reach.

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Notes

[1] The Intergovernmental Panel on Climate Change's 2022 Sixth Assessment Report, which focuses on adaptation, contains a useful summary of policies that reduce vulnerability while also bringing

improvements in the hazard distribution and income benefits. For details, see Figure SPM.4(b) in the Summary for Policy Makers at: https://doi.org/10.1017/9781009157926.001.

[2] Risk reduction strategies are often called *ex ante* strategies since the action reduces the impact of the shock before the shock occurs. These are also referred to income-smoothing strategies. Risk management strategies, on the other hand, are often called *ex post* strategies in that they reduce the impact of the shock after it has occurred. They can also be referred to as consumption smoothing.

20 In my view: We need to re-align development priorities putting child rights and views at the centre

Inger Ashing, Save the Children

Imagine a world where children set the agenda for global development. It's a simple thought that illustrates a stark reality: those absent from decision making are the ones most affected by the climate crisis and inequality and yet the least responsible for the situation we are in. This is a clear example of intergenerational inequality. Children make up one-third of the world's population and one-third of them live at the intersection of poverty and the climate emergency (Wise, 2022[1]). Children are uniquely vulnerable to climate change. Experts have long noted that their still-developing physical and psychological systems leave them particularly susceptible to environmental stressors and diseases, water and food scarcity, and disrupted access to basic social services. Climate change is affecting children everywhere, and the world is not doing nearly enough to protect them.

We need to ensure that the rights and the views of children are at the centre of equitable development by realigning development priorities. International civil society organisations like Save the Children play a critical role in advocating for this change as well as responding to many of the challenging situations facing children. We do so by partnering with governments, local organisations, businesses, communities and children themselves.

Just and green transitions present a unique opportunity to advance climate action and sustainability by improving health, education, and gender and social inclusion and by creating decent jobs. But these transitions need to be managed through a human rights- and child rights-based approach so as not to risk worsening existing inequalities. Absent such an approach, these transitions can lead to harmful coping practices, such as gender-based violence, child labour and irregular migration (UNICEF, 2023[2]). I have just returned from Kenya, where I witnessed the impossible choices people are faced with when the impacts of climate change and extreme poverty collide. I met pastoral families who have lost everything in recent flooding. One father in Turkana County told me he used to have 70 goats but now he just has 5 and was struggling to feed his family. In fact, many in this community could no longer afford to send their children to school as they needed to prioritise feeding their families.

Some organisations such as the Green Climate Fund are taking steps to increase child-responsiveness. But a report published last year by Save the Children and partners found that only 2.4% of climate finance from four of the major multilateral climate funds supported child-responsive projects (Knaute, Pegram and Jenks, 2023[3]). Equally worrying is that 93% of climate finance reported by wealthy countries between 2011 and 2020 was taken directly from development aid (Hattle, 2023[4]). Consequently, essential programmes on health, education and child protection are inadequately resourced and don't reach scale, threatening progress on the Sustainable Development Goals. In low-income countries, the financing gap for universal social protection systems, including healthcare, stands at a staggering 52.3% of gross

domestic product annually (Cattaneo et al., 2024[5]). This underinvestment in children and their climate resilience must be addressed as a top priority.

To prevent the exacerbation of poverty and inequalities amid green transitions, decision makers must prioritise the rights of children and their families and communities. Protecting child development outcomes is both cost-effective and key for strengthening human capital and community resilience (Devercelli and Beaton-Day, 2020[6]). It is an investment in the future. Concrete steps to protect and empower children include investing in resilient social protection, education, and child protection and health systems that respond to the unique needs of children and engaging in cross-sectoral collaboration that promotes holistic and durable solutions for children and their families.

To prevent the exacerbation of poverty and inequalities amid green transitions, decision makers must prioritise the rights of children and their families and communities.

Critically, these actions should be informed by the perspectives of children themselves. Generation Hope is Save the Children's campaign working with and for children through action on the climate and economic inequality crisis. Children from across the globe are calling for leaders to provide spaces for them to contribute to decision-making processes. Bhumika, a 16-year-old campaigner from Nepal, appealed to us recently, saying, "I am small, but my ideas are big. I am asking [leaders] please provide space for me to speak freely and share all my ideas. When you listen to me, you are listening to all future generations." We need to see more governments and businesses listening to children's views to ensure that their perspectives inform the decisions that are being taken.

The climate crisis is not just changing the planet. It is changing children. Save the Children's founder, Eglantyne Jebb, has said, "Every generation of children offers mankind the possibility of rebuilding his ruin of a world." Her words not only remind us of our responsibilities but also offer hope despite the challenges. If we act decisively, we can ensure that future generations of children will be born into a world where sustainable development is not a distant goal but a tangible reality. By embedding child rights into the heart of our development strategies today, we are laying the groundwork for a future that is greener, fairer and more sustainable for every child.

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21 Climate smart agriculture and food systems that reduce poverty and hunger

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Poor communities that rely on functioning food systems for their livelihoods are highly vulnerable to the devastating effects of climate change while agri-food systems are significant emitters of greenhouse gases. This chapter reviews opportunities to scale up innovative technology and practices to transform food systems and to leverage climate action to reduce poverty, hunger and malnutrition in line with the complementary Sustainable Development Goals. Drawing on country experiences – India, Tajikistan, Lao People's Democratic Republic and Myanmar – with integrated strategies, it looks at how climate strategies such as nationally determined contributions can be aligned with national agricultural and anti-poverty strategies; the need for multisector and multistakeholder action and participation; challenges to joint financing for climate action, poverty and hunger goals; and adapting government and donor systems to co-ordinate implementation.

Key Messages

- In 2022, 2.4 billion people lacked regular access to adequate food. The devastating impacts of climate change on food systems could push the goals of ending hunger, malnutrition and poverty further out of reach.
- Transforming food systems is central to achieving net zero goals because they are responsible for nearly 30% of global greenhouse gas (GHG) emissions. Innovative and proven agri-food technologies and practices can lower emissions, increase yields and build resilience and they should be scaled up.
- Aligned, integrated and co-ordinated climate, poverty, hunger and malnutrition policies, actions and finance can best support particularly vulnerable poor communities that rely on functioning food systems for their livelihoods.
- Development partners should use multistakeholder platforms at the country level to co-ordinate climate commitments, action plans and investments, as this can ensure limited resources for development co-operation are leveraged and multiple development outcomes enhanced.

Failing food systems, climate change and poverty: Breaking the vicious cycles

Despite some recent progress on food insecurity and malnutrition trends at the aggregate level, 739 million people faced hunger in 2022, 2.4 billion lacked regular access to adequate food and over 3.1 billion could not afford healthy diets (FAO, 2023[1]). Food security and livelihoods of the poorest remain vulnerable to weather patterns and events induced by the climate crisis, and the impacts of such extreme events on food systems are aggravating other disruptions such as the COVID-19 pandemic and related supply chain challenges, geopolitical tensions, and food price volatility. All these factors collectively threaten to derail the process of achieving Sustainable Development Goals (SDGs) 1 and 2 to reduce poverty; eliminate food insecurity, hunger and malnutrition; and arrest natural resource degradation by 2030.

Food and agricultural systems emit close to 30% of global GHG emissions, of which 45% comes from production systems, 34% from pre- and post-harvest systems, and 21% from land-use changes (World Bank, 2024[2]). Transforming food systems, therefore, will be central to achieving net zero goals. Many innovations could be scaled, including: improved soil nutrient management to reduce the overuse of chemical fertilisers; reducing methane emissions from flooded rice systems through alternative practices; better management of livestock systems to reduce enteric fermentation; reducing CO_2 emissions along all nodes of the value chain; reducing and effectively using food waste and loss through biomass production; and investing in effective use of renewable and solar energy for food and agricultural production (COP28, 2023[3]). Investing in water-saving technologies can also cut down on the amount of electricity and water used in agriculture, which helps manage the water scarcity caused by groundwater depletion and withstand water shortages in droughts. Recognising and investing in the scaling of digital agricultural practices can also help build resilient food systems.

> ...the livelihoods of poor communities are 15 times more likely to be impacted by natural disasters such as storms, heat waves and floods than those of non-poor communities...

A functioning food system that supports those who rely on it for their livelihoods is an essential bulwark against the effects of climate change for the most vulnerable. Indeed, the livelihoods of poor communities are 15 times more likely to be impacted by natural disasters such as storms, heat waves and floods than

those of non-poor communities, according to the Intergovernmental Panel on Climate Change (IPCC) (2023[4]). Poor households spend a larger share of their income on food, which makes them more vulnerable to climate-induced food insecurity. Moreover, agri-food systems are central to the economies of many low-income countries (LICs) and middle-income countries (MICs), accounting for a significant share of their gross domestic product (GDP). For example, in 2022, agriculture accounted for 16% of GDP in India and 51% of GDP in Sierra Leone. At the regional level for example, in Sahel and West Africa, it represents 35% of the regional GDP and constitutes a livelihood for two-thirds of people (SWAC/OECD, 2021, p. 9[5]).

Three types of practical preventative and adaptation approaches to support poor communities

One approach is to focus on reducing the risk posed by unpredictable weather patterns and extreme climate-related disasters. This includes investing in technological and digital innovations that help famers access improved crop varieties and animal breeds able to withstand droughts and access timely information on technology, prices and input availability. Further, integrated soil, water and nutrient management practices through regenerative agriculture, precision farming and zero tillage can increase the resilience of agricultural systems. Likewise, investing in early warning systems can alert farmers to impending climate-related disasters and provide information they need to take actions to reduce risk (Leow et al., 2023[6]). Increasing the accuracy and the timeliness of the weather forecasts can lead to higher yields and incomes for millions of smallholder farmers and help them adapt to climate emergencies through the development of risk management systems and insurance mechanisms.

Interventions that support continued income generation when climate-related shocks occur are another way to support poor communities. An example is the HarvestPlus initiative launched after the rains failed in most parts of Bihar state, India, in July 2023 (Giri et al., 2023[7]). As most rice nurseries did not survive for timely planting of rice crops, communities were provided biofortified pearl millet seeds to sow on the same land where rice would normally have been grown and the women's self-help groups that processed the pearl millet found a market outlet for the crop. The programme not only helped communities adapt to climate-induced erratic weather changes but empowered women and addressed nutritional and livelihood needs. Removing rice from the cropping system also made a substantial contribution to reducing methane emissions from flooded rice fields. Diversifying from monoculture to multiple crops is another strategy that could increase resilience to erratic rain patterns.

Interventions that support continued income generation when climate-related shocks occur are another way to support poor communities.

Finally, tailored interventions are needed in emergency situations to ensure that communities have access to safe, nutritious and diverse foods. The latest edition of the Standards for Supporting Crop-related Livelihoods in Emergencies manual provides the guidelines needed for emergency crop-based interventions. For example, the guideline recommends minimum standards of seeds when crop emergencies are implemented to ensure that farmers are not exposed to risks from another source. Similarly, the Livestock Emergency Guidelines and Standards offer guidance for livestock-related interventions in the event of climate disasters. For example, using the Livestock Emergency Guidelines and Standards for animal shelters rebuilt after disasters can help increase the productivity of livestock systems as they rebound (SEADS, 2022[8]; LEGS, 2024[9]). Supportive safety net programmes are needed to complement interventions and help meet food affordability goals.

To fulfil the IPCC's call for equitable climate action, national governments, development partners and other stakeholders in the food system are challenged to identify and scale all these types of multiple outcome

interventions. Such interventions require several fundamental changes in the way the policy, institutional, governance, accountability and capacity systems operate at the national and global levels. For example, national policies and strategies need to align with the investments and budget allocation, institutional framework and regulations should support policy and programme implementation to achieve their goals, and governance and accountability systems should be capacitated to deliver on the policy goals. This is most poignant than in agricultural strategies that combine food security and climate action goals such as reducing GHG emissions.

Leveraging international, national and local climate action to reduce poverty and hunger

Transitioning to food systems that are more equitable and locally accountable requires strategies designed for each country's specific political economy, policy-making environment, governance and accountability, and localised capacity development. Guiding these localised approaches should be a set of common principles that focus on moving from recognition of the challenges to implementing integrated approaches to overcome them.

Integrating international and national climate action with strategies for reducing poverty and hunger

International organisations are making strides to integrate proposed climate actions with goals to reduce poverty, food insecurity and malnutrition. A global roadmap to achieve SDG 2, for example, calls for transforming food systems to achieve the twin goals of limiting the rise in global temperature to 1.5°C and eliminating hunger (FAO, 2022[10]). The roadmap proposes actions around increasing productivity, managing natural resources sustainability, reducing food loss and waste, and pursuing dietary diversity to achieve climate and biodiversity goals. The emphasis on achieving food security as a right highlights the particular vulnerability of poor communities to market failures. However, as noted in a baseline report by the Global Alliance for Improved Nutrition (GAIN, 2023[11]), climate policy commitments rarely consider nutrition and finance is lagging policy commitments, further evidence of the need for integrating climate action with strategies for hunger and poverty reduction.

The 2025 nationally determined contributions (NDCs) update round presents a significant opportunity for strategy integration. For instance, through the vehicle of the newly created Alliance of Champions for Food Systems Transformation (2024[12]), Brazil, Cambodia, Norway, Rwanda and Sierra Leone have committed to updating and aligning their NDCs, national adaptation plans, long-term low-emission development strategies, national biodiversity strategies and action plans, and, notably, their national food system transformation pathways by 2025.

...climate policy commitments rarely consider nutrition and finance is lagging policy commitments, further evidence of the need for integrating climate action with strategies for hunger and poverty reduction.

Examples of national-level integration are also emerging. A study of potential benefits in the context of Tajikistan concluded that integrating climate and agricultural strategies can help save scarce resources and support developing economies and their communities to cope with diverse shocks, improve productivity and the quality of their diets, and build resilience capacity for managing future shocks (Babu et al., 2024[13]). For example, livestock for dairy is a key source of rural protein needs and a food security

shock absorber when crops produce low yields due to climate change. Livestock management practices at the farm level could be integrated with manure management for methane reduction by introducing cost-effective biodigesters for rural energy management in remote areas. In Lao People's Democratic Republic, the development of the NDC implementation plan incorporated agriculture, energy, environment, water resources and forestry sectors and their contribution to climate adaptation and contribution to net zero goals (Lao Poeple's Democratic Republic, 2021[14]).

Multisectoral and multistakeholder action to leverage climate action

Integrated approaches in the climate action and poverty and hunger spheres can improve overall efficiency, but the design and implementation of interventions must also cross sectoral boundaries. Targeted country-level analysis can help identify the institutional, analytical and investment gaps that need to be addressed for multisectoral action, and a policy and investment framework can help track climate resilience actions as part of the development of policies and strategies at the national level. When researchers applied the framework to Myanmar's agricultural development strategy, they found that combining food system and climate goals can help to design mitigation interventions to reduce GHG emissions from the food systems as well as adaptation strategies to protect the poor and vulnerable in the event of climate shocks – all in the context of food system transformation. For example, the analysis showed that a systems approach to a food security goal can help identify a set of multidimensional factors at different levels of decision making and co-ordination of actions to protect the poor and vulnerable populations (Babu et al., 2019[15]).

Multisectoral approaches are especially useful at the national and decentralised local administration level, where adaptation involves multiple sectors including food and agriculture, irrigation, water resources, meteorology, and forestry. Analysis and holistic strategies followed by action have shown that multisectoral approaches can optimise investments and increase the efficiency of donor resources used in the food and climate spheres. Climate-resilient agriculture investments are a good starting point.

Inclusive consultation and donor co-ordination, though often neglected, are key to integrated action

Diversity, inclusivity and equity are emerging as key considerations to achieve positive results from climate action. Yet country consultations have found that in many cases, the consultative process leaves out key stakeholders. A just transition to a green economy is important from several perspectives. While international co-operation and co-ordination have improved over the years through global multistakeholder platforms such as the United Nations Climate Change Conference process, much remains to be done at the national and local levels (Davey, 2023[16]). National initiatives undertaken by development partners, for example, need co-ordination. An important first step is mapping the key actors and players in the climate change policy process and identifying their roles in terms of technical support and financial commitments to various climate-related activities (Babu, Tohirzoda and Srivastava, 2024[17]). The mapping can establish a baseline for the national government co-ordination agencies to track and monitor agencies' progress and ensure national governments' accountability in LICs and MICs. Tajikistan's experience in advancing global climate goals at the country level show that such inclusive stakeholder mapping is a long-term process but could speed up the process of evidence-based climate action by identifying key partners' varying roles and strategies (Babu and Srivastava, 2024[18]). In Tajikistan, systematic organisation of the policy systems for setting priorities for action among the NDCs, connecting climate-oriented sectors including agri-food systems for joint actions, and strengthening national capacity for developing climate investment plans took close to two years. Multistakeholder consultations can help in the just transition process, reducing inequities and leading to an inclusive and resilient food system transformation.

Joint financing for climate action, poverty and hunger goals

Financing models that combine climate adaptation and resilience goals with poverty and nutritional outcomes are still emerging and need to be evaluated and scaled up. Mobilising finance for such integrated actions requires co-ordinated efforts on the part of the public sector, development partners, the private sector, and local and international non-governmental organisations. For example, in most developing countries, donor co-ordination committees on environment address climate-related investments and financing, while similar committees address food security and nutrition issues. Joint meetings of the two committees would help to identify overlapping opportunities to optimise resources and achieve joint climate-resilient and food security outcomes. Similar cross-sectoral co-ordination is also needed to identify the implementation gaps that are a result of the limitations of financing. Inclusive multisectoral and multistakeholder action, joint financing, co-ordination, integration of strategies alongside inclusive multisectoral and multistakeholder action and consultation can play a key role in optimising funds used in climate action.

Adapting government and donor systems to co-ordinate implementation

National governments should be the ultimate co-ordinators of investments and programmes supported by development partners, encouraging synergies and leveraging climate action and development assistance to achieve multiple development goals. Often, donor priorities and governments' strategic needs do not converge due to a lack of effective co-ordination. Such co-ordination should begin within the government system where the multiple sectors are brought together to take stock of climate actions and their implications for the climate-related ministries. While the Ministry of Environment takes the lead in climate change policies and strategies in most countries, its reach to other climate-related sectors is thwarted by bureaucratic hurdles. Effective co-ordination of multiple sectors on a regular basis is needed to promote truly integrated interventions that address climate, food systems and poverty. Understanding the institutional architecture that needs to be put in place to achieve this integration and co-ordination is country- and context-specific. However, as shown above, close co-ordination of the government institutions and donor initiatives can help. For example, the framework developed in Tajikistan in the context conducting regular multisectoral consultations helps in preparing the sectors to address common priorities, such as the work on methane reduction goals by joining the Global Methane Pledge.

Action to address climate, hunger and poverty in an integrated way will also require development partners and national governments in LICs and MICs to change their own systems. Co-ordination of policies, strategies and plans at various levels is crucial for achieving the joint goals of climate action and reducing poverty, inequality and hunger. Some initial efforts have been made to combine sectoral goals through multisectoral co-ordination, but there have been few large-scale successes. For example, working with organisations like the NDC Partnership, the Comprehensive Action for Climate Change Initiative is supporting multisectoral capacity at the national level to bring the government and donor systems together to address priority climate actions in a systematic manner[1]. Such institutional strengthening processes and the importance of the role of country-level implementation of programmes and learning from such programmes to scale up and scale out cannot be overemphasised.

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Note

[1] For more information see www.CACCI.org.

22 Renewable energy and economic transformation in Africa

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Economic transformation can help reduce poverty and inequality in Africa, where strong growth over the last 30 years has failed to significantly increase household incomes, create jobs for its rapidly growing youth population and build resilience to shocks. This chapter discusses how the transition to green energy can accelerate and reinforce economic transformation in African countries, enabling them to diversify production and enhance export competitiveness, leverage their abundant renewable resources to fuel job creation, and use their massive carbon stocks to participate in carbon markets and increase the flow of climate finance. Recognising persistent capacity and other constraints, the paper concludes with recommended priority actions for OECD countries, African governments and the African Union.

Key messages

- Economic transformation processes that diversify and technologically upgrade economies can help reduce poverty and inequality through increased job creation and resilience to global shocks.
- Although costly, the net zero transition can be a critical part of Africa's economic transformation and offers opportunities to expand access to affordable electricity, diversify production, enhance export competitiveness, generate sustainable green jobs and reduce poverty.
- Access to quality affordable renewable energy is critical for the net zero transition in Africa. Regional integration is key to achieving this at scale.
- Priority actions for OECD countries include expanding loan guarantees on clean energy projects, supporting regional collaboration to help scale up renewable energy development on the continent, and helping to build local capacity to develop and manage large-scale renewable energy projects.

Introduction

African economies have registered strong economic growth over the past three decades. For example, in the 2000s, six of the world's ten fastest-growing economies were in Africa.[1] Growth between 2009 and 2017 averaged 3.8% per year compared to the world average of 2.5%. However, this growth has failed to transform African economies, create jobs or significantly improve people's living standards. Poverty in the region remains high, with 478 million people (about 40% of the population) living in extreme poverty in 2019. The COVID-19 pandemic is estimated to have increased this number to 490 million in 2021 (UNCTAD, 2021[1]). Just as African countries were beginning to recover from the pandemic, the Russian Federation's invasion of Ukraine led to an increase in food and fuel prices. Given that most African countries are net importers of food and fuel, the war has had an impact on vulnerable households and increased inequality across the continent.

To reduce poverty and inequality, African countries must accelerate the transformation of their economies

Ten years ago, in the first edition of the *African Transformation Report,* the African Center for Economic Transformation (ACET) made the case that economic growth in Africa has been insufficient to sustain the continent's long-term development and build resilience to global shocks (ACET, 2014[2]). The report argued that to achieve sustained and inclusive development, countries must transform and not just grow their economies. The report defined economic transformation in Africa as "growth with depth" – "d" for diversification of production and exports, "e" for an increase in export competitiveness, "p" for productivity increases across all sectors, "t" for use of medium- and high-technology content in production and exports, and "h" for improved human well-being through more productive and equitable employment and incomes.[2]

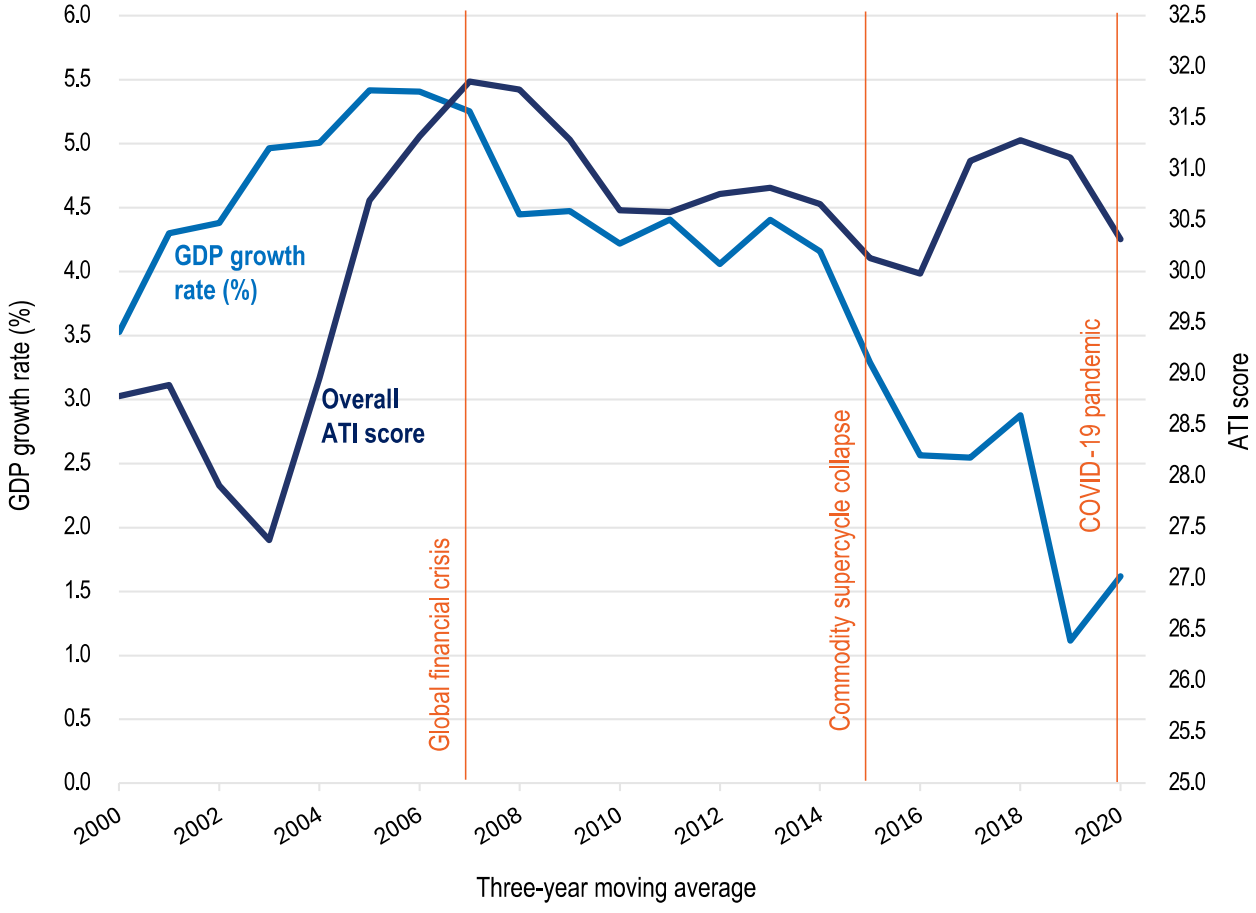
> Improving productivity will require investments in infrastructure, skills and technology while enhancing access to quality education and skills training (especially for women and young people), which are crucial to reducing poverty and inequality and improving human well-being.

Productivity increases and technological upgrading increase total output, which leads to increased employment and household income and poverty reduction. Diversification focusing on high-value

manufacturing and services helps to increase job opportunities for Africans, thereby reducing inequalities in formal employment. Improving productivity will require investments in infrastructure, skills and technology while enhancing access to quality education and skills training (especially for women and young people), which are crucial to reducing poverty and inequality and improving human well-being.

To track progress in achieving growth with DEPTH, ACET created the African Transformation Index (ATI) The latest version of the index was released in 2023 and covers 30 African countries using 14 indicators to measure transformation progress between 2000 and 2020. The results show that despite some improvements in the early part of this century, progress on economic transformation has been slow, with a continental average overall ATI score of just 30.3 out of 100 (ACET, 2023[3]) (Figure 22.1).

Figure 22.1. Economic transformation and external shocks, 2000-20



Source: ACET (2023[4]), *African Transformation Index 2023: Tracking Africa's Economic Successes and Setbacks,* https://acetforafrica.org/ati.

While a few countries (e.g. Mauritius, Morocco, South Africa and Tunisia) have made progress in diversification and export competitiveness, many others continue to rely on the exports of raw materials. This reliance has diminished economies' resilience to global shocks. For example, the global financial crisis in 2007 and the COVID-19 pandemic beginning in 2020 adversely impacted growth and transformation trajectories. ACET's trend analysis showed that high-transformer countries suffered less growth loss from the financial crisis than low or medium transformers. To accelerate transformation, countries must reorient production and export structures and strengthen technology and industrial capabilities. They also need to modernise and improve agricultural and mining value chains.

Regional integration can help accelerate the energy transition and economic transformation

Africa's economic transformation must, over time, become net zero and not contribute adversely to climate change. The best way for countries across the continent to achieve this is to enhance their access to quality and affordable renewable energy; leverage their abundant renewable resources to build green industries that supply products to the world; and combine their carbon stocks with nature-based solutions. By taking these actions, Africa will create jobs for its rapidly growing youth population, increase household incomes and reduce poverty.

Improving energy access through a regional approach

Energy is critical for Africa's economic transformation. Robust access to energy services can increase productivity and support value addition across value chains in agriculture, industry and services. However, Africa has the lowest electricity coverage globally at just 42%, about half the global access rate of 87% (IEA, 2017[5]). In sub-Saharan Africa, 57% of the population does not have access to electricity.

To improve energy access, deeper regional collaboration on energy resource sharing and investment are key to maximising the benefits of Africa's renewable energy resources and also improving regional energy security, accelerating the development of the energy market, and speeding up progress towards Sustainable Development Goal 7 (ensuring access to affordable, dependable, sustainable and modern energy for all). Adopting a regional approach to the continent's energy crisis could save an estimated USD 63 billion, or 14% of the total investment needed to quadruple electricity usage by 2040 (Castellano et al., 2015[6]). For example, power pooling and cross-border trade can accelerate electrification on the continent and create an incentive to invest in large-scale renewable projects. Additionally, a regional approach could potentially save the continent USD 860 billion between 2014 and 2040 (17% of the cost of electricity), representing an annual gain of USD 33 billion (African Development Bank, 2017[7]).

Adopting a regional approach to the continent's energy crisis could save an estimated USD 63 billion, or 14% of the total investment needed to quadruple electricity usage by 2040.

Furthermore, a regional approach to financing renewable energy investments will address the current challenge of small and widely dispersed markets. A harmonised regional approach to tariffs, technical standards, power purchase agreements and project approval guidelines can reduce transaction costs and accelerate project development in the region (IRENA, 2015[8]). It is estimated that the returns on cross-border transmission investment could average 20-30% across the region, rising to 120% for southern Africa (Eberhard et al., 2011[9]). Regional collaboration will also help scale up renewable energy development on the continent and equip African countries to participate in the global carbon market.

Many African countries have indicated in their nationally determined contributions that they intend to meet their emissions reduction targets by implementing policies such as carbon pricing mechanisms and emissions trading systems (ETS). Given the various institutional and capacity limitations at the national level, approaching these from a regional perspective can yield efficiency gains. For example, Africa could establish a regional ETS either separately or alongside the African Continental Free Trade Area. The ETS would support countries to amend and/or enhance national legal frameworks to facilitate the implementation and administration of the scheme.

Leveraging Africa's renewable resources and carbon stocks for transformation and poverty reduction

For African countries to transform successfully, they must strategically utilise their abundant renewable resources and massive carbon stocks. Africa holds about 60% of the world's best solar resources and 39% of global renewable energy potential (Ramalope et al., 2022[10]). However, African countries have largely been unable to maximise the potential of these resources. In 2020, renewables accounted for only 14% of the total energy supply. In the electricity sector, they accounted for about 22.1% of generation in 2019, with fossil fuels accounting for 77.1% (IEA, 2021[11]). The continent has attracted only 2% of global investments in renewable energy over the past decade (KfW Development Bank, GIZ and IRENA, 2021[12]).

The transition to green energy will enable Africa to diversify its production and enhance export competitiveness, for example by establishing plants to process transition minerals, solar panels and batteries. These industries will, in turn, create jobs for the continent's rapidly growing youth population. Increasing access to renewable energy technologies can also help break the poverty cycle by increasing access to and reducing the cost of electricity for poor households, which currently spend a higher share of their income on energy than wealthy households with a grid connection. It is estimated that reducing energy costs could lift 16-26 million people from poverty (Africa Progress Panel, 2015[13]). Additionally, replacing household biomass sources (firewood and charcoal) with modern energy sources (solar and gas) will reduce deforestation, land degradation and ecosystem damage.

Moreover, developing and implementing green transformation strategies – utilising clean energy sources and applying circular economy practices – can facilitate Africa's green industrialisation ambitions and make the continent a low-carbon production hub for the global economy.

To generate finance for its green industrialisation ambitions, Africa must exploit its carbon stocks to increase the flow of climate finance through participation in carbon markets. According to estimates, African carbon markets could mobilise USD 6 billion annually by 2030 and more than USD 100 billion annually by 2050 (Elusoji, 2023[14]). However, countries face several challenges in participating in carbon markets. Private investors perceive Africa as risky because of limited infrastructure, poor governance, uncertain land tenure, and limited capacity and awareness (ACMI, 2022[15]). Land tenure represents the most serious governance challenge given that more than 90% of rural land is generally undocumented (Byamugisha, 2013[16]) and less than 2% of tropical forest land is legally owned or designated for use by forest communities or indigenous groups.

These challenges are compounded by numerous factors: lack of capacity on the part of Africa's private and public sectors to develop bankable carbon market projects; the high cost of finance and biased credit assessments; the requirement of many multilateral funders for countries to pre-finance projects that cash-strapped African governments often lack the fiscal space to meet; and the need for countries to have credible measurement, reporting and verification systems to participate in carbon markets to quantify emissions reductions and removals, which African countries often lack the technology and expertise to do.

African countries can enhance participation in international carbon markets by collaborating across the region, sharing limited skills, and growing the pool over time through capacity development in key areas such as developing and managing renewable energy projects. They can also learn from good practice on tenure reforms across the continent to enhance the participation of local communities and other private entities in carbon offset markets.

Applying nature-based solutions for job creation

The net zero transition also offers opportunities to create new and improve livelihoods while mitigating CO_2 emissions. Applying nature-based solutions such as tree planting, applying biochar from crop residue and

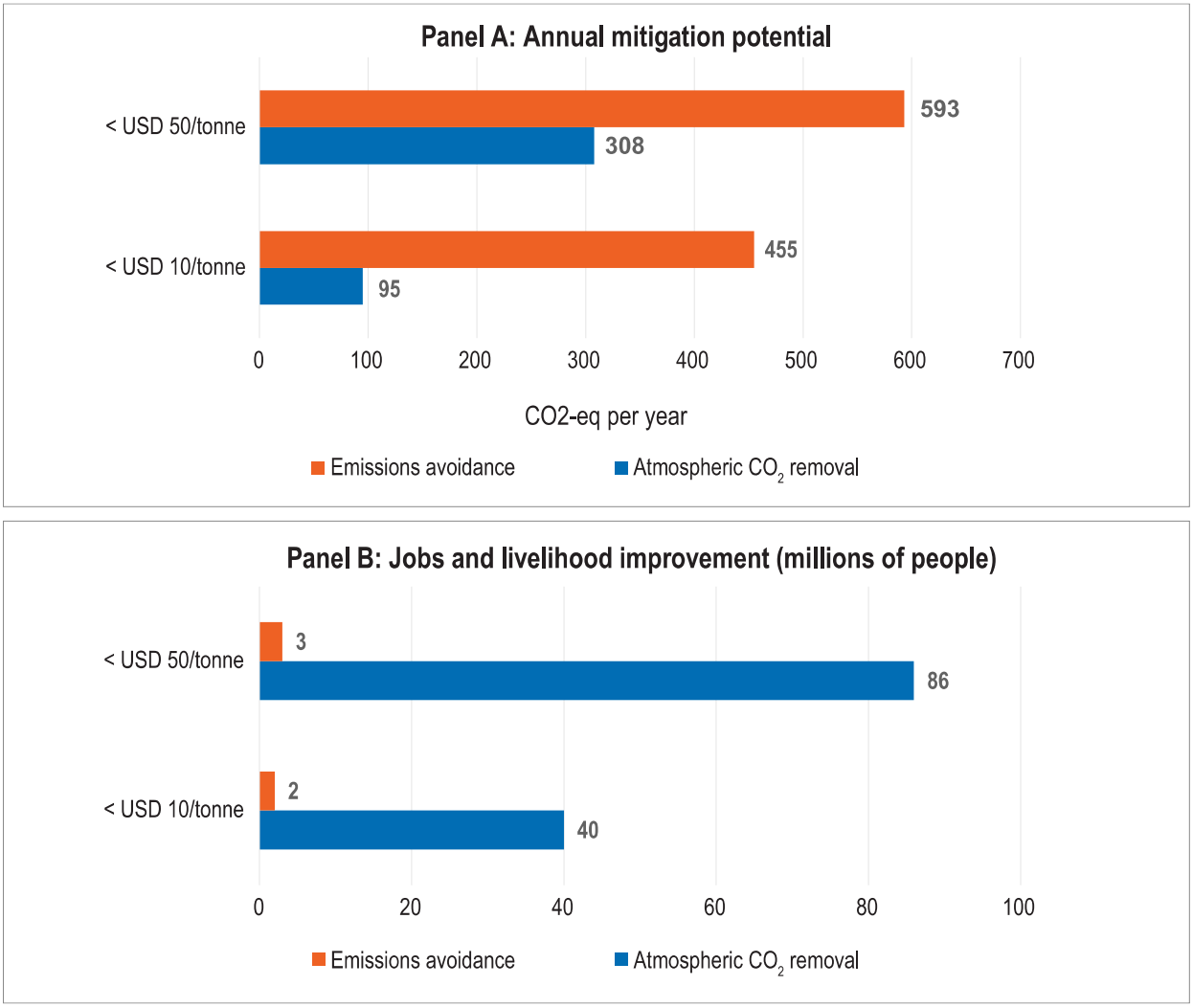
improving grazing practices can help create green jobs, increase access to carbon finance and reduce CO_2 emissions.

A recent study estimates the cost of the energy transition to be equivalent to 6.8% of global gross domestic product (GDP) in 2021, rising to 8.8% from 2026 to 2030 (McKinsey Global Institute, 2022[17]). The study indicates that to support economic development and build the low-carbon infrastructure needed to shift to net zero greenhouse gases, sub-Saharan African countries must invest at least 1.5 times as much (as a share of GDP) as developed economies.

At a carbon price of USD 10 per tonne, nature-based solutions could remove 95 metric tonnes of CO_2 equivalent (Mt CO_2-eq) through atmospheric CO_2 removal and 455 Mt CO_2-eq through emissions avoidance[3] (Figure 22.2, panel A). At a higher carbon price of USD 50 per tonne. however, these solutions could remove 308 Mt CO_2-eq through atmospheric CO_2 removal and 593 Mt CO_2-eq through emissions avoidance.

Panel B of Figure 22.2 shows estimates of Africa's job creation potential of atmospheric CO_2 removal, which range from 40 million jobs annually at a carbon price of USD 10 per tonne to about 86 million jobs annually at a carbon price of USD 50 per tonne. These estimates are conservative and focus on direct jobs, including upstream jobs. Because of the complexities in accurately estimating indirect jobs, the estimates in the figure do not include indirect jobs and thus underestimate the extent of job creation.

Figure 22.2. Mitigation and job creation potential of nature-based carbon removal in Africa



Source: Climate Action Platform-Africa (2022[18]), "Nature-based climate change mitigation" (web page), https://capa.earthrise.media.

Priority actions for international, national and regional policy makers

Transforming African economies can create green jobs and reduce poverty and inequality. However, this requires policy makers and their partners to think locally but act regionally.

OECD countries should consider the following priority actions:

- Shift their singular focus on country support to more strategic collaboration with regional hubs and cross-country support, where necessary, to support economic transformation through regional integration.
- Expand loan guarantees on clean energy projects and prioritise utilities, strategically allocating development assistance and climate finance.
- Accelerate reforms to address African countries' constraints in accessing finance, such as requirements for co-financing, lack of support for developing concept notes, long timelines and delays in processing funding applications.

- Provide technical assistance to build capacity in project management, business development skills and the management of large-scale renewable energy projects.

African governments could consider the following priority actions:

In terms of energy access:

- Rehabilitate and/or expand national transmission networks.
- Expand off-grid and stand-alone solar systems, especially in rural areas, to help meet the goal of universal access to electricity.
- Improve regional integrated electricity markets by increasing the efficiency of regional power pools and ramping up investments.

In terms of renewable energy technologies:

- Provide incentives, such as subsidies or tax rebates, to households and small and medium-sized enterprises.
- Promote the participation of women and young people in the renewable energy value chain by providing them with financial resources and capacity building.
- Reduce subsidies significantly for fossil fuel-based energy technologies.
- Reform power utilities to make them efficient and financially viable entities.

In terms of participation in international carbon markets:

- Invest in capacity building and skills training in developing and managing renewable energy projects.
- Introduce land tenure reforms to enhance the participation of local communities and other private entities in carbon offset markets.

In terms of transformative growth:

- Develop and implement green industrialisation strategies to enable the private sector to build green industries that will diversify production and enhance export competitiveness.
- Increase productivity through investments in technology, innovation and human capital.

The African Union could consider the following priority actions:

- Use its G20 membership strategically to advance Africa's regional integration agenda and lobby for more strategic partnerships with G20 countries.
- Support cross-border investments to take advantage of African Continental Free Trade Area opportunities.
- Encourage stronger collaboration among members to address challenges such as inadequate infrastructure, poor governance, and inconsistent and uncertain policy and regulatory frameworks.
- Facilitate cross-learning across members to foster and boost good practice across the continent.

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Notes

[1] The countries were Ethiopia (7.5% growth rate), Côte d'Ivoire (7.4%), Rwanda (7.2%), Senegal (7%), Ghana (6.3%) and Benin (6%). See: https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018.

[2] Diversification is based on the shares of manufacturing and services value added in gross domestic product and exports; export competitiveness measures countries' non-extractive exports; productivity increases measure labour productivity in the agriculture, manufacturing, construction and services sectors; technology upgrading measures the medium- and high-technology content in production and exports; and human well-being is measured by income, income inequality, and total and female formal employment.

[3] Emissions avoidance includes emissions that would be associated with the amount of carbon sink at risk of being destroyed every year. This comes from carbon sink protection and optimal agricultural practices.

23 Jobs and skills for a just transition

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Valeria Esquivel, International Labour Organization

The climate crisis is exacerbating negative labour market dynamics, eroding livelihoods and accentuating inequalities. This chapter discusses employment and skills policy responses for a just transition, focusing on how tackling inequalities in the world of work reinforces and amplifies efforts to reduce broader societal inequalities and climate change and green transitions risk deepening labour and workplace inequalities and sharing the example of Iraq's decent work strategy. It finds that carefully designed and targeted employment and skills policies will be a central plank of whole-of-government policy packages aimed at implementing a just transition promotes inclusive societies and workplaces.

Key messages

- Policy interventions in the world of work can both contribute significantly to just transitions and reduce poverty and inequalities, with a focus on employment and skills having high potential for impact.
- Understanding the complex interactions between the labour market, climate change and environmental sustainability is thus fundamental to identifying appropriate policy intervention option and comprehensive and integrated policy solutions.
- The green transition is an opportunity to invest in skills and lifelong learning that will improve livelihoods and development outcomes. Green transition job strategies and structural transformations are also opportunities to redress gender inequality and informality now and in the future.

Tackling inequalities in the world of work reinforces and amplifies efforts to reduce broader societal inequalities

Persistent and growing inequalities undermine social justice, the crucial principle and objective that can accelerate progress towards the Sustainable Development Goals and guide just transitions (Global Coalition for Social Justice, 2024[1]). Tackling inequalities broadly involves distributing and redistributing resources, opportunities and benefits. Policy interventions in the fields of taxation and social protection systems are one proven path to bring about such shifts. Policies focused on the world of work are another. Work is a key mechanism through which both distribution of opportunities and redistribution of benefits are mediated.

Policies generating employment, regulating labour markets and supporting labour institutions can prevent income inequalities, thus influencing the quantity and quality of jobs. They can also help strengthen equal opportunities and treatment in the labour market, which leads to greater gender equality and equity between different groups in society. Other supportive policies to reduce inequalities include pursuing universal social protection, promoting the formalisation of the informal economy,[1] fostering productivity growth, investing in skills and supporting conditions for decent work. Other forms of inequality that originate outside the world of work such as unequal access to quality education, health or housing can also be mitigated – or magnified – in the world of work.

With persistently high informality in low- and middle-income countries, rising poverty and the climate crisis, it has become critical to focus on work- and labour-related interventions. In 2023, wage increases failed to keep pace with inflation even in most Group of Twenty (G20) countries, which experienced lower levels of inflation than emerging market and developing economies. The number of workers living in extreme poverty[2] grew by about 1 million globally to a total of 241 million workers and those living in moderate poverty[3] increased by about 8.4 million to a total of 423 million (ILO, 2024[2]). Despite global progress in reducing informal employment, more than eight in ten employed people in Africa were in informal employment in 2023 as were nearly two-thirds in Asia and the Pacific and more than half in Latin America and the Caribbean. In many regions, women continued to be distinctly disadvantaged across labour market variables, particularly in Arab and North African countries (ILO, 2024[2]).

Both climate change and green transitions risk deepening labour and workplace inequalities

The climate crisis risks deepening inequalities. As different sectors and value chains will face different risks, the impacts on different segments of the working population will vary. Poor people, for example, tend

to rely to a larger extent on agricultural incomes and ecosystem services for their livelihoods and are thus more prone to climate-induced income shocks that affect these income sources (Chancel, Bothe and Voituriez, 2023[3]). The rise in global temperatures caused by climate change will increase the occupational health risk of heat stress for all workers but particularly those in agriculture, natural resource management, construction, refuse collection, emergency repair work, transport, tourism and sports. Heat stress is projected to reduce both global gross domestic product by USD 2.4 trillion and total working hours worldwide by 2.2% by 2030 (ILO, 2019[4]).

The green transition also may exacerbate inequalities when, for example, structural transformations in enterprises and workplaces displace workers and cause job losses. They may also create new jobs. For instance, the International Labour Organization (ILO) (2023[5]) has projected that the shift to low-carbon and circular economies may lead to the creation of an additional 100 million jobs by 2030, including 20 million jobs through "nature-based solutions". At the same time, without supportive social and economic policy measures, there could be widespread unplanned and abrupt job losses in carbon-intensive and polluting sectors and some 78 million jobs destroyed, relocated or redefined (ILO, 2023[5]). Spatial inequalities could also be exacerbated, with some regions impacted acutely, for example by the closure of fossil fuel-related industries.

Policy interventions in the world of work offer a key entry point to bring together the green transition, poverty and inequalities reduction agendas, and broader development goals. The ILO has published guidelines to help countries develop integrated strategies for a just transition towards environmentally sustainable economies and societies. The guidelines explicitly recognise that the green transition presents opportunities to achieve social objectives as "a new engine of growth, both in advanced and developing economies, and a net generator of decent, green jobs that can contribute significantly to poverty eradication and social inclusion" (ILO, 2015[6]). As an example, Iraq's new national strategy to prevent and reduce inequalities in the world of work is one of the first to be developed based on these guidelines (Box 23.1).

> ...the green transition presents opportunities to achieve social objectives as "a new engine of growth, both in advanced and developing economies"... (ILO, 2015[6])

Box 23.1. Addressing inequalities in the world of work and achieving a just transition: Iraq's new national strategy aims to do both

Iraq is transitioning from dependency on humanitarian assistance to durable solutions and sustainable development, making it especially urgent for the Iraqi government to address inequality in opportunities, wealth, outcomes and treatment. Recognising this, the International Labour Organization (ILO) worked with Iraq to develop the 2024-28 Iraq National Strategy to Prevent and Reduce Inequalities in the World of Work (ILO, 2024[7]) building on the successful 2019-23 Decent Work Country Programme in Iraq (ILO, 2019[8]). For example, the Central Bank of Iraq and Al Thiqa microfinance institution, in collaboration with the ILO, have operationalised a financial inclusion initiative expanding access to much needed finance for business development, particularly for internally displaced persons and refugees. In addition, in 2022, the Labour Force Survey, the first in over a decade, was finalised by the Central Statistical Organization and the Kurdistan Region Statistics Office with the support of the Ministry of Planning and the ILO, and will be instrumental in developing evidence-based and country-specific policies.

The Labour Force Survey provided informative data for the development of the national inequality strategy, finding that Iraq has one of the lowest employment-to-total-population ratios in the Middle East: only about one-third of the working age population (15+) were employed in Iraq in 2020/21 and almost a quarter of the labour force is either unemployed or underemployed, while the number of persons with informal jobs was 5.7 million (66.6%) of total employment. Age is also a variable: young people have lower access to jobs (26.5% of youth aged 15-24 are in the labour force compared to 45.8% of adults) and alarmingly high rates of unemployment (35.8%, compared to 11.2% for the adult – 25+ years old category – unemployment rate). This confirms that a large percentage of the unemployed are new entrants to the labour market.

Iraq's strategy supports the development of a new Decent Work Country Programme with five strategic pillars and two cross-cutting objectives: gender equality and non-discrimination. The pillars include: **employment** for women, youth and other vulnerable groups and a dedicated objective of achieving a just transition to reduce the impacts of environmental changes on employment and harness the potential to create decent work in a greener economy; **education** that promotes equal opportunities in accessing quality education, training and adequate skills for all, in particular for disadvantaged groups, including by promoting equitable digital and entrepreneurial learning; **labour rights protection** focused on ensuring adequate protection for all workers, in particular by promoting compliance with laws and regulations regarding fundamental principles and rights at work in all sectors, by promoting social dialogue and supporting social partners in collective bargaining; **transition** to a formal economy, protecting workers in the informal economy, and strengthening the ability of individuals and enterprises; and expansion of **social protection**.

Sources: ILO (2024[7]), Iraq National Strategy to Prevent and Reduce Inequalities in the World of Work (2024-2028); ILO (2022[9]), Comprehensive and Integrated ILO Strategy to Reduce and Prevent Inequalities in the World of Work, https://www.ilo.org/resource/gb/346/follow-resolution-concerning-inequalities-and-world-work-2021-comprehensive; ILO (2019[8]), Decent Work Country Programme for Iraq (2019-2023) .

Green transition job strategies and structural transformation are opportunities to redress gender inequality

In the long term, the green transition is likely to create economies with more formal and recognised employment and training structures, higher working standards, and environmentally sustainable economic and social development (ILO, 2022[10]). But structural transformation processes are not gender-neutral. Indeed, gender-blind climate and environmental policies are likely to reproduce or exacerbate existing gender inequalities in employment (ILO, 2019[11]). For instance, occupational segregation impacts women's ability to benefit from new job opportunities. However, lower prevalence of women in high-emissions sectors may mean that they are less exposed to employment losses than men. Women already face barriers to enter high-productivity sectors, including gender stereotyping, that limits their access to marketable skills and education.

> Gender-blind climate and environmental policies are likely to reproduce or exacerbate existing gender inequalities in employment.

Gender-responsive job creation strategies can address gender inequalities through the right macroeconomic, sectoral and active labour market policies (Esquivel, 2023[12]). The policies that lead to gender-equitable structural transformation vary from country to country. But common among them is a focus on channelling investment to support women as producers, wage earners and unpaid carers, including via ensuring decent working conditions and access to social protection. Industrial policies should take the different starting points and positions in the economy of men and women into account and focus on using transition processes to rebalance where possible.

Inclusive strategies to build new green skills should target informal workers and disadvantaged groups

Developing the right skills in the workforce is critical not only for a successful and sustainable green transition,[4] but also to ensure that it is just and equitable. While skills-building should be part of a wider policy package[5] to ensure that transitions do not exacerbate inequalities, it is a practical and feasible intervention that can be rolled out at scale and over time as part of wider social protection interventions.

Transition policies must take into account pre-existing unequal access to quality and relevant education and training, which results in lower levels of education, lower incomes and a higher probability of ending up in informal employment (Psacharopoulos and Patrinos, 2021[13]; ILO, 2021[14]). Investing in skills for greener jobs and a transition to formality also advances social justice and reduces inequalities that can be exacerbated by green transitions. Low-skilled adults, for instance, tend to be less likely to be upskilled than colleagues who are skilled or highly skilled (ILO, 2024[15]).

Policy responses should combine a variety of mechanisms: financial and non-financial mechanisms to remove barriers to education and training, which can reduce drop-out rates; increasing the availability of second-chance programmes; ensuring that the recognition of prior learning is embedded in career development systems for all; and safeguarding that reskilling and upskilling are targeted at those the most affected by restructuring and transitions (ILO, 2023[16]; Lange, Hofmann and Di Cara, 2020[17]). Active labour market programmes, in particular for women and young people, are most effective in improving labour market outcomes when they combine skilling with other support measures (ILO and World Bank Group, 2022[18]).

Some examples are emerging of strategies for technical vocational education and training and the reskilling and upskilling of workers being integrated into green transitions processes (ILO, 2019[19]; 2022[10]). Zimbabwe's Green enter PRIZE programme, for instance, launched new technical vocational education and training curricula focused on climate-smart agriculture and renewable energy – key parts of the country's green economy – with the aim of stimulating the market for new products and expanding employment opportunities (ILO, 2022[10]).

> Transition policies must take into account pre-existing unequal access to quality and relevant education and training, which results in lower levels of education, lower incomes and a higher probability of ending up in informal employment.

Public support for quality skilling largely overlooks workers and learners in the informal economy. Better technical, vocational, core and business skills lead to productivity gains, and investment in inclusive skills training is important to promote transitions to formality and reduce inequalities (ILO, 2023[20]). Informal apprenticeships also provide employable skills to young people in countries with large informal economies, and multi-pronged strategies to transition these systems towards quality apprenticeships, including to promote equality and social inclusion, are needed. Benin, Ghana, Kenya and the United Republic of Tanzania are among the countries that have taken important steps to include informal apprenticeships within national skills development systems (ILO, 2024[21]).

Integrated approaches combining transition policies and skills should be based on stronger partnerships with employers and workers. Policy makers and development actors should also keep in mind linkages with digital transformations, promoting digital literacy and digital skills training alongside wider access to devices and the Internet (ILO/African Development Bank, 2023[22]).

Tackling inequalities and climate change

The world of work can be affected by inequalities generated within it – inequalities of opportunity, outcome and treatment, to name just a few. Other forms of inequality – unequal access to quality education, health or housing – originate outside it. But together they can be mutually reinforcing, exacerbating different dimensions of inequality. Climate change and policies to address it through green transitions can also exacerbate inequalities in the workplace and beyond. Employment impacts of just transitions will vary across sectors and countries depending on a number of factors, especially sector and country vulnerability and adaptability to climate change.

Understanding the complex interactions between the labour market, climate change and environmental sustainability is thus fundamental to identifying appropriate policy intervention options. To have meaningful impact, policy solutions and green transitions must understand and consider these interactions. Partnerships must be in place between actors working across different dimensions to capitalise on their individual comparative advantages and strengths.

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Notes

[1] Formalisation results from a complex, long and gradual process. It is important to develop and monitor progress and develop and adjust policies and interventions at the level of intermediary objectives and activities, all of which contribute in a co-ordinated way to building the intended final impact. For more

information on transitions, see: https://www.ilo.org/resource/brief/transition-informal-formal-economy-theory-change.

[2] Extreme poverty is defined as living on less than USD 2.15 per day per person in purchasing power parity (PPP) terms.

[3] Moderate poverty is defined as living on less than USD 3.65 per day per person in PPP terms.

[4] See also https://www.ilo.org/publications/ilo-strategy-skills-and-lifelong-learning-2030.

[5] Others include, for example, place-based strategies focusing on local economy stimulation after the closing of a major fossil employer.

24 Pro-poor fossil fuel subsidy reform

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Subsidies and other types of public financial support for fossil fuels are often defended as necessary to ensuring an affordable supply of energy. However, they are a costly and inefficient way to help the poor given that the wealthy who consume the most energy benefit most. This chapter discusses how reforming or eliminating fossil fuel subsidies could free up revenues that could be redirected to poverty reduction and investments in clean energy. It includes examples of successful reforms in countries, including of Argentina, Bangladesh, Sri Lanka and Zambia. Indonesia's reform compensated households with a cash transfer programme that cost less than the subsidies, and India's phased reduction of fuel subsidies paralleled a tripling of its public investment in renewable energy. The chapter then examines how to reform fossil fuel subsidies effectively to contribute to a just transition. It concludes with a set of recommendations for development co-operation actors.

Key messages

- Phasing out support for fossil fuels is challenging – consumers do not want higher prices and producers vigorously defend access to incentives – but doing so can free up vast revenues that can be redirected to targeted social welfare and poverty reduction and investment in renewable energy.
- Fossil fuel subsidy reform can be achieved without worsening poverty and inequality if a portion of the subsidy savings is used to compensate low-income households and vulnerable businesses, for instance through cash transfers.
- Subsidy reform can actually *reduce* poverty and inequality when a larger share of the savings is directed towards poverty reduction programmes.
- The international community should redirect international public financial flows away from fossil fuels and support governments to implement pro-poor fossil fuel subsidy reform roadmaps as part of their nationally determined contribution (NDC) commitments.
- Development actors can support countries to develop detailed subsidy reform plans and transition roadmaps based on national policies and contexts by providing technical assistance in the form of expertise, capacity building for relevant ministries and policy design based on best practice.

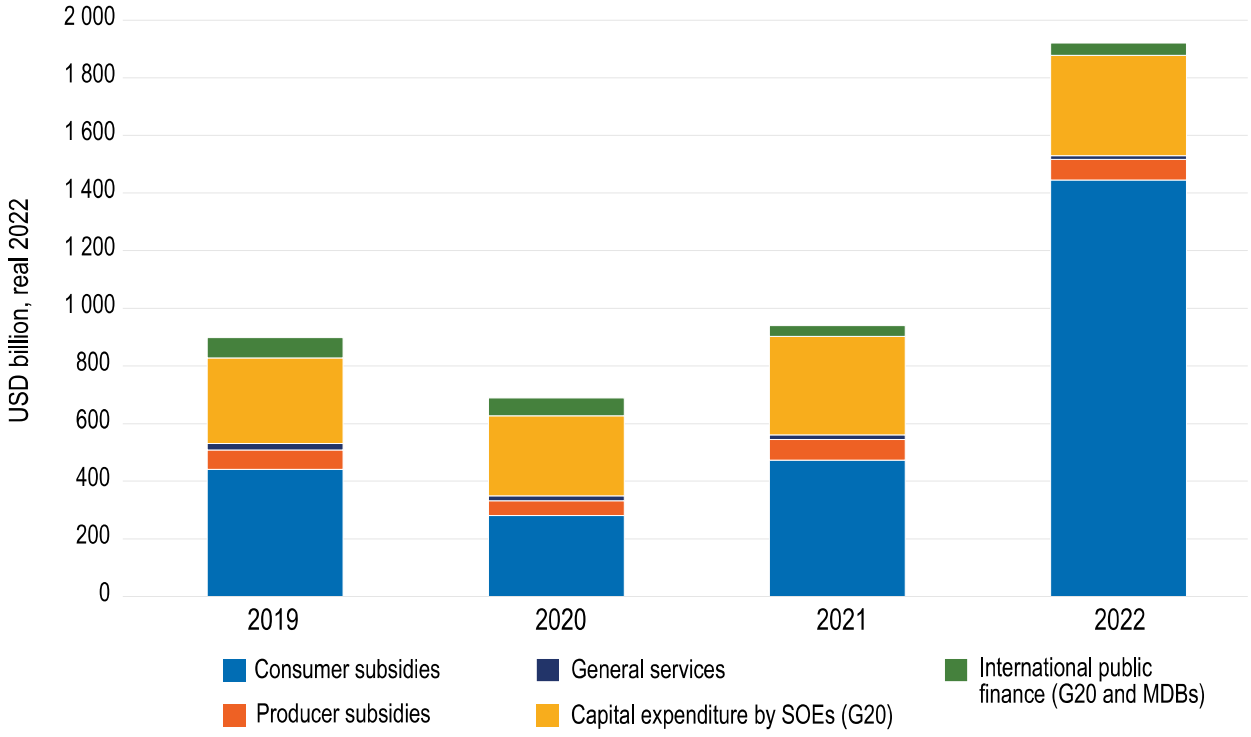
Redirecting public financial support from fossil fuels to renewable energy would unlock much-needed funding for the SDGs and the green transition

Government support for fossil fuels – including subsidies, public financing and investments by state-owned enterprises (SOEs) – is frequently defended as necessary both for development and to provide reliable and affordable energy. However, public financial support drives the use of fossil fuels that exacerbate air pollution and climate change while perpetuating reliance on price-volatile and geopolitically risky forms of energy. All of these impacts undermine development goals, particularly air pollution and climate change, which have been demonstrated to have the largest impact on the poorest (Rentschler and Leonova, 2023[1]; Taconet, Méjean and Guivarch, 2020[2]). Universal subsidies for energy consumption are also an inefficient and therefore costly way to address poverty and inequality given that the wealthy use the most energy and thus harness the largest share of support (Coady, Flamini and Sears, 2015[3]). In the case of gasoline subsidies, for example, the richest 25% of the population receives 20 times the subsidy benefit of the poorest 25% (del Granado, Coady and Gillingham, 2012[4]).

Continued fossil fuel support also contradicts governments' commitments, made and regularly reaffirmed at international summits over the past 15 years, to phase out inefficient fossil fuel subsidies, such as those that encourage wasteful consumption.[1] Governments pledged under Article 2.1.c. of the Paris Agreement to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC, 2015[5]). Under the Clean Energy Transition Partnership (CETP), launched in 2021, 41 governments, public finance institutions and multilateral development banks (MDBs) also committed to end international public financing for fossil fuels.[2]

Yet, public support for fossil fuels in all countries, regardless of income level, reached a record USD 1.9 trillion in 2022, primarily in the form of subsidies (USD 1.4 trillion) to lower consumers' costs of fuels, electricity heating and transport in response to the energy crisis (IISD and OECD, 2024[6]). Around one-quarter of total public financial support (USD 443 billion of the total USD 1.9 trillion) facilitated new fossil fuel production through subsidies for producers (USD 71 billion) (IISD and OECD, 2024[6]); international public financing (USD 43 billion) (Oil Change International, 2024[7]); and capital investments by SOEs (USD 350 billion) (Laan et al., 2023[8]).

Figure 24.1. Public financial support for fossil fuels, 2022



Note: MDB: multilateral development bank; SOE: state-owned enterprise.
Source: Subsidies: IISD and OECD (2024[6]), *Fossil Fuel Subsidy Tracker (database)*, https://fossilfuelsubsidytracker.org; international public financing: Oil Change International (2024[7]), *Public Finance for Energy Database*, https://energyfinance.org/#/data; capital investments by SOEs: Laan et al. (2023[8]), *Burning Billions: Record Public Money for Fossil Fuels Impeding Climate Action*, https://www.energypolicytracker.org/burning-billions-record-fossil-fuels-support-2022.

Phasing out support for fossil fuels would free up substantial revenues that could be used for targeted social welfare and a just transition to clean energy. The International Monetary Fund (IMF) has estimated that reforming subsidies and increasing taxes on fossil fuels to reflect social costs could raise USD 3 trillion a year by 2030 in 121 emerging and developing economies – an amount broadly in line with their additional spending needs for the SDGs (Black et al., 2023[9]). Separately, a study of 96 developing countries found that fossil fuel subsidies exceeded official development assistance in 59% of the countries in 2015, i.e. for these countries, eliminating fossil fuel subsidies would generate more revenue than that provided by all donors combined (McCulloch, 2017[10]). The situation is unlikely to have improved given that global fossil fuel subsidies tripled from around USD 0.5 trillion in 2015 to USD 1.5 trillion in 2022 (IISD and OECD, 2024[6]).

At the 2023 United Nations Climate Change Conference, COP28, governments committed to triple current levels of renewable energy capacity (United Nations, 2023[11]). Doing so would require an investment of USD 12 trillion in the power system from 2024 to 2030, but the world is only on track to invest USD 6.6 trillion over that period, leaving an investment shortfall of just over USD 5 trillion (Grant et al., 2023[12]). The public sector has a pivotal role to play in shifting investment by sending the right signals (including by raising fossil fuel prices through subsidy reform and taxation) and implementing enabling policies for renewables and related infrastructure, including from fossil fuel subsidy reform.

Subsidy savings can be used to ease impacts of reforms and boost public support

Being frequently used as a social or industrial support instrument, particularly in countries without comprehensive tax and social welfare systems, reforming support for fossil fuels can be challenging. While the poor use less energy than the wealthy, energy can constitute a larger proportion of their total expenditure (Coady, Flamini and Sears, 2015[3]). Targeted compensation such as cash transfers funded from subsidy savings is therefore needed to alleviate negative impacts and generate political support. Economic modelling by the Asian Development Bank (2016[13]) showed that directing fossil fuel subsidy savings to cash payments, infrastructure, health and education, for instance, can create net benefits for economic growth, equality and poverty reduction.

These challenges appear both when supporting consumption and production and can indeed constitute a major barrier to reform (McCulloch, 2023[14]). On the consumption side, maintaining below-market fossil fuel prices is often seen as part of the social contract in many producing nations, and citizens in most countries expect governments to intervene to protect them from price spikes, such as during the recent energy crisis. All actors, particularly civil society and governments, could better educate the public that social welfare and income tax cuts, when possible in the context of domestic tax systems, are more effective in delivering cost-of-living support. According to a recent study, a commitment to reinvest subsidy savings in public services (education, health or cash transfers) can double public support for reform (World Bank Group, 2023[15]). On the production side, governments should disentangle themselves from vested fossil fuel interests – that is, donations and lobbying from the private sector, fossil fuel assets and SOEs, and dependence on fossil fuel revenues.

Successful reforms in developing countries have led to significant public expenditure savings and increased support to social sectors

Between January 2015 and May 2020, at least 53 countries implemented some kind of fossil fuel consumer subsidy reform or increased taxes on fossil fuels (Sanchez et al., 2020[16]). The 2021-22 global energy crisis prompted many countries to re-establish consumer energy subsidies (IISD and OECD, 2024[6]). Nevertheless, recent examples of reforms or planned reforms have been observed in several emerging economies. In most cases, these were in response to loan conditions by the IMF, which encourages carefully planned fossil fuel subsidy reform (IMF, n.d.[17]). Some examples include:

- **Argentina** is phasing out natural gas subsidies from 2022 to 2024 to comply with its IMF loan programme. Subsidies will be targeted through volumetric consumption to the most vulnerable sectors in selected and only in certain geographies (Buenos Aires Times, 2024[18]).
- **Bangladesh**, also under an agreement with the IMF, began subsidy cuts in 2022 for the energy sector by raising the prices of fuel oil, natural gas and electricity. Prices are now nearly at market rates, and a review will determine if social safety nets need to be strengthened (IMF, 2023[19]).
- **Colombia** began increasing gasoline prices in 2022 to reduce the fiscal burden of subsidies and allow market pricing. Diesel prices remain unchanged at the time of writing because of ongoing protests. To avoid high gasoline prices, some private vehicle owners are switching to cheaper natural gas as an alternative (Botero, 2024[20]). The government committed to increase prices for diesel starting in 2024 (Botero, 2024[20]).
- **Sri Lanka** reduced subsidies during 2022 and 2023 for transport fuels and electricity while strengthening social protection through cash transfers under its loan agreement with the IMF (IMF, 2023[21]; Rajawasam, 2024[22]).

- **Zambia** removed inefficient fuel subsidies in 2021 in the power and farming sectors under the conditionality of an IMF loan. The government reinvested the subsidy savings in social expenditure, notably to make secondary education free (IMF, 2022[23]; Mfula, 2021[24]).

Further analysis is required to assess whether these specific reforms are pro-poor. However, several studies have looked at the impact of fossil fuel subsidy reforms on poverty using economic modelling simulations or data on household income and expenditure before and after the reforms. Most concluded that fossil fuel subsidy reform without reinvestment of subsidy savings would increase poverty levels, but reallocation of subsidy savings through cash transfers or similar measures resulted in net reductions in poverty[3] (Couharde and Mouhoud, 2018[25]). For example, a study of the Islamic Republic of Iran's 2010 fuel subsidy reforms found that while simply removing subsidies would have increased the national poverty rate by 3.3 percentage points, compensatory cash transfers avoided this potential outcome, ultimately reducing the national poverty rate by 4.7 percentage points (Salehi-Isfahani, Wilson Stucki and Deutschmann, 2015[26]).

Studies concluded that fossil fuel subsidy reform without reinvestment of subsidy savings would increase poverty levels, but reallocation of subsidy savings through cash transfers or similar measures resulted in net reductions in poverty.

Indonesia, for example, has successfully reduced public support for fossil fuels on several occasions. In 2005, the government developed and implemented an unconditional cash transfer programme to mitigate the impact of fuel prices reform on low-income households (Beaton et al., 2013[27]). The net savings from the cash transfer programme and subsidy reforms was around USD 2.2 billion: the transfers cost about USD 2.3 billion and subsidy savings were around USD 4.5 billion (Beaton and Lontoh, 2010[28]). However, retail prices for key fuels remained fixed rather than adjusted to reflect market prices, resulting in a re-emergence of subsidies. When oil prices spiked in 2008, the government raised fuel prices again, but offset the impact with cash transfers and other compensation measures (subsidies for rice, educational support for children and low-interest loans for micro-enterprises) (Beaton and Lontoh, 2010[28]). In 2015, the government again made deep subsidy cuts, saving approximately USD 15.6 billion, or 10% of all government expenditure (Pradiptyo et al., 2016[29]). Some of the savings were invested in priority programmes related to education, health insurance, housing, clean water and transportation that directly benefited households (Pradiptyo et al., 2016[29]). While these measures were successful at the time, the government stopped short of applying market-based pricing for all energy types and subsidies persist for diesel and gasoline, along with coal, electricity and liquefied petroleum gas (LPG) (IISD, 2022[30]).

Another example is India, which has reduced gasoline, diesel and kerosene subsidies by 59% since 2014 while also tripling public support for renewable energy, particularly utility-scale solar projects, solar irrigation and electric vehicles (Raizada et al., 2024[31]). Subsidies to LPG were maintained and expanded to encourage households to transition away from traditional solid cooking fuels, which are responsible for high levels of indoor air pollution. A national campaign targeting LPG subsidies to women from low-income households resulted in large-scale adoption of LPG (from 28.5% in 2011 to around 71% in 2020 (Sirur, 2023[32])) resulting in reduced cooking and cleaning times (Global Subsidies Initiative et al., 2019[33]).

However, India's subsidies to fossil fuels remain five times higher than those for clean energy (USD 15 billion and USD 3 billion, respectively, in 2023), and it remains to be seen whether the country will stay on the path of subsidy reform. As of early 2024, with global energy prices still elevated, subsidies on several fuels are also re-emerging in India that may unwind its hard-won progress on reform (Raizada et al., 2024[31]).

How to reform fossil fuel subsidies effectively to contribute to just transitions

A comprehensive approach is needed to ensure that reforms contribute to sustainable poverty reduction and just green transitions. Some countries have removed subsidies opportunistically – a newly elected government with strong political standing taking decisive action, for instance, or a government taking advantage of falling world energy prices to remove subsidies without an increase in consumer prices. However, such reforms are often short-lived. When international energy prices rise again, subsidies return as seen in the examples of India and Indonesia. The energy crisis also saw many developed countries imposing new consumer subsidies (Sgaravatti et al., 2023[34]). A comprehensive national strategy is more likely to achieve lasting reforms when endowed with the following six elements: 1) planning; 2) consultation; 3) communication; 4) compensation; 5) timing; and 6) institutional reform (Beaton et al., 2013[27]; IMF, 2013[35]). Table 24.1 outlines the rationale for each of these elements and how each can help reduce poverty and inequality.

Table 24.1. Six elements of a comprehensive reform strategy

Element	Objective	Poverty- and inequality-reducing elements
Planning	Input from all relevant government agencies is needed to develop a comprehensive reform plan	Ensure that departments dealing with welfare, gender and supporting marginalised groups are involved in designing the reforms
Consultation	Assess all impacts of reform, and foster buy-in from stakeholders	Ensure that social welfare groups are consulted; conduct household surveys of all income groups
Communication	Publicise the benefits of reform to build political and public support	Ensure that poor consumers understand compensation mechanisms and are aware of how to access these
Compensation	Provide targeted assistance to vulnerable consumers and businesses, ideally in advance of reforms to build trust	Ensure that the poor, near-poor and energy-intensive businesses are supported through automatic transfers or easy-to-access support
Timing	Determine whether a rapid or slow phase-out is best based on the type of subsidy, prevailing energy prices and national circumstance	A slow phase-out is generally preferrable to allow consumers and businesses to adjust
Institutional reform	Reform pricing mechanisms and state-owned enterprises (SOEs) to ensure subsidies do not re-emerge	SOEs need to have transition plans for employees and consumers impacted by reforms

Source: Based on Beaton et al. (2013[27]), *A Guidebook to Fossil-Fuel Subsidy Reform for Policy-Makers in Southeast Asia*, https://www.iisd.org/gsi/sites/default/files/ffs_guidebook.pdf.

Recommendations for development co-operation actors

To both reduce fossil fuel dependence and increase investment in renewable energy requires concerted action at global and national levels. Financial support (such as grants and concessional loans), technical assistance, technology transfer and advocacy from the international development community can promote a more equitable distribution of clean energy investment. Currently, investment in clean energy is highly geographically concentrated, with over 90% of the increase in clean energy investment since 2021 occurring in advanced economies and the People's Republic of China (hereafter "China") (IEA, 2023[36]). Without international intervention, low- and middle-income countries may be left behind in the energy transition, with ongoing pollution from fossil fuels, the risk of stranded fossil fuel assets and a lack of domestic clean energy industries.

The IEA estimated that to be consistent with a 1.5°C pathway, investment in clean energy in emerging markets and developing economies needs to more than double from USD 770 billion in 2022 to USD 1.8 trillion to USD 2.2 trillion per year to 2030 (IEA, 2023[37]), and the increase even is steeper if China is excluded (a fourfold rise from USD 0.26 trillion to USD 0.8-1.1 trillion). Mobilising the revenues needed

for the energy transition requires renewed commitment at all levels. At the international level, donor countries, MDBs and finance agencies should shift support from fossil fuels to clean energy.

1. First, commitments from signatories of the CETP, including MDBs, to end international financing of fossil fuels and ramp up financing for clean energy and just transitions, should be better evaluated ex post. While signatories are required to cease international public financing of fossil fuels within one year of having signed the CETP, five signatories approved at least USD 5.7 billion in fossil finance after that deadline passed (Oil Change International, 2024[38]), with additional financing provided through financial intermediaries of MDBs (The Big Shift Global, 2022[39]). In 2022, only two CETP signatories shifted more finance into clean energy than they divested from fossil fuels when compared with their average financing from 2019-21 (European Central Bank, 2020[40]; Jones and Mun, 2023[41]).
2. Second, just energy transition partnerships should be better designed, with thorough consultation and substantial resources for economic diversification and transformation for workers and businesses, both formal and informal, affected by energy transition investments. They should also not subsidise any new long-lived gas infrastructure, given the impact of gas on climate, the risk of stranded assets and the likely effect of gas investment delaying the transition to clean energy (Kramer, 2022[42]).
3. Third, an ambitious outcome is needed for the New Collective Quantified Goal on Climate Finance (NCQG), the new global climate finance goal under the Paris Agreement. The floor for the NCQG has been set at USD 100 billion per year, prior to 2025, but the final amount for the new goal has yet to be determined. Estimates of climate financing requirements vary widely:
    a. USD 500 billion in 2025 to USD 1.55 trillion by 2030 (UNCTAD, 2023[43])
    b. USD 5.8 trillion to meet the needs outlined in the NDCs (UNFCCC Standing Committee on Finance, 2021[44])
    c. USD 3.5 trillion to USD 9.2 trillion annually in mitigation spending to reach net zero by 2050, USD 0.05 trillion to USD 1.1 trillion annually for adaptation, and USD 1.1 trillion to USD 2.7 trillion annually for loss and damage (Alayza, 2023[45]).

Limitations in international agreements on fossil fuel subsidies also need to be addressed, including in commitments by the G7, G20 and the United Nations. International commitments require countries to reform so-called “inefficient” fossil fuel subsidies, and only the G7 has set a concrete deadline of 2025 for when they will implement the commitment. In addition, governments are not required to provide roadmaps for the phase-out of subsidies or even to include a reduction of support to fossil fuels in their NDCs. At the time of writing, only Canada has developed an implementation plan to reform its fossil fuel subsidies and defined “inefficient” according to its national priorities, which unfortunately still leaves the potential for many fossil fuel subsidies to persist or be put in place (Tervit, 2023[46]). The only allowable subsidies should be for just transitions – aimed at communities and workers, not fuels – and time-limited, targeted support to poor households while social support infrastructure is put into place.

The national level is where reform needs to take place while taking account of national, subnational and local circumstances. The international community can encourage and support countries to raise revenue for social support and a just energy transition through programmes of subsidy phase-out, taxation reform and revenue generation. Development actors can support countries to develop detailed subsidy reform plans and transition roadmaps based on national policies and circumstances.

Countries may need support to identify vulnerable people and businesses and develop targeted assistance measures to address impacts and predict macroeconomic impacts. The IMF and World Bank’s Climate Policy Assessment Tool is an accessible model that can assist policy makers to assess, design and implement climate mitigation policies, including fossil fuel subsidy reform. It also allows policy makers to

examine the impact of policy change, tailored to over 200 countries, including impacts on energy demand, prices, welfare, gross domestic product, inflation, externalities and emissions.

Ideally, support measures would be put in place before prices are increased to build political support for reform and resolve any implementation challenges, including errors of inclusion and exclusion. Fossil fuel subsidy reform and taxation will raise revenue, but these can only be realised after the reforms have been enacted. The international donor community can provide such funding – as the IMF does with its loan programmes – to enable reform. In addition, technical assistance may be needed on the design of the welfare system, as well as the consultation and communications strategies (which should also be developed and implemented well in advance of reforms to reduce the risk of political backlash).

More financial assistance is needed to support international technical assistance for fossil fuel subsidy reform. Currently, the world allocates less than 0.01% of all international aid to try to solve the problem of fossil fuel subsidies (based on the budget for technical assistance in MDBs, inter-governmental organisations and non-government organisations) (McCulloch, 2023[14]).

Transition plans for national and subnational SOEs are particularly important given their central role in the production and distribution of energy in many developing countries. SOEs are well-positioned to lead in just transition initiatives given they are major employers in the energy sector and often have social objectives alongside financial and energy security goals. Development actors can encourage and support governments to provide firm directives and set realistic targets to SOEs to diversify into clean energy and support fossil fuel dependent communities in the transition. All subsidy and SOE reform plans should be included as commitments in the NDCs.

Both financial and technical assistance from the international donor community can assist low- and middle-income countries to implement these complex reforms, particularly given the challenging circumstances faced by many emerging markets and developing economies of low fiscal capacity, uncomprehensive welfare systems and substantial barriers to the deployment of clean energy (inadequate energy infrastructure, indebted utilities and higher capital costs). In addition, donors can help mobilise climate finance from the Global North to the Global South to support just transitions in energy systems and effective responses to climate change.

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Notes

[1] Commitments were made at the Asia-Pacific Economic Cooperation summit and the Group of Twenty (G20) meeting in 2009, followed by similar pledges at the G7 meeting in 2022. See: https://www.apec.org/meeting-papers/leaders-declarations/2009/2009_aelm; https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf; and https://reliefweb.int/attachments/4c820770-4738-4271-b41d-4288e8daff32/EN.pdf. In 2015, UN members adopted SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all: https://sdgs.un.org/goals/goal7.

[2] For information on the CETP, see: https://cleanenergytransitionpartnership.org.

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25 In my view: Restoring dialogue and global unity behind co-operative solutions are critical for people and the planet

Macky Sall, former president of Senegal

We are caught between two pressures. On one side, there is the risk of global economic fragmentation driven by the emergence of regional blocs favouring protectionist policies, shortening value chains, reducing investments and increasing isolationism. A more fragmented world means abandoning co-operative approaches and lacking consensus on the way forward to achieve common goals such as combating climate change and resolving debt issues.

On the other side, now more than ever, we need co-ordination to finance the fight against climate change and growing inequalities. The combined effects of the COVID-19 pandemic, conflicts, climate change and biodiversity loss crises leave us today in a world where poverty and inequality are rising and progress on the Sustainable Development Goals (SDGs) is derailed. The annual funding gap for achieving the SDGs has significantly increased, reaching USD 4.2 trillion. Meanwhile, to achieve carbon-neutrality by 2050, global investments in clean energy will need to triple on a global scale, and USD 2 trillion will be needed for the energy and climate transition in emerging and developing countries.

While the scale of financing needs is huge, the capacity of many developing countries to mobilise financing for development and climate is highly constrained. Today, more than half of low-income countries are heavily indebted. Developing countries face high borrowing costs, and many governments must allocate a high share of revenue to debt service payments instead of investing in health, education and social protection. Large variations also persist in countries' access to liquidity in times of crisis. Countries should not have to choose between climate, development and debt.

> Countries should not have to choose between climate, development and debt.

There is an urgent need for global co-ordination. We must rethink the functioning of the international financial system and the Bretton Woods institutions. We need a fairer system that enables the mobilisation of more and rapid funding to the countries that need it most. Multilateralism remains the best form of engagement and dialogue to address common issues that impact the global economy and our lives.

There is also an urgent need to restore dialogue between the Global North and Global South. Southern countries are the first to be impacted by climate and economic crises. To design a more effective and fairer

international financial architecture, we must ensure their fair representation in global economic forums such as the Group of Seven (G7) and G20. The allocation of one seat for Africa in the G20 and the creation of a third African chair on the International Monetary Fund's board are promising steps forward in this direction.

Strengthening this dialogue was the core ambition of the Summit for a New Global Financing Pact, which brought together about 40 heads of state, including from major emerging countries, and international financial institutions in June 2023. The summit aimed to find solutions so that emerging countries would not have to choose between development and climate. It served to recognise the urgent need for reform of the international financial architecture and to create momentum.

First, this momentum was reflected in the numbers. We exceeded the USD 100 billion climate finance goal for developing countries for the first time in 2022, reaching USD 115.9 billion. By May 2024, we had secured USD 260 million in commitments towards the USD 300 million target for the Alliance for Green Infrastructure in Africa to finance green and climate-resilient projects and programmes. At the Clean Cooking Summit, USD 2.2 billion was pledged for financing and investing in clean cooking initiatives in Africa.

However, this is still not enough. We need more systemic changes and to agree on clear mandates. We must go further in redirecting special drawing rights through multilateral development banks, in mobilising more substantial private flows effectively directed to the countries that need them most, and in reassessing the evaluation criteria of rating agencies.

We need more systemic changes and to agree on clear mandates.

We need a dialogue between multilateral development banks, development finance institutions, regulators, credit rating agencies and other partners to look at financial regulations and any unintended consequences that prudential frameworks may have on investments in developing countries. This dialogue should also address longer standing rules and practices on country risk assessments and credit risk ratings that may inadequately reflect country realities. It is urgent to hold an international consultation on the rating criteria of evaluation agencies to make them fairer and more transparent. And we should strengthen the deployment of just energy transition partnerships, which can provide a consensual framework for energy transition.

Second, this momentum has created a new lab of multilateralism and political impetus. The Paris Pact for People and the Planet was created to ensure that developing countries can make their voices heard and participate equally in discussions that traditionally are held in forums where these countries have limited access and influence. The platform brought together country coalitions on debt, biodiversity credits, international taxation, carbon markets and clean cooking – the main concerns that need to be addressed and considering all aspects of development and transition. The Paris Pact for People and the Planet platform also provides a space for developed countries to demonstrate their commitment to enhanced financial mobilisation and more representative and effective financial governance.

Only together will we succeed in adapting our international institutions to face common challenges. But we need to move from awareness to action for the sake of our lives, the planet and future generations.

I strongly support the work undertaken by the OECD in producing more transparent and detailed data and promoting co-ordinated action in the fight against poverty and inequalities. This enables better country assessments, unlocks investments, and assists governments in developing credible and ambitious long-term policies to reduce poverty and inequalities.

26 Making climate funds fit for more interlinked and mutually reinforcing agendas

Özlem Taskin, Development Co-operation Directorate, OECD

Climate funds such as the Adaptation Fund, Climate Investment Funds, Green Climate Fund and Global Environment Facility provide crucial climate-related development finance that could help increase resilience and address poverty and inequality in developing countries. This chapter highlights ways for these funds to become more fit for purpose, including by deploying their resources more strategically to serve the interlinked and mutually reinforcing agendas of climate, development, and poverty and inequality reduction. It argues for climate funds to improve the availability, accessibility and delivery of finance; increase the volume of finance directly provided to developing country institutions; strengthen their focus on sectors relevant for climate change adaptation; and ensure that finance is used equitably and in line with developing countries' expressed priorities.

Key messages

- Sound climate policy is sound development policy, and failure to deliver on ambitious collective climate action will leave more of the most vulnerable countries and people further behind.
- While climate-related development finance is growing in volume and increasingly going to lower income countries, it is also increasingly fragmented and the proliferation of projects raises transaction costs.
- Climate funds play a relatively small role in terms of amounts of climate-related development finance provided.
- To meaningfully contribute to a strengthened global response to the climate challenge, climate funds need to improve the availability, accessibility and delivery of their support and increase their focus on local adaptation action, which can also help fight poverty and inequality.

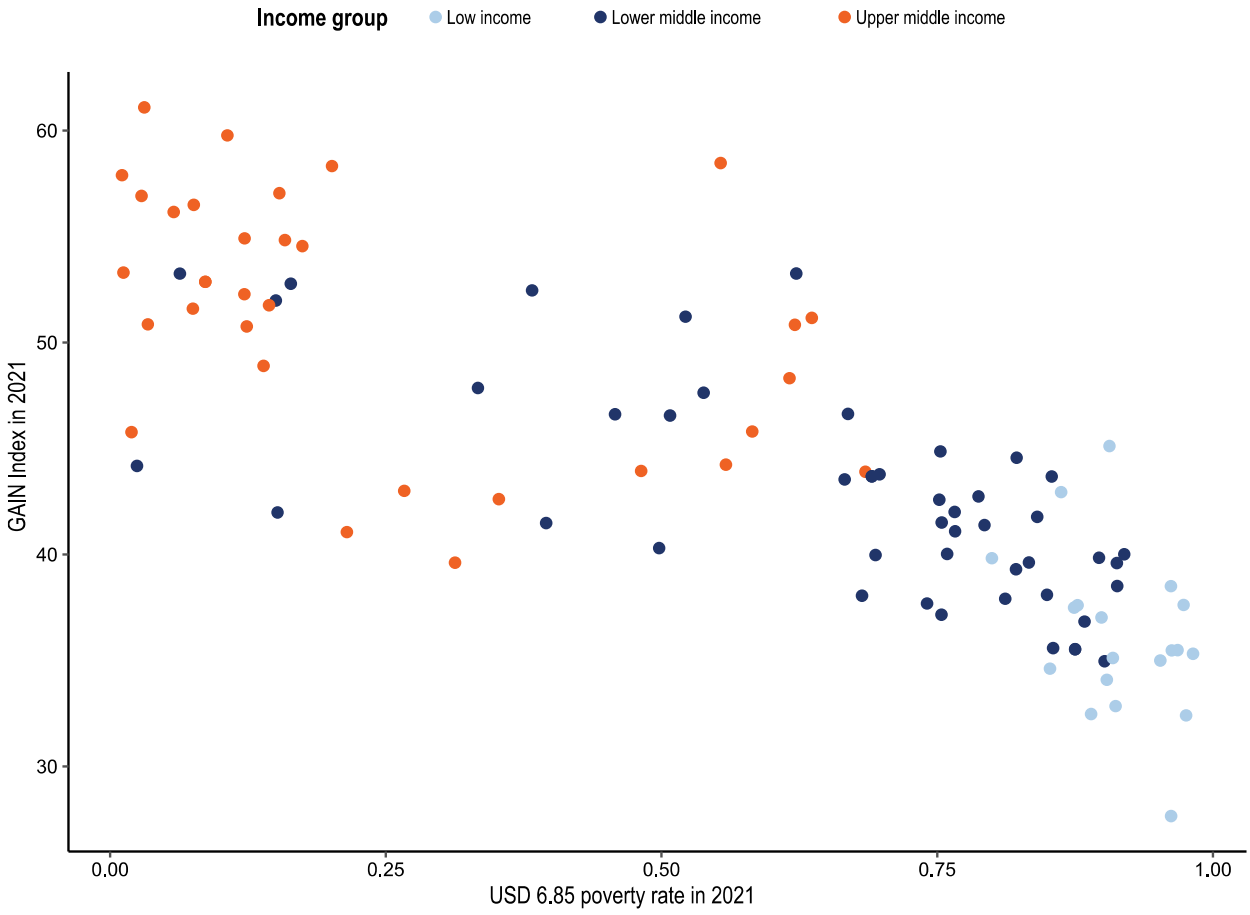
Higher financing ambition and action to address climate change in the poorest countries are key to global progress on climate and development goals

Each successive report from the Intergovernmental Panel on Climate Change records that the climate crisis is escalating as global average temperatures are increasing faster and climate change impacts are more dire than previously anticipated. Developing countries are disproportionately burdened due to their high exposure and vulnerability to climate change impacts. Insufficient financial and institutional capacity to manage climate change risks drives this vulnerability. Poorer people generally depend more than others on climate-sensitive livelihoods, operate with weaker safety nets and are more strongly affected by potential health issues stemming from climate change (Hallegatte et al., 2016[1]). They, therefore, have greater needs for improving their resilience to climate change (Figure 26.1). Many communities are already reaching limits to adaptation, in particular those in least developed countries (LDCs) and small island developing states (SIDS). Natural disasters alone are pushing 26 million people a year into poverty (Hallegatte et al., 2016[2]).

Climate change aggravates the challenges developing countries face in progressing on their development pathways and jeopardises development gains, including those achieved with the support of development co-operation. It is becoming ever more evident that climate-resilient development is not only a necessity at the global and local level, but also presents new opportunities to achieve both climate and development goals, including related to poverty and inequality reduction – if the global community is able to achieve higher financing ambition and action.

Figure 26.1. The higher the poverty rate in a given country, the greater the needs for improving resilience to climate change

Correlation between USD 6.85 poverty rate and ND-GAIN Index on climate change vulnerability in 2021, by income group



Notes: Data are from 2021 or closest available year, interpolated. Exprobated data were used for the poverty line. The USD 6.85 poverty rate (the poverty line in upper middle-income countries) was used to capture poverty in the entire sample. The ND-GAIN Index scores show a country's exposure, sensitivity and capacity to adapt to the negative impacts of climate change, focusing on overall vulnerability.
Source: ND-GAIN (2024[3]), *Notre Dame Global Adaptation Initiative Country Index: Vulnerability and Readiness* (database), https://gain.nd.edu/our-work/country-index/rankings; World Bank (2024[4]), *Poverty and Inequality Platform* (database), https://pip.worldbank.org/home.

More strategic use of development finance could serve the interlinked agendas of climate, sustainable development, and reducing poverty and inequalities

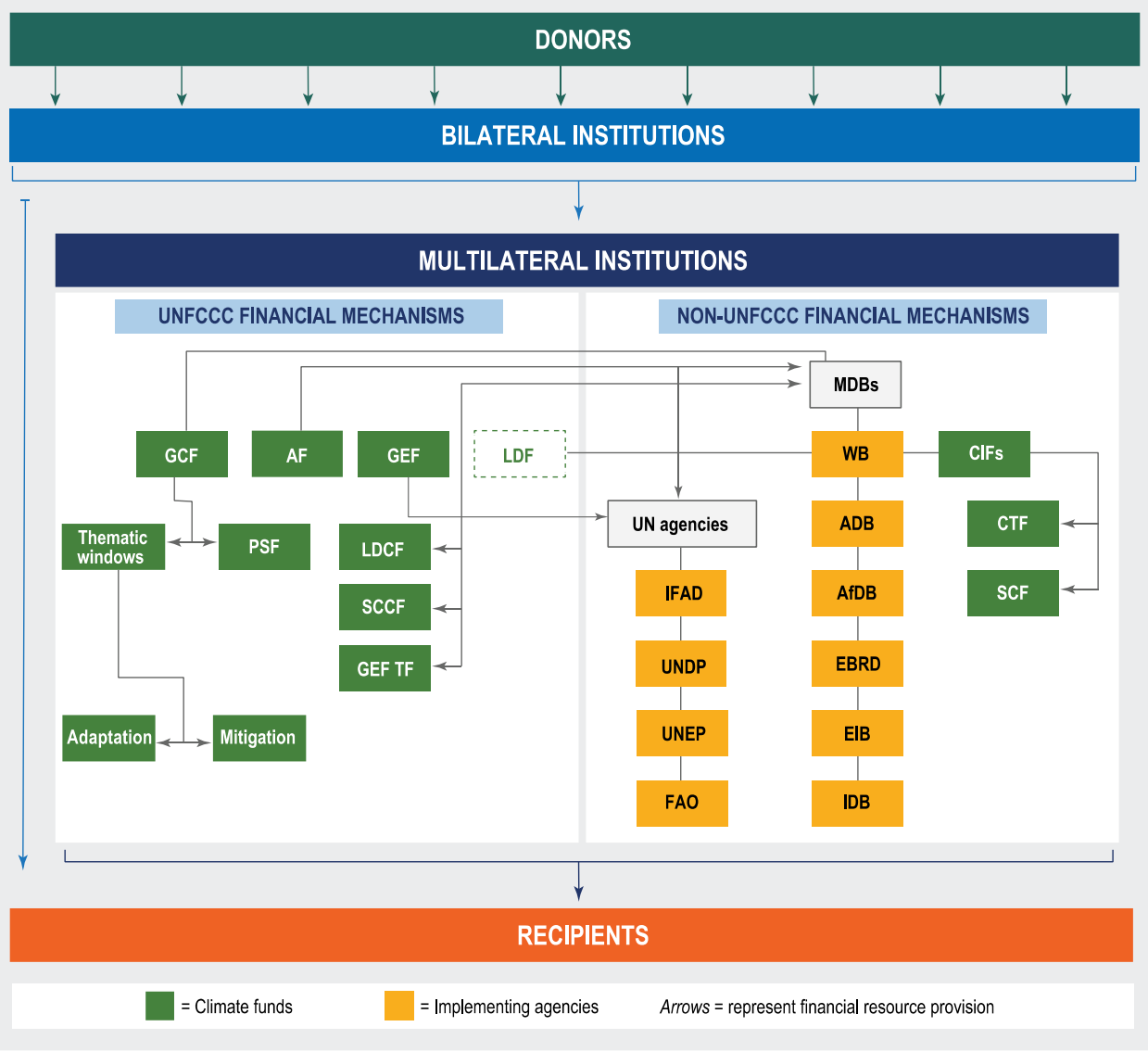
Supporting developing countries in their climate change mitigation and adaptation efforts requires massive deployment of finance from all sources. Development finance must be used strategically to trigger broader change – in particular, change led by partners and other actors. However, efforts so far do not measure up to the interlinked and mutually reinforcing agendas of climate, development, and ending poverty and reducing inequalities. Greater ambition and action in development co-operation are essential to development and climate progress, and to restoring trust. Action in 2024 and 2025 is particularly relevant given the updating of nationally determined contributions (NDCs) under the Paris Agreement, ongoing deliberations around a New Collective Quantified Goal on climate finance, and the fourth Financing for

Development Conference that will take place in 2025 and set new a framework for development finance. The international climate finance architecture is a complex, continuously changing landscape of political commitments and individual funding and financing decisions by a multitude of bilateral and multilateral institutions (Figure 26.2). Climate funds are fairly nascent entities within this architecture, dedicated to addressing climate change and broader environmental issues. The Green Climate Fund (GCF), the Global Environment Facility (GEF) and the Adaptation Fund are particularly relevant. These are special funds and financing entities under the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) and/or serve the Paris Agreement. The Climate Investment Funds (CIFs), separate from the UNFCCC financial mechanisms, are also particularly relevant due to their size.

Climate funds are fairly nascent entities within this architecture, dedicated to addressing climate change and broader environmental issues.

Figure 26.2. Donors provide climate-related development finance through a patchwork of dedicated climate funds and established implementing agencies

Simplified illustration of resource flows within the international climate finance architecture focusing on the four main climate funds



Notes: Arrows represent flows of financial resources. The arrows under donors are indicative and aim to show that a wide range of bilateral donors have their own bilateral implementing agencies and dedicated climate funds that contribute to multilateral institutions. Climate funds are depicted in green squares, implementing agencies in orange squares. UNFCCC = United Nations Framework Convention on Climate Change; GCF = Green Climate Fund; PSF = Private Sector Facility; AF = Adaptation Fund; GEF = Global Environment Facility; LDCF = Least Developed Countries Fund; SCCF = Special Climate Change Fund; GEF TF = Global Environment Facility Trust Fund; LDF = Loss and Damage Fund; IFAD = International Fund for Agricultural Development; UNDP = United Nations Development Programme; UNEP = United Nations Environment Programme; FAO = Food and Agriculture Organization; WB = World Bank; ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; IDB = Interamerican Development Bank; CIFs = Climate Investment Funds; CTF = Climate Technology Fund; SCF = Strategic Climate Fund. All multilateral development banks (MDBs) are accredited entities of the GCF. The World Bank administers the CIFs. At COP28, the World Bank was further invited to "operationalise" the Fund to Address Loss and Damage as a World Bank-hosted financial intermediary fund for an interim period of four years. The GEF serves as the secretariat for the Adaptation Fund, the Least Developed Countries Fund and the Special Climate Change Fund .

Source: Adapted from Watson and Schalatek (2020[5]), *The Global Climate Finance Architecture*, https://climatefundsupdate.org/wp-content/uploads/2020/03/CFF2-2019-ENG-DIGITAL.pdf.

While climate funds hold significant value in the international climate finance architecture, the volumes of resources they provide is relatively limited compared to climate-related development finance overall (Table 26.1). It is hence essential for the funds to deploy their resources strategically, to maximise the impact of climate action in and by developing countries. The ability of climate funds to reach those furthest behind will determine whether they fulfil their mandate of supporting ambitious action on climate change and biodiversity loss in the context of sustainable development as well as related efforts to eradicate poverty and reduce inequalities.

Table 26.1. The four major climate funds are providing increasing volumes of climate-related development finance, and must be deployed strategically to maximise their impact

Contribution of funds, average 2016-21

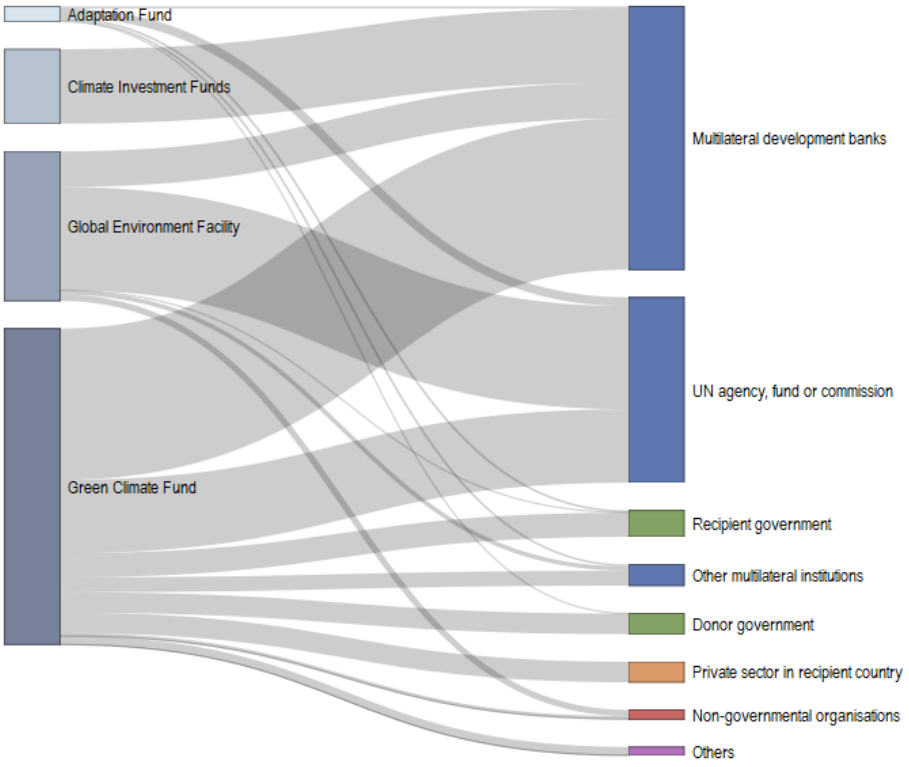
	Climate-related development finance in constant USD million	Share, relative to climate-related development finance provided by multilateral institutions, excluding multilateral development banks	Share, relative to climate-related development finance provided by DAC members and multilateral institutions, excluding multilateral development banks
Adaptation Fund	91.49	2.2%	0.2%
Climate Investment Funds	453.46	11.9%	1.1%
Global Environment Facility	872.25	21.8%	2.0%
Green Climate Fund	1 901.34	47.7%	4.3%

Source: Based on OECD (2023[6]) *Creditor Reporting System* (database), http://data-explorer.oecd.org/s/m.

Analysis shows significant challenges for the funds, however. For example, the four major climate funds (GCF, GEF, AF and CIFs) have distinct governance arrangements and policies that steer and guide the allocation of financial resources. But for all of them, a substantial share of their resources are co-financed or channelled through existing institutions of the international development finance architecture, such as MDBs, before reaching partners in developing countries (Figure 26.3). This framework was set up to avoid duplication of costs and benefit from the institutional infrastructure provided by MDBs.

Figure 26.3. The vast majority of climate funds' resources are channelled through existing development finance institutions before reaching recipients in developing countries

Channels of climate-related development finance of four major climate funds, totals, 2016-21



Source: Based on OECD (2023[6]) *Creditor Reporting System* (database), https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm.

Making climate funds fit for purpose

Donors must address fragmentation and proliferation of development finance overall, including finance to support climate action

The volume of climate-related development finance is growing, and certain quality elements of climate-related development are also improving. For example, support for adaptation is increasing more than financing for mitigation in line with the demand by developing countries in light of the significant local impacts of climate change (OECD, 2024[7]). For DAC members in particular, adaptation-related development finance exceeded mitigation-related development finance for the first time in 2021 (OECD, 2023[8]).

Further, climate-related development finance is increasingly provided to lower income countries, including LDCs (OECD, 2024[7]). Indeed, the allocation pattern of climate-related development finance has been approaching that of overall development finance, which has itself become slightly more focused on poor countries. Forthcoming OECD research finds that growth in financing to support climate action by developing countries accounted for the vast majority of the increase of overall official development finance

in the period 2010-21. Overall, the analysis indicates that climate finance is in essence development finance.

OECD research finds that growth in financing to support climate action by developing countries accounted for the vast majority of the increase of overall official development finance in the period 2010-21.

Other quality elements of development finance need further attention. While the number of active multilateral entities has grown to more than 200 over the past decade, 70% of total financing from the multilateral development system comes from just 10 of these entities (OECD, 2022[9]). In addition, the number of providers has sharply increased while average project size has decreased. Evidence suggests that climate-related development finance is also impacted by fragmentation and proliferation. Box 26.1 describes these shifts in the case of climate-related development finance for SIDS.

Box 26.1. Small island developing states suffer in particular from a fragmented system

While an issue for development finance in general, proliferation and fragmentation of development and climate-related finance is particularly relevant for small island developing states (SIDS). SIDS are especially vulnerable to climate change due to a range of interconnected risks such as sea level rise, biodiversity and ecosystem loss, water insecurity, destruction of settlements and infrastructure, degradation of health and well-being, and economic decline (IPCC, 2022[10]; ND-GAIN, 2024[3]). While they present the most urgent needs, SIDS' capacity development constraints limit their ability to adapt and build resilience to climate change impacts (IPCC, 2022[10]; OECD, 2023[11]; 2018[12]). In this context, SIDS have called for their priority access to climate-related development finance as an enabler of their overall development.

Between 2016 and 2021, climate action in SIDS was financed through an average of 1 391 projects per year, with the number of projects increasing from 670 in 2016 to 2 758 in 2021 (OECD, 2024[7]). Climate-related development finance from the four main climate funds to SIDS increased over the same period from USD 1.38 billion to USD 2.95 billion. The majority of support from climate funds (and from development co-operation providers more broadly that report to the OECD Development Assistance Committee) targeted climate change adaptation. The average size of adaptation projects decreased significantly over the same period. The proliferation of projects results in high transaction costs, in particular when considering the relevance of adaptation-related development finance in overall development finance for SIDS.

Sources: IPCC (2022[10]), "Small islands", https://doi.org/10.1017/9781009325844.017; ND-GAIN (2024[3]), *Notre Dame Global Adaptation Initiative Country Index: Vulnerability and Readiness* (database), https://gain.nd.edu/our-work/country-index/rankings; OECD (2018[12]), *Making Development Co-operation Work for Small Island Developing States*, https://doi.org/10.1787/9789264287648-en; OECD (2023[11]), *Capacity Development for Climate Change in Small Island Developing States*, https://doi.org/10.1787/888c870a-en; OECD (2024[7]), "Development finance for climate and environment", web page, https://www.oecd.org/en/topics/development-finance-for-climate-and-the-environment.html.

By channelling a large share of their financing through existing multilateral organisations, notably MDBs (see Figure 26.2 and Figure 26.3), climate funds contribute to the simultaneous trend of increasing fragmentation – through the increasing number of funds – and increasing concentration of resources – through the channelling of resources through established development finance institutions. While the use of multilateral organisations is intentional for some of the climate funds – to benefit from efficiency gains

by using legacy institutions – this also means that resources can be captured in the system. Additionally, by adding layers of delegation, the vertical fund model can increase transaction costs.

The question, hence, is, how can climate funds deliver directly to developing countries, without adding further to the number of development finance channels and institutions developing countries engage with, and thereby avoiding further fragmentation? One of the key foundational elements of the GCF's formation is the direct resource provision to recipients, including, for example, private sector entities, non-governmental organisations and government entities in partner countries, in line with the effectiveness principle of country ownership. Over the 2016-21 period, however, only 14% of the GCF's finance was directly provided to developing country institutions compared with 13% of the AF's finance and 0% of the finance of both the GEF and the CIFs.[1] Additionally, only 20 of the 62 developing country institutions had projects approved, according to research carried out in 2021 (Caldwell and Larsen, 2021[13]). Funding is generally committed for specific projects and delivered to an increasing number of implementing agencies, which creates the risk that projects are not integrated with wider government processes and therefore not sustainable, in addition to failing to create synergies. Alignment of climate fund resources with developing country processes, needs, priorities and strategies can support the direct delivery of financial resources to developing countries while avoiding the burden of higher fragmentation, and improving cost-effectiveness.

> Only 14% of the GCF's finance was directly provided to developing country institutions compared with 13% of the AF's finance and 0% of the finance of both the GEF and the CIFs

Climate funds need to enhance the availability, accessibility and speed of delivery of finance

Achieving the transformation to low-emission and climate-resilient economies requires the right scale of finance of the right kind and at the right time. Though estimates vary, it is clear that global finance flows for climate action have increased but still fall short of the amount needed to make a meaningful contribution to reducing poverty and inequality in a changing climate (UNFCCC, 2022[14]; Naran et al., 2022[15]; Songwe, Stern and Bhattacharya, 2022[16]; UNEP, 2023[17]).

Developing countries, in particular LDCs and SIDS, have sounded the alarm on the need for more accessible and affordable climate finance for a number of years (LIFE-AR, 2019[18]). One of the key barriers to accessing finance are complex accreditation and application processes, including those of climate funds, which LDCs and SIDS often lack the institutional and technical capacity and resources to complete (OECD, 2018[12]; Caldwell and Larsen, 2021[13]; Garschagen and Doshi, 2022[19]; Wilkinson, Treichel and Robertson, 2023[20]). Without harmonised accreditation and application processes, as well as long-term capacity-building support for national and local institutions, there is a risk that the resources of climate funds will be captured by countries that already have a certain level of capacity while LDCs, SIDS and other most vulnerable countries could fall further behind. As shown in Table 26.2, middle-income countries are the main recipients of three of the four main climate funds, as is the case for development finance overall. Beyond general access of developing country entities to financial resources of climate funds, it is the direct access that is essential to ensure finance is aligned with developing country needs and priorities, strengthen developing country systems, and improve cost-effectiveness.

Table 26.2. As for development finance overall, middle-income countries are the largest recipients of the main climate funds – except for the Adaptation Fund

Top ten recipients of climate-related development finance by climate fund, total 2016-21

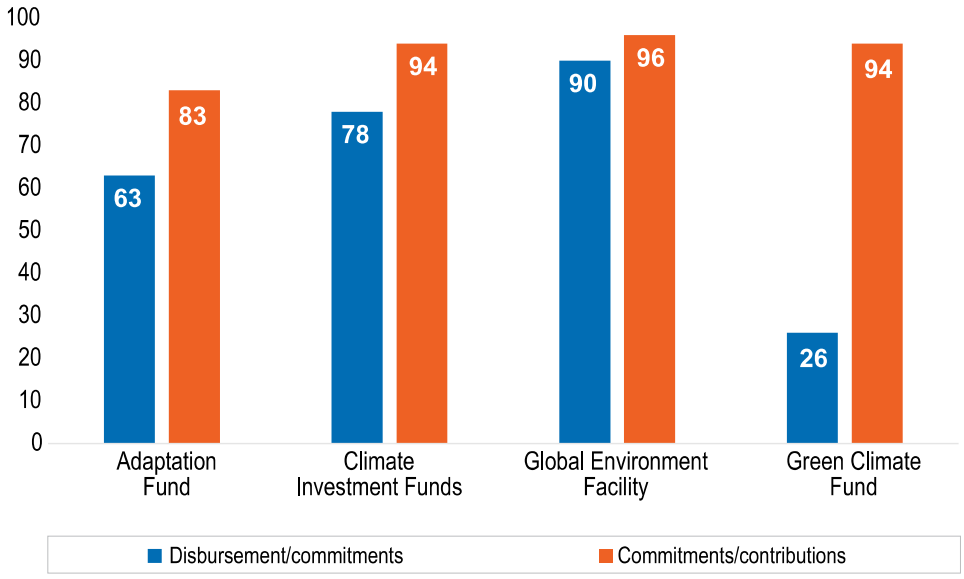
Adaptation Fund	Climate Investment Funds	Green Climate Fund	Global Environment Facility
Niger	India	Mongolia	China (People's Republic of)
Sierra Leone	South Africa	Brazil	Brazil
Namibia	Indonesia	Bangladesh	India
Liberia	Bangladesh	India	Mexico
Peru	Türkiye	Costa Rica	Indonesia
Ethiopia	Rwanda	Egypt	Peru
Guinea-Bissau	Colombia	Tanzania	Colombia
Panama	Morocco	Argentina	Tanzania
Lao People's Democratic Republic	Peru	Indonesia	Democratic Republic of the Congo
Gambia	Ukraine	Ethiopia	Ethiopia

Notes: Antigua and Barbuda, though among the largest Adaptation Fund recipients, is not included in the table as it is not official development assistance eligible; the World Bank classifies Antigua and Barbuda as a high-income economy. Green cells indicate a low-income country recipient, blue indicate a lower middle-income country recipient and orange cells indicate an upper middle-income country recipient.
Source: Based on OECD (2023[6]) *Creditor Reporting System* (database), http://data-explorer.oecd.org/s/m.

Speed of delivery of climate finance to activities in developing countries varies substantially across climate funds (Figure 26.4). The GCF, in particular, is relatively slow in moving from commitment to disbursement. Several factors may contribute to this. First, the GCF works with a more diverse group of implementing entities, including recipient country private sector entities and non-governmental organisations (see Figure 26.3), which may lack the administrative capacity or other relevant processes to quickly absorb disbursements (Lee, Landers and Matthews, 2023[21]). Second, more than two-thirds of the GCF's commitments since 2016 were made in 2020 and 2021 (versus 21% of the AF's, for example). With projects typically lasting several years, only a small portion of the committed funds have already been disbursed (Lee, Landers and Matthews, 2023[21]). To improve access to finance, the GCF updated several of its policies in 2022, including to streamline the accreditation process and accelerate project approval and implementation (Green Climate Fund, 2022[22]; 2022[23]).

Figure 26.4. Speed of climate finance delivery varies substantially across climate funds

Commitment and disbursement ratios, 2012-21

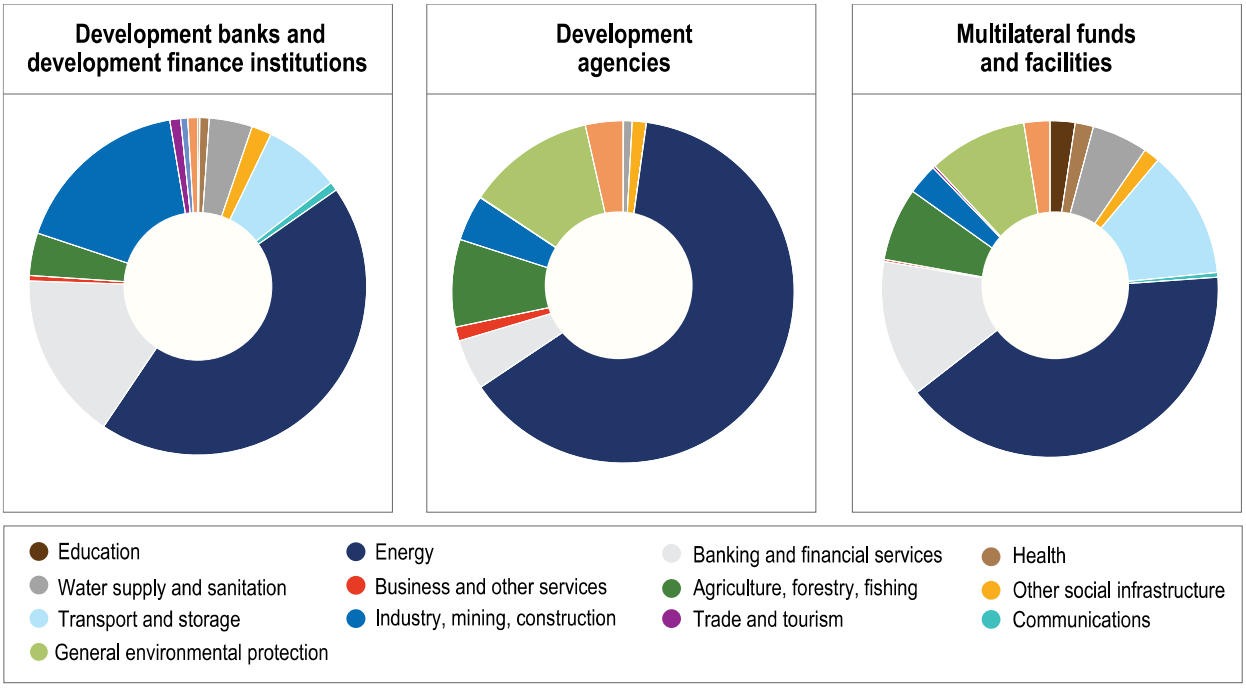


Notes: The ratio disbursement/commitments indicates the speed of climate funds' actual disbursement of resources after commitments have been made, while the commitments rate relative to contributions indicates how swiftly climate funds commit resources to specific interventions after a contribution has been received.
Source: Adapted from Lee, Landers and Matthews (2023[21]), "Concessional climate finance: Is the MDB architecture working?", https://www.cgdev.org/publication/concessional-climate-finance-mdb-architecture-working.

Access to finance from climate funds is also important to support the mobilisation of private climate finance. Forthcoming OECD analysis shows that multilateral funds and facilities, and mostly climate funds within this provider type, mobilise private finance for climate action in a broader set of sectors than other provider types, including those with likely implications for poverty and inequality reduction (Figure 26.5) (OECD, 2024[24]). In particular, a larger share of private climate finance by multilateral funds targeted the sectors pertaining to agriculture, forestry and fishing; general environmental protection; education; health; and water supply and sanitation than the private finance mobilised by development banks and development finance institutions. In absolute terms, however, development banks and development finance institutions are the most significant mobilisers of private climate finance. Given the adaptation finance gap, climate funds could be an important partner of developing countries to mobilise private finance in such sectors.

Figure 26.5. Multilateral funds, including climate funds, mobilise private climate finance for a broader range of sectors such as those relevant for adaptation

Shares of private climate finance mobilised through official development finance interventions, by type of development finance provider and sector, 2016-22



Notes: In addition to the major climate funds, multilateral funds include the Credit Guarantee and Investment Facility, International Fund for Agricultural Development (IFAD), the European Development Fund, the Global Energy Efficiency and Renewable Energy Fund, and the United Nations Capital Development Fund. The four major climate funds that are the focus of this chapter mobilised the majority of private climate finance through official development finance interventions in this group of providers.
Source: OECD (2024[24]), *Private Climate Finance Mobilised in Developing Countries: 2016-2022*, https://doi.org/10.1787/286dae5d-en; OECD (2024[25]), "Mobilised private finance for development", http://data-explorer.oecd.org/s/q.

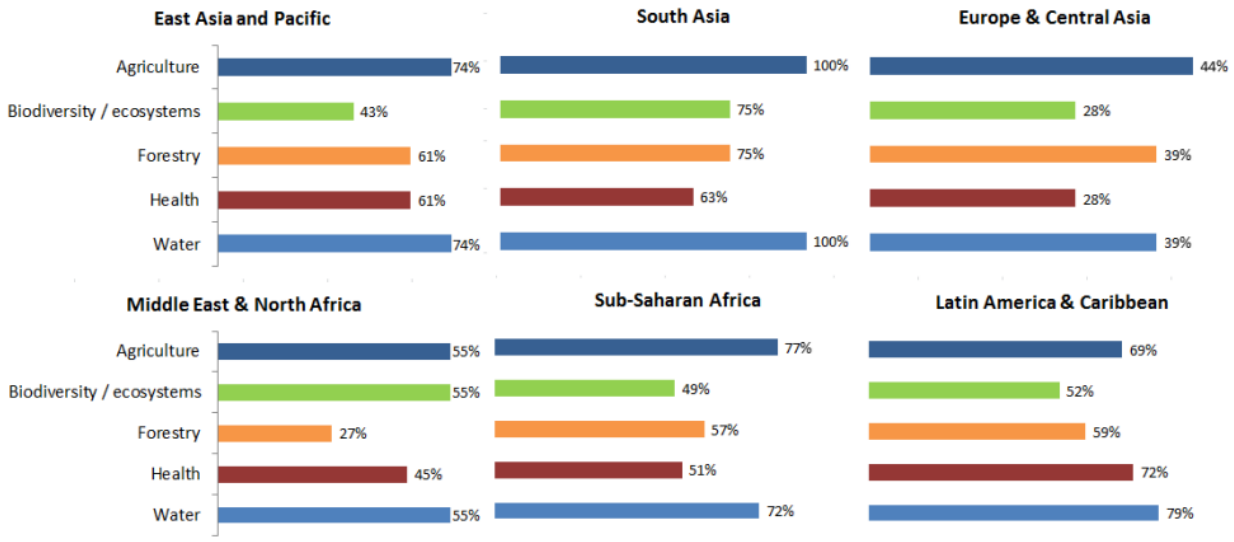
Climate funds need to strengthen their support for local adaptation action

The needs and cost of adaptation in developing countries are substantial and rising, and dwarf current levels of international adaptation finance by a factor of 10 to 18 (UNEP, 2023[17]). Accordingly, the Glasgow Climate Pact, as the main outcome document of COP26, included a call to double adaptation finance from 2019 levels by 2025. The GCF had been set up to devote 50% of its resources to mobilisation, with half going to LDCs, SIDS and African countries. As 2023 is confirmed to have been the warmest year on record by a clear margin (World Meteorological Organization, 2024[26]), stepped-up efforts to mitigate climate change are essential. It is equally crucial to assist developing countries to adapt to the rapidly worsening impacts of climate change, not least because climate change impacts disproportionately affect some of the poorest countries and marginalised populations. LDCs and SIDS in particular often lack the institutional capacities to adapt and to increase resilience – for instance by ensuring that financing is utilised effectively and equitably, including with attention paid to gender as well as to vulnerable and marginalised groups.

Within the fragmented landscape of climate finance providers, country ownership and alignment with partner countries' own needs are important guiding principles (Shine, 2017[27]). Adaptation efforts should be based on developing countries' self-identified vulnerabilities, needs and priorities and result from a local, gender-responsive, participatory and transparent approach (UNFCC, 2015[28]). Approximately 75% of developing countries specify in their NDCs that the sectors related to agriculture, biodiversity and

ecosystems, forestry, health, and water are priority sectors for their adaptation action in response to identified climate risks (German Development Institute, 2022[29]). Figure 26.6 provides a regional breakdown of these sectors in the NDCs of developing countries.

Figure 26.6. Priority sectors outlined in developing countries' nationally determined contributions, by region

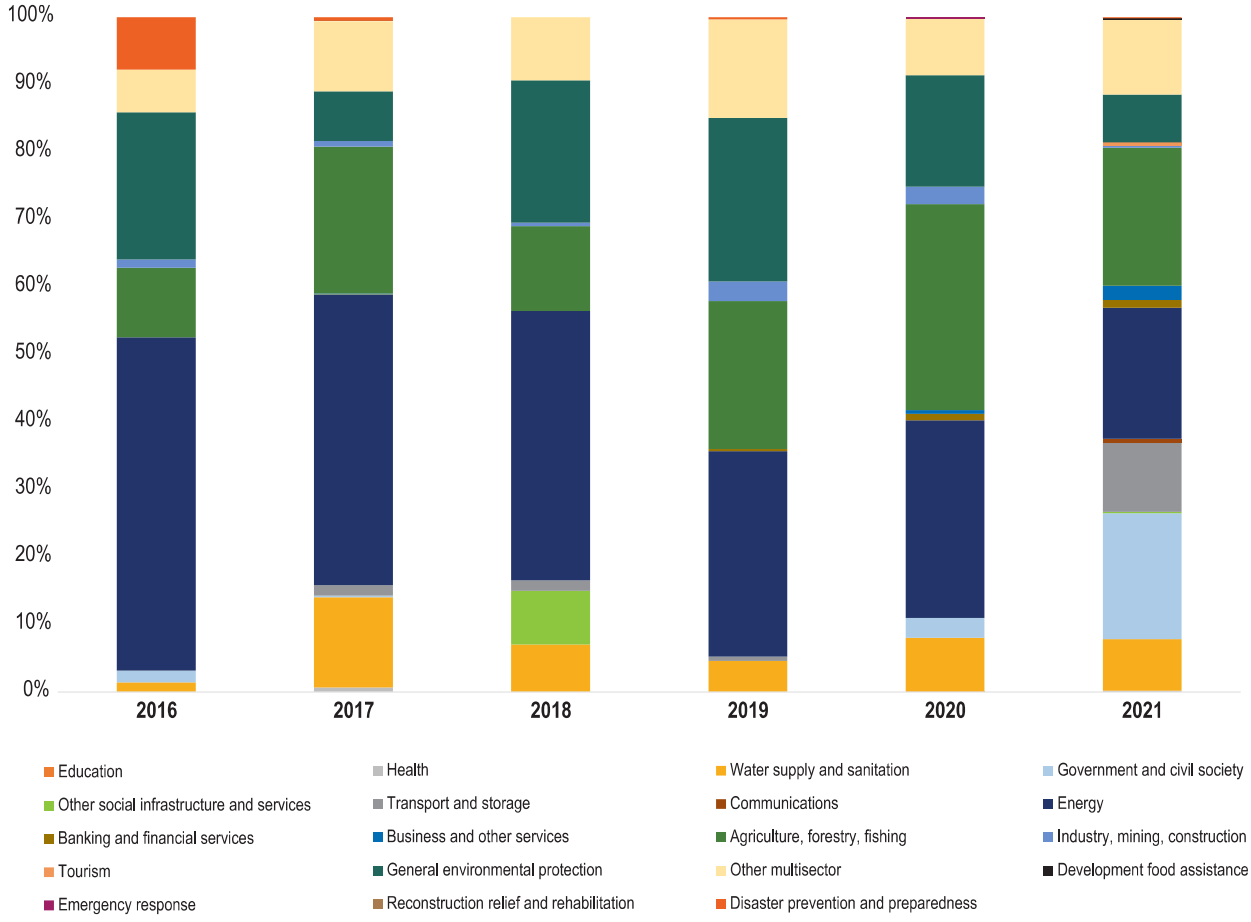


Note: The percentages indicate the share of developing country nationally determined contributions examined that identify the respective sectors as a priority for adaptation action.
Source: Based on German Development Institute (2022[29]), *NDC Explorer* (database), https://klimalog.idos-research.de/ndc/#NDCExplorer/worldMap?NewAndUpdatedNDC??income???catIncome

Trends in financing from climate funds indicate, however, that their finance dovetails with the priority adaptation sectors identified in NDCs only in certain cases (Figure 26.7). Over the period 2016-21, finance from the four major climate funds increased from USD 2.7 billion to USD 3.9 billion and their support for energy-related projects decreased steadily from 49% of the entire portfolio in 2016 to 19% in 2021. This decrease somewhat benefited a larger share of climate funds' operations in the agriculture, forestry and fishing sector – a sector relevant for both mitigation and adaptation – but did not lead to an increased focus on a range of adaptation-relevant sectors (Figure 26.7). For example, climate-related development finance provided by climate funds and dedicated to general environmental protection, which could support biodiversity and ecosystems, decreased significantly in absolute and relative volumes: in 2016, this sector made up 22% of climate funds' activities but only 7% in 2021. Similarly, climate funds did not increase their activities in the health sector, though developing countries identify this sector as a priority for action. Climate funds did increase their finance in the water supply and sanitation sector, from a 1% share in 2016 to 8% in 2021, though this increase was more limited in relative terms. These trends suggest a stronger need for climate funds to focus on adaptation-relevant sectors, both to address poverty and inequality and to adhere more strongly to country ownership and the use of country systems as fundamental conditions of effectiveness. The challenge to strengthen climate funds' adaptation support is aggravated by the fact that local adaptation actors have no representation at the funds and the lack of direct delivery capacity of climate funds.

Figure 26.7. Climate funds do not focus on a wide range of adaptation-relevant sectors

Shares of climate-related development finance by the four major climate funds by sector, 2016-21



Source: Based on OECD (2023[6]) *Creditor Reporting System* (database), http://data-explorer.oecd.org/s/m.

Some priority actions to be taken

Climate action is essential to prevent the most severe impacts on the most vulnerable populations and to avoid leaving more people further behind. This reasoning reflects what the Paris Agreement calls the "intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty" (UNFCC, 2015[28]). The four major climate funds could therefore increase their provision of financial resources for adaptation and in adaptation-relevant sectors to support developing countries to address poverty and inequality. Doing so would also support the 2030 Agenda by supporting societies' most vulnerable people to reduce their vulnerability to climate change impacts and thereby counteract continued exclusion and disadvantage.

The initial analysis included in this chapter suggests five action areas where climate funds and their donors can enhance the funds' fitness for purpose in a changing climate and amid increasing poverty and widening inequality:

1. **Increase developing country entities' direct access** to financial resources at affordable terms; align finance with developing country needs and priorities; strengthen developing country systems; and improve cost-effectiveness in delivering finance to intended beneficiaries.
2. **Simplify and harmonise accreditation and application processes** to enhance access to finance for LDCs and SIDS in particular as these countries often lack the institutional and technical capacity and resources to navigate the processes, which can differ from fund to fund.
3. **Address the gap between disbursements and commitments** to enhance the credibility and predictability of climate funds. This would enable more effective implementation of projects and the funds' broader co-ordination with partner country actors and other development co-operation providers.
4. **Increase adaptation finance and support in adaptation-relevant sectors** to respond to developing country needs. By increasing adaptation finance and targeting it to priority sectors identified by developing countries, climate funds can contribute to supporting the most vulnerable people that face the greatest risks from climate change, including those who live in poverty, face entrenched disadvantage(s), and/or lack access to water and other fundamental human needs. As these people tend to live in the most vulnerable locations and environments and include communities dependent on coastal and agricultural livelihoods, targeting finance in this way would involve a stronger focus on LDCs and SIDS.
5. **Deploy climate funds strategically** to:
    a. **support NDCs and long-term low emissions development strategies** to increase the effectiveness of support through adhering to developing country-defined action and priorities while ensuring that activities support the groups and communities that most need the support
    b. **catalyse countries' transitions to low emissions, climate-resilient pathways** by strengthening policies, capacities and enabling investment environments. Climate funds' financial resources are relatively small, but deploying all of these levers can trigger broader change in developing countries, particularly change led by partners and other actors.

Delivering on these five action areas can make a meaningful contribution by climate funds to meeting financing needs for climate action in developing countries, thereby addressing poverty and inequality as well.

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Note

[1] The Climate Investment Funds are set up to channel their resources through the major Multilateral Development Banks (MDBs) due to their ability to provide large-scale financing.

27 Policy coherence and responsible business conduct

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The annual investment gap across the Sustainable Development Goals has almost doubled since 2015. The green transition and the fight against poverty require a significant additional investment to achieve these goals. This chapter highlights the importance of private investment and foreign direct investment, in particular, to help developing countries raise incomes through quality jobs and increase environmental sustainability by enhancing innovation and access to green technologies. It argues that more coherence between development policy and measures aiming to create an enabling environment for sustainable business and to promote responsible business conduct (RBC) are needed to maximise the positive spillover effects of cross-border business activity and to prevent unintended side effects.

Key messages

- International investment has a crucial role in accelerating the green transition and eradicating poverty. However, OECD countries' policies to foster its contribution to sustainable development lack co-ordination.
- In the face of emerging supply chain due diligence obligations, OECD countries need to leverage their development policy to support an enabling environment for responsible business conduct in developing countries and enable multinational enterprises to continue engaging there.
- The OECD plays a crucial role in developing policy guidance and best practices in responsible business conduct, analysing such policies' effects on trade and investment, and making recommendations to support sustainable business practices to reduce poverty.

The sustainable development agenda faces a major investment gap

In June 2023, the world crossed the halfway point of the 2030 Agenda. There is little reason to celebrate. The international community is on track for only 15% of the targets defined under the 17 Sustainable Development Goals (SDGs). Moreover, the annual investment gap across the SDGs has almost doubled since 2015 – standing now at USD 4 trillion – and is estimated to increase by USD 400 billion per year (OECD, 2022[1]; United Nations, 2023[2]). Investment needs are particularly dramatic for the green transition and the fight against poverty.[1]

International trade and investment contributed to lifting roughly 1 billion people out of poverty between 1990 and 2017 by bringing them into more productive jobs. Yet the COVID-19 pandemic and increased trade tensions between key global economies have reversed some of this progress (World Bank, 2023[3]). As a result, 575 million people, or 7.0% of the world's population, are still expected to live in extreme poverty in 2030 compared with 10.8% in 2015 (United Nations, 2023[4]). The creation of decent jobs is crucial for countering this trend. On the African continent alone, between 8 million and 11 million youth are expected to enter the labour market every year in the coming decades, but only about 3 million formal jobs are created annually (Munyati, 2024[5]).

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The green transition accounts for over half of the SDG investment gap, with renewable energy generation, energy efficiency, and other transition-related technologies and sources facing enormous investment needs. In developing countries, these needs are even more striking: while installed capacity in renewable energy needs to increase by a factor of 2.5 in the most advanced economies, it needs to grow by a factor of 25 in least developed countries (UNCTAD, 2023[6]).

The private sector has a crucial role to play in accelerating the green transition and getting the world back on track in the fight against poverty. Through innovation and investment in low-carbon and resource-efficient products, services and solutions, it is a key actor for achieving a green economy. And private companies account for 90% of jobs in developing countries on average (ILO, 2024[7]). International investment, in particular, can help developing countries enhance growth and innovation, access more sustainable technologies, create quality jobs, and develop human capital, thus raising living standards (OECD, 2022[8]).

However, the ways in which OECD countries try to foster the contribution of international investment to sustainable development are not sufficiently co-ordinated and sometimes even conflict with each other. While countries use development policy tools to mitigate risks for investors and improve the business environment in developing countries, emerging supply chain due diligence obligations, albeit well intentioned, risk making business activity in developing countries more challenging. This chapter highlights the importance of private investment for sustainable development. It also shows that more coherence between development policy and policy measures aiming to foster RBC is needed to maximise the positive impact of cross-border business activity on sustainable development.

Leveraging the private sector for sustainable development

The private sector is a key driver of sustainable development

Sustainable development cannot be achieved without the private sector. In developing countries, private businesses account for 60% of gross domestic product, 80% of capital flows and 90% of jobs on average (OECD, 2017[9]; USAID, 2021[10]). While most private investment is undertaken by domestic firms, international investment can provide crucial advantages to developing countries. Not only does it bring additional capital to countries constrained by limited domestic resources, it also enhances productivity and upskilling and contributes to higher wages and living standards.[2] Moreover, it fosters innovation and helps disseminate new technologies and sustainable business practices across borders.[3] In the energy sector, for example, foreign direct investment (FDI) accounts for 30% of new investments in renewable energy globally, and over 70% of energy FDI in non-OECD countries went to renewable energy in 2021 (OECD, 2022[8]).

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With almost 70% of global outward FDI originating in OECD countries in 2022[4] (OECD, 2024[11]), companies from these countries are the leading international investors globally. Many of them are also in the vanguard on sustainability indicators such as environmental or social performance (OECD, 2022[8]). Facing high standards and consumer expectations on sustainability in their home countries, companies often bring their corporate culture with them when trading with and investing in third countries, lifting standards along their supply chains.

Policies harnessing the private sector for sustainable development lack coherence

In line with the commitment of the Addis Ababa Action Agenda to mobilise all resources to finance sustainable development, development co-operation actors in OECD countries have increasingly partnered with the private sector. Between 2012 and 2022, more than USD 415 billion was mobilised from the private sector by official development finance interventions (OECD, 2024[12]). More recently, geopolitical tensions and efforts to diversify supply chains have led to additional initiatives leveraging private investment for development. OECD countries are trying to maximise the positive impact of their companies' operations in developing countries in two major ways (OECD, 2023[13]).

First, they leverage different development policy tools to create conditions in developing countries that are conducive to attracting and retaining FDI. These include promoting good governance, the rule of law and a favourable business environment through political dialogue. Such measures are often complemented

with technical assistance and capacity-building activities for partner governments and micro, small and medium-sized companies in developing countries. OECD countries also strategically use development finance to mobilise additional private investment in developing countries through blended finance, e.g. by mitigating associated risks or addressing bottlenecks. For example, the Africa-Europe Green Energy Initiative under the Global Gateway of the European Union engages European and African public and private sector actors to increase electricity production and access to energy, promote energy efficiency, support reforms for a conducive regulatory environment for private investment, and foster market integration. Concrete projects under this initiative include the launch of the West African Power Pool Coordination Centre in Benin, the rehabilitation of the Kariba Dam in Zambia and the construction of a Power-to-X hydrogen power reference plant in Morocco through a public-private partnership (European Commission, 2024[14]).

Second, OECD countries encourage their companies to ensure high standards of RBC in their own operations and along their supply chain. Since their initial adoption in 1976, the *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* (2023[15]) and their guidance have had a profound impact on government policies and business practices in this area. While the guidelines are voluntary for companies, a growing number of jurisdictions have introduced binding legislation in this area in recent years. For example, France (2017) and Germany (2021) adopted laws requiring companies above a certain size to conduct due diligence along their supply chains globally and prevent and address negative consequences associated with their business activity (German Federal Ministry of Labour and Social Affairs, 2024[16]; French General Council for the Economy, Industry, Energy and Technology (CGE), 2020[17]). With the recently adopted Corporate Sustainability Due Diligence Directive, such obligations will soon apply across the European Union (European Parliament, 2024[18]).

Yet, there is an inherent tension between measures encouraging companies to invest more in developing countries and laws making them responsible for what happens in their supply chains in these countries. This may lead to unintended consequences. Companies may react to the reputational, financial and penal risks resulting from binding due diligence legislation by withdrawing from developing countries with weak governance frameworks rather than staying and helping improve the situation. At the same time, the higher fixed costs per supplier caused by due diligence requirements risk leading to a reduction in the number of suppliers, with small companies often replaced by bigger ones (German Federal Ministry for Economic Affairs and Climate Action, 2022[19]). In a recent survey of 2 400 internationally active companies, 23% of those directly affected by the German Act on Corporate Due Diligence Obligations in Supply Chains indicated they were withdrawing or considering withdrawing from high-risk countries or stopping trading with them. Even 13% of the companies covered indirectly by the law considered withdrawing from such countries since the directly covered companies they supply often require them to prove their compliance (German Chamber of Commerce and Industry, 2023[20]). In another survey of 400 German companies, 24% stated they were reducing their number of suppliers and avoiding suppliers whose compliance was hard to verify (Federal Association of German Industry, 2024[21]). In anticipation of the EU Corporate Sustainability Due Diligence Directive, several coffee roasting companies substituted away from African smallholder coffee farmers towards bigger farming companies in Brazil and Viet Nam, which are expected to better cope with the associated certification requirements (Kafsak, 2023[22]).

Development policy needs to create an enabling environment for sustainable business

To avoid unintended side effects of due diligence obligations on business activity in developing countries, development policy needs to keep pace with the rapidly evolving RBC policy landscape. Higher expectations and demands on companies alone are not enough to improve social and environmental sustainability standards along global supply chains. Rather, if binding requirements for supply chain due

diligence are introduced, it is important that they be accompanied by policies that help create an enabling environment for RBC in the countries where companies operate (International Trade Centre, 2022[23]).

- The amount of official development assistance (ODA) allocated to measures that improve the business environment and mitigate risks of private investors in developing countries has been growing in recent years (OECD, 2023[13]; 2024[12]). Yet, the levels of ODA assigned to RBC are still negligible at this stage. Despite a steep increase in the past few years, total allocations amounted to USD 84.4 million, or less than 0.0001% of total ODA disbursed by OECD-DAC members in 2022[5] (OECD, 2024[24]). Going forward, development policy must complement measures related to RBC more meaningfully. The OECD can support this process by analysing how different RBC policies, particularly binding legislation, affect trade and investment flows between developing and developed countries.
- Conducting research on the constraints that governments of developing countries face in promoting a policy environment conducive to RBC.
- Developing guidance and best practices on how OECD governments can use their development policy tools to help developing country governments create an enabling environment for RBC.
- Collecting and sharing best practices for logistical and financial government support that effectively helps companies in developing countries improve their RBC performance and establish sustainable production practices.

For decades, development policy has catalysed private investment in developing countries. These measures are important for it to keep playing this role in a changing policy context. Ultimately, such complementary measures will help leverage the full potential of international investment for the green transition and the fight against poverty, turning billions into trillions.

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Notes

[1] This chapter interprets investment in its broadest sense in line with the 2015 edition of the OECD Policy Framework for Investment, which states, "Investment can take many forms, from physical assets to human or intellectual capital. It can add capacity or simply improve the efficiency of existing assets such as through a change of ownership." See: https://doi.org/10.1787/9789264208667-en.

[2] Higher productivity of foreign firms typically translates into higher average wages paid to employees. Foreign firms are also significantly more likely to provide training opportunities to workers in order to upskill them and cope with ever-changing global markets. For further discussion, see: https://read.oecd-ilibrary.org/view/?ref=1144_1144750-u5ks4jvtnl&title=FDI-Qualities-Indicators-2022.

[3] For example, foreign firms are 60% more likely to invest in research and development and twice as likely to use new technologies compared with domestic firms. For more detail, see: https://read.oecd-ilibrary.org/view/?ref=1144_1144750-u5ks4jvtnl&title=FDI-Qualities-Indicators-2022.

[4] Authors' calculations based on OECD data.

[5] However, support to RBC may not always be reported as such, and ODA allocated to RBC may therefore be underestimated. Due to the breadth of policy areas covered by RBC, various projects may directly or indirectly advance RBC-related objectives without being reported as such.

28 In my view: Finance for net-zero transition must maximise and share benefits equitably

Masatsugu Asakawa, President, Asian Development Bank

The Asia and Pacific region stands at a critical juncture, positioned both as a significant contributor to global greenhouse gas emissions and a potential leader in transformative climate action. The Asian Development Bank (ADB), alongside our member countries, is steering the region towards a sustainable future through support for a just transition. Our vision aims to reorient economic and social frameworks to foster low-carbon, climate-resilient growth that enhances prosperity and inclusion.

The need for a just transition, one that puts people at the centre of the shift to net zero, cannot be overstated. Asia and the Pacific account for over half of the world's annual greenhouse gas emissions, driven by its dependence on fossil fuels. At the same time, more than 200 million people in the region are impoverished, with many lacking access to basic electricity and relying on traditional biomass for cooking and heating. Women are particularly affected, and often face disproportionate impacts.

As Asia and the Pacific's climate bank, ADB prioritises an inclusive approach to ensure that the costs and benefits of the transition to net zero are fairly distributed. Achieving net zero requires us to restructure our economies and change the way we live and work. It is paramount that in this process, the burdens of change are not imposed on the most vulnerable and that the benefits of a low-carbon economy are both maximised and shared equitably. Ensuring that all segments of society, including women, share in these benefits is critical to the success of our just transition efforts.

To create opportunities for inclusive and sustainable growth, ADB works with partners to implement robust policy frameworks, enhance institutional capacities and engage stakeholders through participatory processes. These just transition efforts align with global commitments such as the Paris Agreement, and at the country level we support our developing members in crafting policies and programmes that respond to their unique climate challenges and development needs.

At COP27, ADB launched a Just Transition Support Platform to help drive a just transition within our developing member countries. This platform focuses on supporting countries to incorporate just transition into their institutional and policy frameworks and identify innovative financing approaches that attract public and private capital for a just transition. The platform also supports the mainstreaming of just transition in ADB's operations.

Moreover, at COP28, ADB launched an inclusive process to design a Just Transition Finance Facility that will provide targeted finance to address the socio-economic challenges of the transition to net zero. It will help countries realise the economic and social benefits of the transition and ensure these benefits are inclusive and widespread, ultimately supporting a robust and equitable shift to low-carbon and resilient economies.

Just transition is also a core part of ADB's Energy Transition Mechanism (ETM). Developed in partnership with ADB member countries, ETM is a scalable initiative that has the potential to be one of the largest carbon-reduction programmes in the world. Under it, public and private investments – from governments, multilateral banks, private sector investors, philanthropies and other long-term investors – finance country-specific ETM funds. These funds are designed to retire or repurpose coal power assets on an earlier schedule compared with a business-as-usual timeline.

Just transition principles are a cornerstone of ETM's implementation, helping us to ensure that potential negative socio-economic impacts are minimised through policies and programmes. For example, retraining and reskilling programmes provide new opportunities in emerging industries for women and vulnerable workers.

The importance of managing the social impacts associated with the transition to net zero can be seen through ADB's work on the Cirebon 1 coal-fired power station in Indonesia. This plant serves as an ETM pilot, for which ADB completed a preliminary just transition assessment earlier this year – the first of its kind for ADB and for the region. The assessment utilised a comprehensive methodology to identify impacts along the coal value chain and within the community and surrounding areas. It also established a process to further assess and develop a plan to manage impacts at the appropriate project stages.

Its promise lies not only in avoiding the worst impacts of climate change, but in creating a more equitable social order that values well-being and gender equality, provides decent work, and ensures sustainable economic growth.

Just transition offers a compelling vision for green and inclusive development across Asia and the Pacific. Its promise lies not only in avoiding the worst impacts of climate change, but in creating a more equitable social order that values well-being and gender equality, provides decent work, and ensures sustainable economic growth.

We must encourage optimism and concerted effort from all sectors of society to embrace the principles of justice and inclusivity that will be needed for a low-carbon, climate-resilient future. This journey faces challenges but is also filled with opportunities for transformative change that can forge a healthier, more equitable and prosperous world. The path we chart now will determine the climate legacy we leave for future generations.

29 Framework for people-powered energy transitions

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The global energy transition has far-reaching repercussions: countries whose economies rely on fossil fuel extraction face the prospect of lower demand, and countries producing minerals needed for clean technologies risk the negative impacts of an unregulated mining boom. This chapter draws on transition experiences in Colombia, Democratic Republic of the Congo, Ghana, Nigeria, Peru, Senegal and Uganda. It makes the case that only a people-powered and equitable transition can achieve the scale of transformation necessary for a green future. It proposes an operational framework for just transitions that respect universal human rights, address socio-environmental impacts, ensure affected communities and citizens can meaningfully participate in decisions, and put in place strong and accountable governance systems. It shares lessons on context-specific policies for ensuring a fair distribution of both the costs and benefits of planet-saving climate action.

Key messages

- The energy transition could leave behind many people in low- and middle-income countries unless it is just. Low- and middle-income countries whose economies rely on fossil fuel production or the extraction of minerals are particularly vulnerable.
- There is no one-size-fits all approach to addressing equity challenges in fossil fuels- and minerals-producing countries. Just transitions are built on clearly defined principles, policies, processes and practices that respond to citizens' needs and the most vulnerable communities in these countries.
- Just transitions ensure safeguards that protect rights; processes and instruments that strengthen governance and accountability; plans, policies and programmes that deliver development and well-being for all; and transformative partnerships that address international power asymmetries.
- People-powered energy transitions can create a win-win scenario for the Global North and the Global South, leading to transformative agreements that promote justice and well-being.
- Development partners should provide adequate funding; ensure that accountability and monitoring mechanisms are in place; and encourage learning, exchange and adaptation cross-regionally and globally.

Introduction

The likelihood and success of the global energy transition strongly depend on achieving equitable and sustainable socio-economic development for people in the Global South. This is of particular importance in low- and middle-income countries whose economies rely on fossil fuel production or the extraction of minerals. While many of these countries have been significant suppliers of raw materials and energy for the world, their own citizens, for the most part, have not benefited from these endowments – this is widely known as the resource curse. The global energy transition will have significant repercussions in these countries, adding new burdens and challenges that will require better accountability and governance to ensure people-powered transitions.

Just transitions are only possible if they are built on clearly defined principles, policies and practices that respond to the specific needs of citizens and the most vulnerable communities in these countries. To ensure that these processes unfold for the benefit of people and the planet, the international community needs to ensure adequate funding; that accountability and monitoring mechanisms are in place; and that learning, exchanges and adaptation are encouraged at different cross-regional and global levels.

This chapter draws on research conducted by the Natural Resource Governance Institute (NRGI) in 2023 and 2024. It is also the result of discussions with partners in different countries.[1]

The global energy transition could disrupt communities and/or present them with opportunities

The negative impacts of the climate crisis on low- and middle-income countries and underprivileged groups are higher than those on high-income countries. According to a 2022 study, developing countries experienced 79% of recorded deaths and 97% of the total recorded number of people affected by the extreme climate- and weather-related events since 1991 (Walsh and Ormond-Skeaping, 2022[1]). An earlier study for the African Development Bank estimated that Western and Eastern Africa could lose up to 15% of their gross domestic product per capita by 2050 if climate change is not addressed (Baarsch and Schaeffer, 2019[2]). At the same time, fighting the climate crisis, including through the energy transition, could add new economic and social burdens on low- and middle-income countries and underprivileged

groups. Those countries where fossil fuel and minerals are extracted face important transition risks (OECD, 2022[3]).

The International Energy Agency (IEA) projects that global fossil fuels demand could peak this decade (IEA, 2023[4]). This could have significant consequences for low- and middle-income countries that rely on coal, oil and gas production for public revenues and exports (Laan and Maino, 2022[5]). A recent study of 40 petrostates projected that reduced oil and gas demand in a "moderate-paced energy transition" would wipe out USD 8 trillion in government revenues (Prince, 2023[6]). The transition might also have social, economic and environmental effects on local communities, and impacts on local government revenues (Ukpong, 2023[7]). For example, the closure of two coal mines in Cesar department in northern Colombia in 2021 triggered a social, environmental and economic crisis for the town of La Jagua de Ibirico. The town's economy had been 80-90% dependent on coal mining and the closure caused a jump in unemployment, local businesses closures and threats against local officials (Vega Araújo et al., 2023[8]). In a series of just energy transition workshops in the Niger Delta (Nigeria), women and youth expressed concerns about losing their formal and informal jobs, not being ready to be employed in the clean energy sector, and the risks of unresolved socio-environmental liabilities resulting from decades of extraction.[2]

A recent study of 40 petrostates projected that reduced oil and gas demand in a "moderate-paced energy transition" would wipe out USD 8 trillion in government revenues (Prince, 2023[6]).

Another impact of the energy transition relates to increased demand for transition minerals to produce clean energy technologies (IEA, 2021[9]). As a result, mineral-producing countries face challenges associated with higher corruption risks, the potential for illicit financial flows and the possibility that companies might not adhere to socio-environmental standards (Diene et al., 2022[10]). Mining-affected communities also face increased risks of violence. The Business & Human Rights Resource Centre's Transition Minerals Tracker has identified a total of 510 allegations of human rights abuses associated with transition mineral mining between 2010 and 2022. More than a fourth of them (133) related to alleged attacks against human rights defenders (Avan et al., 2023[11]). At a workshop in November 2023 in Santiago, Chile, indigenous women leaders expressed concern about the impacts that lithium exploitation is likely to have on an already water-stressed region like Atacama.[3]

At the same time, there are also opportunities from ramped-up demand for transition minerals that could be enhanced. For instance, the government of the Democratic Republic of the Congo has launched programmes to increase local transformation and benefits from cobalt extraction (UNECA, 2024[12]). As part of this agenda, it is important to ensure a good management of revenues and the inclusion of vulnerable groups in these new value chains. Artisanal and small-scale miners who typically operate with basic, self-made tools and profit minimally from the global supply chain could benefit from formalisation as well as from technical and financial support.

Ensuring that all countries reap the socio-economic benefits of the energy transition

The energy transition can be leveraged to expand access to new clean technologies and improve access to affordable electricity for the most vulnerable. But governments and citizens alike are calling for assurances that these efforts will not only provide clean energy in high-income countries; the growth of renewables could reduce regional and global inequities in terms of who has access to power generation technology. This is a concern especially in sub-Saharan Africa, which could be home to 85% of the more than 600 million people living without electricity in 2030 (IEA, 2023[13]). The energy transition is also a chance to find a fairer split of the remaining carbon budget so that a larger share goes to countries with the greatest electricity access challenges. New technologies such as solar and wind power can help lower

income countries make electricity service affordable and reliable for more consumers. Its known socio-economic and health benefits could be available to all, especially to the most vulnerable populations (Eberhard and Dyson, 2020[14]; IEA et al., 2023[15]) – rural communities, women and girls, forcibly displaced people, and others who often struggle to pay for fossil fuel power when fuel prices rise (Cozzi et al., 2022[16]). Opportunities like these will be missed, however, if wealthier countries do not scale up transition finance, if they invest in renewable projects that have either negative local impacts (Hudlet Vázquez and Hodgkins, 2021, p. 14[17]) or limited benefits[4], or if they use transition as a justification to burn more fossil fuels at home.

Many of the equity challenges around the energy transition are related to power asymmetries between the Global North and the Global South. No framework for phasing out fossil fuels yet recognises the responsibilities of more powerful and less economically fossil fuel-dependent producers. There have been attempts to bring equity considerations into these timelines – for instance, the phase-out pathways report for the Tyndall Centre at the University of Manchester (Calverley and Anderson, 2022[18]) and the call for a reference framework for a fair global phase-out by the Civil Society Equity Review (2023[19]). Yet the political support to translate these proposals into concrete actions is still lacking. Nor is there sufficient energy transition finance being deployed to low- and middle-income countries, which also lack access to the necessary technology and human capital. The ability of low- and middle-income mineral-producing countries to better share the benefits of the transition is also hindered by the weight of geopolitical considerations in transition minerals partnerships and deals, and the absence of enforceable socio-environmental and governance standards (Kaimal, Ikhuoria and Fitzgerald, 2023[20]; Olan'g, 2023[21]; Fitzgerald, Nxumalo and Scurfield, 2024[22]).

Engaging both communities and powerful decision makers in national energy transition planning to ensure equity

Planning and managing the transition in an inclusive way can help policy makers anticipate negative impacts. But efforts to engage the public in energy transition planning remain rare or are falling short. A recent Extractive Industries Transparency Initiative (EITI) report found that community stakeholders are rarely consulted or informed about energy transition plans or how they might affect their lives. Civic space is restricted for participation by civil society; citizens; and affected groups such as women, youth and rural communities (Rojas and Sahla, 2023[23]). Moreover, public policies and plans for the energy transition are often developed without full recognition of the potential economic, social and environmental impacts at the subnational level.

As countries launch national plans, many are already being criticised for failing to effectively engage citizens and communities most likely to be affected. Civil society organisations complained that oil communities, women and youth groups were not represented in the development of Nigeria's new Energy Transition Plan (Chinery and George-Ikoli, 2023[24]; Dairo, 2023[25]) and have called for greater engagement by young people in the country's overall energy transition (Eyo, 2024[26]). Energy experts and youth groups in Ghana also urged the government to broaden consultations on its energy transition and investment plan to avoid negative effects on local economies (Gyimaah Folley, 2023[27]; Barfi, 2023[28]).

> ...some countries have set up multistakeholder bodies for discussion (e.g. the Ghana Energy Transition Committee) and organised dialogues (e.g. Chile and Colombia).

Involving stakeholders in transition plans can avoid the risk of polarisation, conflict and added tensions among different groups and levels of government. On the positive side, some countries have set up multistakeholder bodies for discussion (e.g. the Ghana Energy Transition Committee) and organised

dialogues (e.g. Chile and Colombia), though reporting on Chile's new lithium strategy has cautioned that its ultimate success will require full participation and dialogue with stakeholders (Cortés, 2023[29]; Carrere, 2023[30]). These spaces are opening up the conversation in useful ways. However, more effort is needed to follow through on the outcomes of these dialogues, establish the exact parameters of collaborative action and, crucially, to fund such action.

Low- and middle-income countries that produce oil, gas and minerals are essential players in the global transition

Missing the opportunity for an equitable global energy transition will be costly – not only to the people of the Global South but also to those in higher income countries that require minerals to power their green economies. It is, therefore, imperative that the international community foster just transitions. Low- and middle-income countries in Africa and Latin America are not responsible for most greenhouse gas emissions. But they are key to the green transition. Most of the known transition mineral reserves essential for clean energy technologies are in the Global South. The Democratic Republic of the Congo, for instance, has almost half the world's cobalt reserves (Cobalt Institute, 2023[31]); Chile holds more than 20% of the world's copper reserves (Gordon, 2023[32]); and Argentina, the Plurinational State of Bolivia and Chile, the lithium triangle, hold approximately 60% of the world's lithium reserves (Ellerbeck, 2023[33]). This means that the countries in the Global South must be engaged as strategic allies in the global transition and benefit from transparent and fair partnerships.

> Most of the known transition mineral reserves essential for clean energy technologies are in the Global South.

The latest *Production Gap Report* warns that the world's governments, in aggregate, "still plan to produce more than double the amount of fossil fuels in 2030 than would be consistent with limiting warming to 1.5°C" (Stockholm Environment Institute et al., 2023[34]). Various high-income countries are responsible for this production gap and should phase out first. However, it is important to note that national oil companies, a lot of which are in developing countries, account for 50% of global production, 42% of global capex and are planning USD 1.8 trillion in new upstream investment in the next decade (Manley, Furnaro and Heller, 2023[35]).

Moreover, though the African continent is consuming the least energy per capita today, it is experiencing rapid population growth and urbanisation that likely will multiply its energy use, and potentially its greenhouse gas emissions, in the future. One estimate suggests that in 40 years, if annual per capita emissions for Africa as a whole will reach the current level of countries such as Egypt (2.5 tonnes) and Botswana (3 tonnes), the increase in CO_2 emissions on the continent would be so large as to entirely offset even a 60% decrease from today's levels in the People's Republic of China (Goldstone, 2021[36]).

> Public resistance to energy transition projects perceived as unfair, poorly regulated, or harmful, has been on the rise across Africa and Latin America in recent years.

At the same time, public resistance to energy transition projects perceived as unfair, poorly regulated, or harmful, has been on the rise across Africa and Latin America in recent years. This is a reminder that the scale of transformation required will not be achieved without support from impacted citizens and civil

society. Impacted communities have shown a willingness to mobilise against the phase-out of fossil fuels and the scale-up of clean energy projects (including transition minerals) when they perceive that their individual and collective rights are not being respected. There have been extended strikes, protests and litigation against transition mineral projects in Peru, for instance (Jones Day, 2022[37]; Surma, 2024[38]) as well as, in Panama (Kahn, 2024[39]), Mexico (Bnamericas, 2024[40]) and South Africa (Al Jazeera, 2023[41]). Colombia's ambitions to build about 40 wind farms to increase current installed power capacity by more than 40% by 2034 has met resistance from indigenous communities over what they say is its lack of respect for their right to free, prior and informed consent and its unequal distribution of benefits and impacts (Vega Araújo et al., 2023[42]; Bocanegra, 2023[43]; Reuters, 2023[44]). There is a potential for similar tensions and contestation elsewhere: a recent analysis of 5 097 energy transition minerals and metals projects around the world found that 69% overlap or are situated close to land over which indigenous or peasant communities have established or claimed territorial rights (Owen et al., 2023[45]).

A framework for people-powered energy transitions in resource-rich countries

The international community does not have to start from zero to ensure just energy transitions (Box 29.1). Adhering to existing development agendas, including the 2030 Agenda, could contribute to addressing the challenges around equity and inclusivity and provide for effective partnerships with the low- and middle-income countries that produce much of the world's oil, gas and minerals. Lessons learnt from decades of work fighting poverty and inequalities and improving natural resource governance can provide invaluable guidance.

Box 29.1. Evolution and current thinking on just transition approaches

The concept of just transition was shaped by the collision of the labour and environmental movements over the past 50 years and began as a call to protect the rights of workers in polluting industries that needed to change or phase out (Wilgosh, Sorman and Barcena, 2022[46]). A broader understanding of just transition has since emerged, particularly after its inclusion in the preamble of the Paris Agreement and the International Labour Organization (ILO) guidelines. In late 2023, the first high-level ministerial roundtable on just transition was organised during the Conference of the Parties (COP28) in Dubai. More than 90 senior officials attended, underscoring the importance of justice and equity in the energy transition as a national development priority and as a driver of ambition and implementation of climate change action (United Nations, 2023[47]).

Climate justice and social movements are now pushing to incorporate a range of pressing concerns into a just transition approach such as gender equality, indigenous rights, environmental justice, energy access and communities' livelihoods.

Academic references in this field have considered at least three elements in energy justice. The first is distributional justice, which looks at the distribution of benefits and ills as well as of responsibilities, with some studies differentiating this from remedial justice. The second is procedural justice, which proposes spaces and processes that allow all groups to access information and participate in and influence decision making. Third is recognition justice, which calls for recognition and effective protection of the rights of all individuals and groups, especially those more likely to be more impacted by the energy transition such as women, youth, indigenous communities and workers, among others (Kirsten et al., 2016[48]; Darren et al., 2019[49]).

Among organisations and groups involved in development and the energy transition, definitions and approaches to justice and equity also vary, with some focusing on compensating those who lose out in the transition to net zero and others on the sharing of benefits. Most approaches agree on the need for wider consultations but differ regarding the scope of different actors' influence over decisions and the groups that should be included. Some of their approaches envision radical transformations; some are closer to traditional development agendas. There is also divergence around the speed of the transition.

Notes: Authors consulted the following organisations on their definitions and approaches to just transition and equity: the ILO, Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, the OECD, the Interamerican Association for Environmental Defense (AIDA for its acronym in Spanish), the Extractive Industries Transparency Initiative, the Business & Human Rights Resource Centre, the Climate Justice Alliance, the United States Agency for International Development, the International Energy Agency, the Inter-American Development Bank, and the World Bank. Documents consulted include the African People's Climate and Development Declaration and the Multilateral Development Banks Just Transition High-Level Principles.

Sources: United Nations (2023[47]), "First annual high-level ministerial round table on just transition: Informal note by the president", https://unfccc.int/sites/default/files/resource/JTWP_HLMRT_informal_note.pdf; Wilgosh, Sorman and Barcena (2022[46]), "When two movements collide: Learning from labour and environmental struggles for future just transitions", https://doi.org/10.1016/j.futures.2022.102903; Kirsten et al. (2016[48]), "Energy justice: A conceptual review", https://doi.org/10.1016/j.erss.2015.10.004; Darren et al. (2019[49]), "Energy justice in the transition to low carbon energy systems: Exploring key themes in interdisciplinary research", https://doi.org/10.1016/j.apenergy.2018.10.005.

However, the realities and challenges of low- and middle-income countries that are producing oil, gas or minerals have been largely absent from international discussions of just transition. NRGI's research and work in different countries shows that the principles and guidelines described in Figure 29.1 need to respond better to their specific contexts. This requires an understanding of the complex agendas at play not only at the national but also at the subnational level. For example, ensuring equity and justice as copper extraction increases in the Andean south of Peru requires different policies than those needed to manage a possible phase-out of oil production in the department of Loreto in Peru's Amazon region, as was made

clear during a recent workshop in Peru.[5] Given the local context, what is needed for a just transition in the Peruvian Amazon might more closely resemble what local people say is needed in the Niger Delta, where dependence on oil revenues for social services and local socio-environmental liabilities are top priorities to tackle in a process of transition.[6]

> ...universal access to energy seems to be the top concern during discussions of justice and inclusion...

In other countries, universal access to energy seems to be the top concern during discussions of justice and inclusion, as was apparent in workshops in 2024 with civil society in Senegal, a new producer of fossil fuels.[7] There is no one-size-fits all approach to addressing equity challenges in fossil fuels- and minerals-producing countries. Therefore, using the notion of just transitions, in plural, where people are able to drive the process and benefits from it, seems more relevant. Yet consideration of certain principles can underpin these just transitions and ensure they are people-powered.

In energy transitions, different actors have diverse responsibilities. Consideration of specific principles and support can foster people-powered and just transitions: recognition of rights, strengthened governance and accountability for citizens and communities, equitable distribution of benefits and compensation, and the addressing of international power asymmetries.

Figure 29.1. A framework for people-powered energy transitions in resource-rich countries



Principle 1: Just energy transitions recognise rights and leave no one behind, using legal and institutional safeguards

The principle of recognition of rights refers to having a legal and institutional setting that enables the processes and outcomes that will lead to a people-powered energy transition. Governments must ensure that their legal frameworks effectively recognise and protect universal rights, particularly the rights of vulnerable groups that may bear the brunt of the phasing out of fossil fuels and stepping up of transition minerals and renewable energies. These include human rights in general as well as the right to a healthy environment and economic, social and cultural rights. It is important to protect specific groups such as indigenous peoples by the recognition of free prior and informed consent and other collective rights such as cultural preservation, collective territorial rights and self-determination. Rights recognised by the Escazú Agreement in Latin America and the Caribbean (access to information, public participation, and access to justice and protection of human rights defenders) and its enforcement could contribute to effective participation and access to remedy (Human Rights and Climate Change Working Group, 2024[50]). Requiring environmental or gender impact assessments at the project or regional level could help in understanding whose rights are going to be affected by any energy transition project.

In addition, the private sector – including companies, traders, banks and investors along the value chain of oil, gas, mining, energy and clean technologies – should also ensure human rights due diligence frameworks are in place and reinforced with adequate grievance mechanisms. This could include the United Nations Guiding Principles for Business and Human Rights and the *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*. The international community could support the recognition and protection of rights by adopting environmental, social and governance (ESG) standards for transition minerals or for divestment in fossil fuels.

Principle 2: Just energy transitions reflect citizens' and communities' voices and agency, using processes and instruments that strengthen governance and accountability

Sustainable people-powered interventions ensure that decision making respects due process and includes the representation and meaningful participation of civil society, including disadvantaged and marginalised populations. The first step is to provide access to relevant information about projects and their potential impacts, including gender-disaggregated data and translations into local languages. The EITI can be used as a platform for the public to request and access information relevant to the energy transition. Governments should consider participatory planning processes that involve all stakeholders at the national and subnational levels. They also should ensure that funds are allocated to establish permanent spaces where all citizens and stakeholders can meet to discuss and hold the government to account with no barriers to participation. Civil society, communities and specific vulnerable groups should be represented when key decisions are being taken and in multistakeholder commissions or consultation processes, including by leveraging EITI multistakeholder groups where they exist. The Energy Transition Committee in Ghana, inaugurated in 2021, could be a good pilot to try out the representation of such groups in a multistakeholder set-up (Enerdata, 2021[51]). Protecting civic space is a precondition for meaningful engagement (Nxumalo and Pitman, 2024[52]).

Principle 3: Just energy transitions provide an equitable distribution of benefits and compensation through plans, policies and programmes that deliver development and well-being for all

Governments, companies and the international community need to ensure that energy transition processes and policies provide concrete opportunities that are sustainable and benefit all citizens, including the most vulnerable groups, in terms of job creation, access to energy, local transformation of minerals,

technological advancement and diversification of the economy. Policies and plans need to be explicit about the tools and instruments put in place to get to those results and about how progress will be tracked. As the governments of Chile and the Democratic Republic of the Congo promote industrialisation linked to lithium and cobalt, respectively, and develop local content policies for extraction, they need plans to ensure that their efforts benefit citizens and the most vulnerable communities, including youth and women. Energy transition policies focused on expanding energy access should also ensure affordability and benefits for communities, including support for people in rural areas to become entrepreneurs of clean energies. The energy community's projects promoted by the Colombian government are an example (Colombia Ministry of Mines and Energy, 2023[53]). There can be other opportunities linked to training and access to technology for youth and women; new ownership configurations in mining and renewable energy projects; more equitable approaches to the management of existing oil and coal revenues management for the diversification of the economy; and employment generation in the rehabilitation of coal mining and oil production sites.

Since the energy transition is likely to produce negative impacts, its development outcomes should also include programmes designed to compensate the most vulnerable populations that will be affected. These could include financial support, reskilling or upskilling programmes for workers in fossil fuel industries, and programmes for women and youth in the informal economy that allow them to envision careers in the renewable energy sector or other sectors in the economy (GIZ, 2023[54]). Governments should also establish and enforce requirements for companies to identify and compensate socio-environmental liabilities in mine closures and decommissioning so that these costs are not transferred to the state (Woodroffe, 2024[55]). For example, Chile's and Peru's regulations incorporate financial assurance requirements to cover such costs (IISD, 2021[56]). Local and national governments as well as companies and the international community should identify the specific impacts on indigenous peoples, peasants, small-scale fishers and other vulnerable populations. The historical legacy of the fossil fuel industry and prior mining projects should be considered to seek intergenerational justice (Carley and Konisky, 2020[57]).

Principle 4: Just energy transitions address international power asymmetries through fair and transformative agreements and partnerships

Unsustainable patterns of production and consumption – resource depletion, inefficiency, carbon emissions, biodiversity loss and waste production, among others – call for a global reset. Challenging these requires unprecedented levels of international co-operation and transformative partnerships. In the framework of the United Nations Framework Convention on Climate Change, the international community has agreed that there are differentiated degrees of responsibility in the process of transition. This principle needs to be effectively implemented. The Global North still is the main driver of the agenda for the global energy transition but low- and middle-income countries should have a voice and a place at the table. The negative impacts of both climate change and the transition disproportionately affect low- and middle-income countries, particularly those that heavily rely on fossil fuel or mining extraction for their economies and development. Their specific challenges need to be acknowledged. In practice, this could include agreeing on different deadlines for the phase-out of fossil fuels according to levels of dependency and capacity. A 2022 report by the Tyndall Centre at the University of Manchester suggested that the wealthiest countries that produce more than a third of the world's oil and gas must cut output by 74% by 2030, with the poorest nations given until 2050 to end production (Calverley and Anderson, 2022[18]). The criteria to determine the sequencing of a country's phase-out could include economic efficiency, wealth, dependence, development, historical responsibility and procedural justice, though it is important to recognise the needs and rights of marginalised communities in these timelines (Sanchez and Linde, 2023[58]). The Civil Society Equity Review in 2023 proposed a framework for equitably phasing out fossil fuel extraction that would ground phase-out time frames on capacity, responsibility and dependence and provided quantitative estimates of how fast each country should phase out and with how much international support (Civil Society Equity Review, 2023[19]).

Another essential way to address international asymmetries is to make sufficient energy transition funding and technical support available to low- and middle-income countries. The IEA estimates that the private sector will need to provide approximately 60% of the clean energy finance in emerging market and developing economies (excluding China), or USD 900 million to USD 1.1 trillion annually by the early 2030s (IEA, 2023[59]).

Sustainability-linked, ESG-benchmarked and blended public-private finance have increased significantly in some countries. However, a mandate to maximise financial returns, rather than development and equity considerations, continues to drive private finance. This risks further entrenching global economic disparities. Therefore, international aid funders and multilateral development banks play a key role in de-risking investment, including by reassuring markets and by including economic incentives for low- and middle-income countries that decide to accelerate their phase-out of fossil fuel production and those that promote clean energy but are not the biggest greenhouse gas emitters. Currently, public funding available for renewables generation capacity, grids and storage, etc. is directed towards just a small group of middle-income countries, most of which are already perceived as proven, lower risk investment destinations (IEA, 2023[60]). It is just as important to support these countries to sustainably and inclusively diversify their economies and energy systems, address the fiscal challenges of replacing rents from commodities such as oil and coal, and provide technical and financial support for mining governance and local transformation around transition minerals. Expanding just energy transition partnerships could also be useful, but these efforts require more transparency and accountability (NRGI, 2022[61]).

Moreover, there is an increasing need for accountability from different actors working to fund and implement transition actions. International co-operation could play an important role in this regard. There are useful indicators for tracking corporate just transition efforts (World Benchmarking Alliance, 2021[62]). However, indicators that could assess countries' just transition efforts beyond emissions-focused elements are needed. They could help track and compare progress on transition-related financial and socio-environmental risks and strategies. They could also evaluate progress towards targets on universal access to energy, workers' just transition, fossil fuel subsidies, and the development of inclusive nationwide and local-level just transition strategies, among other key areas. A just transition global benchmark conducted on a regular basis could support constructive engagement between governments and multilaterals to evaluate equity considerations. It could foster engagement between governments and civil society within each country to identify trends and track progress over time. Apart from spurring domestic improvement, indicators can also stimulate peer competition across assessed countries and learning from country or local practices and programmes. Such a tool could provide a basis for constructive dialogue among energy producers and consumers on how to achieve a global just transition, including through enhanced international policy coherence.

People-powered energy transitions can create a win-win scenario for the Global North and the Global South

Advancing sustainable and equitable development in low- and middle-income countries that produce fossil fuels and minerals goes hand in hand with achieving a global just energy transition. The international community can play a pivotal role by supporting the specific needs of each country and providing the necessary finance and incentives while also avoiding putting additional burdens on countries that cannot afford the transition at the pace required to tackle the climate crisis as quickly as higher income countries. People-powered energy transitions can create a win-win scenario for the Global North and the Global South, leading to transformative agreements that promote justice and well-being through the recognition of communities' rights, voice and influence, the equitable distribution of benefits and compensation, and international fairness measures.

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Notes

[1] The research was led by Ana Carolina González-Espinosa and Juliana Peña-Niño at the NRGI, and by Danilo Borja, PhD from Calgary University, as an external research assistant. It included a literature review; an analysis of key reports by diverse international and regional organisations and movements; and an assessment of the NRGI's and its partners' pilot projects on just transition in resource-rich countries in Africa, Latin America and the Middle East. It also benefited from the insights of NRGI staff and the representatives from partner organisations at a strategy and learning workshop in Ghana in January 2024. Participants from Colombia, Ghana, Lebanon, Mexico, Nigeria, Senegal, Tunisia and Uganda included from ACEP, Charles G. Ofori; from AIDA Americas, Liliana Avila; from Arab Institute for Women, Myriam Sfeir; from Extrative360, Juliet Alohan Ukanwosu; from FEMNET – African Women's Development and Communication Network, Memory Kachambwa; from Georgette Barnes Ltd., Georgette B. Sakyi-Addo; from Global Rights Alert, Winfred Ngabiirwe; from LEGS-Africa: Elimane Kane; from NRGI: Ahmad Abdulsamad, Paul Bagabo, Maria Fernanda Ballesteros, Emma Dahmani, Aida Diop, Ana Carolina González-Espinosa, Denis Gyeyir, Nafi Chinery, Gabriela Flores, Alexandra Malmqvist, Silas Olang, Juliana Peña-Niño, Angela Puplampu, Nicola Woodroffe and Abir Yahyaoui; from OECD, Ida Mc Donnell.

[2] The workshops were organised by the Budgit Foundation and the NRGI. They addressed the positive and negative impacts of the transition away from fossil fuels in the Niger Delta region and called on government actors to include women at every step of decision-making processes.

[3] Workshop Women and Critical Minerals: Towards a Just Energy Transition organized in Santiago, Chile, 8-9 November 2023, organized by the Chilean non-governmental organisation FIMA and the Global Initiative for Economic, Social and Cultural Rights.

[4] Studies in lower income countries suggest that the expansion of energy access does not always result in benefits for the economy of the area where power plants are built and sometimes does not even improve host communities' access to cheaper, more reliable electricity. See, for instance, Abou-Zeid, https://au.int/fr/speeches/20221109/opening-remarks-her-excellency-commissioner-infrastructure-and-energy-dr-amani; FAO, https://www.fao.org/3/cb7433en/cb7433en.pdf; OECD, https://doi.org/10.1787/9789264180444-en.

[5] Together with CooperAcción, Derecho, Ambiente y Recursos Naturales and Oxfam and with the support of the Moore Foundation, the NRGI organised a workshop in March 2024 on what a just energy transition means for Peru.

[6] In Nigeria, the NRGI conducted a series of just energy transition workshops in collaboration with the Budgit Foundation (see note 6).

[7] A just energy transition workshop was organised with civil society organisations in Senegal from 29 January to 1 February 2024 by the NRGI, Oxfam, the African Climate Foundation, Natural Justice, Heinrich-Boll Stiftung and the Meliore Foundation. (Civil society training workshop and launching of a multi-stakeholders platform on Just Transition and Just Energy Transition Partnership JETP).

30 Lessons for gender-responsive nationally determined contributions

Hannah Girardeau, NDC Partnership

The Paris Agreement calls for gender equality and women's empowerment to be among the guiding principles of climate action. The process of developing new nationally determined contributions (NDCs) offers an important opportunity to incorporate gender considerations more thoroughly into national climate commitments and long-term plans. Drawing on the experience of the NDC Partnership, including in Burkina Faso and Cambodia, this chapter explores good practices around inclusive design and implementation of the nationally determined contributions and suggests how development partners can best support countries to align their NDCs with development priorities and make them attentive to gender equality, just transitions, intergenerational equity and human rights.

Key messages

- Countries are moving towards better alignment with the Paris Agreement's principle of gender equality and the accompanying enhanced Lima Work Programme on Gender and its gender action plan.
- More support is needed for expanding gender-responsive stakeholder engagement or capacity building within governments to integrate gender into the nationally determined contributions (NDCs) to ensure that climate action better responds to and supports the diverse gender and socio-economic needs of individuals at local and national levels.
- The new generation of NDCs can draw on a range of experiences and best practices, including from Burkina Faso, which used gender analysis to design its long-term emissions reduction strategy, or Cambodia, which incorporated gender indicators into its sectoral climate action plans.

The next generation of nationally determined contributions could be the most gender-responsive yet

Every five years, Parties to the Paris Agreement submit nationally determined contributions establishing their targets for mitigating climate-changing greenhouse gas emissions and often outlining their priorities to adapt to climate change impacts.[1] The first Global Stocktake of how Parties are meeting climate goals, completed at the 2023 United Nations Conference of the Parties (COP28), underscored that Parties are significantly off track in meeting their Paris Agreement goals due to insufficient ambition in the current NDCs, ineffective mobilisation of finance and inadequate progress in implementing communicated targets. Against this backdrop, the 2025 NDCs will be a powerful signpost to where the global community is headed in terms of climate ambition as well as the societal impacts of economic shifts and the outcomes of the just energy transition. In the words of Simon Stiell, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), "This next round of NDCs may be the most important documents to be produced in a multilateral context so far this century" (UN Climate Change News, 2024[1]).

Against this backdrop, the 2025 NDCs will be a powerful signpost to where the global community is headed in terms of climate ambition as well as the societal impacts of economic shifts and the outcomes of the just energy transition.

Leading up to COP 30 in 2025, signatories to the Paris Agreement are required to develop new and more ambitious NDCs. At the same time, they must also close the implementation and financing gaps highlighted in the Global Stocktake, including through accelerated implementation of the national mitigation and adaptation commitments set out in their current NDCs, long-term low-emission development strategies (LT-LEDS), national adaptation plans and national biodiversity strategies.[2] These documents are developed through consultative processes across governments, communities, organisations and businesses and should reflect the priorities and realities of these distinct but interconnected groups. As set out in the Lima Work Programme on Gender and its gender action plan,[3] emphasising gender equality and social inclusion within these processes is a proven pathway to ensure that policies and commitments are sustainable, equitable and achievable for all members of society. It should be noted that while gender equality – the focus of this chapter – is a key element of social inclusion, inequalities are systemic. Countries could better acknowledge the intersection of the needs of young people and children, Indigenous

peoples, marginalised social groups, rural communities, and all other members of society whose perspectives are not always included in national policies.

> As NDCs are critical policy documents for countries and the international community, they must be shaped by, and inclusive of, the people they will most directly impact.

Countries need support on three fronts to create a virtuous cycle of ambition and action:

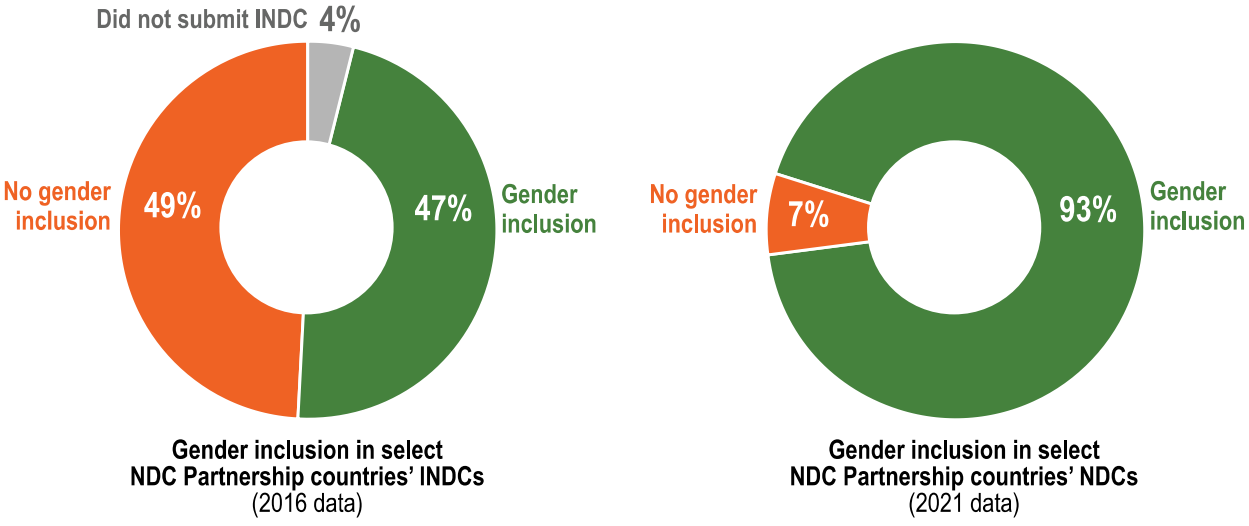
3. to implement their NDCs
4. to mobilise finance needed for climate investments
5. to develop more ambitious and inclusive NDC targets.

As NDCs are critical policy documents for countries and the international community, they must be shaped by, and inclusive of, the people they will most directly impact.

Most national climate targets and strategies now mention gender considerations or women

Analysis conducted in collaboration with the International Union for Conservation of Nature of 57 NDCs submitted by NDC Partnership members (NDC Partnership, 2022[2]) found that 93% included mention of gender considerations and/or women,[4] a substantial increase compared with the share of intended nationally determined contributions (INDCs)[5] that included gender in 2016 (Figure 30.1). For nearly half of the countries analysed (24 of 57), the most recent NDC was the first time that gender considerations had been reflected (NDC Partnership, 2022[2]).

Figure 30.1. Nearly all current nationally determined contributions analysed by the NDC Partnership mention gender or women, particularly in sections on adaptation strategy and targets



Source: NDC Partnership (2022[2]), *Supporting Gender-Responsive NDCs*, https://ndcpartnership.org/sites/default/files/2024-02/supporting-gender-responsive-ndcsinsight-brief-feb-2022.pdf.

Gender inclusion takes different forms and has different meanings in the current NDCs:

- Gender equality or topics impacting gender appear more frequently in adaptation than in mitigation sections, but gender is included in both sections in the NDCs of 11 countries (NDC Partnership, 2022[2]).
- Many NDCs address gender in cross-cutting sections and, when countries consider gender in specific sectors, it is most often included in the agriculture, energy, health, water and forestry sectors (NDC Partnership, 2022[2]).
- Women are still more likely to be recognised as parts of vulnerable populations or stakeholders in action rather than as agents of change who are instrumental in driving climate action.

A smaller number of NDCs mentioned often marginalised groups such as youth (25 NDCs), Indigenous peoples (12 NDCs) and members of the LGBTQI+ community (2 NDCs) and topics such as gender-based violence (2 NDCs) and intergenerational equity (5 NDCs) (NDC Partnership, 2022[2]).

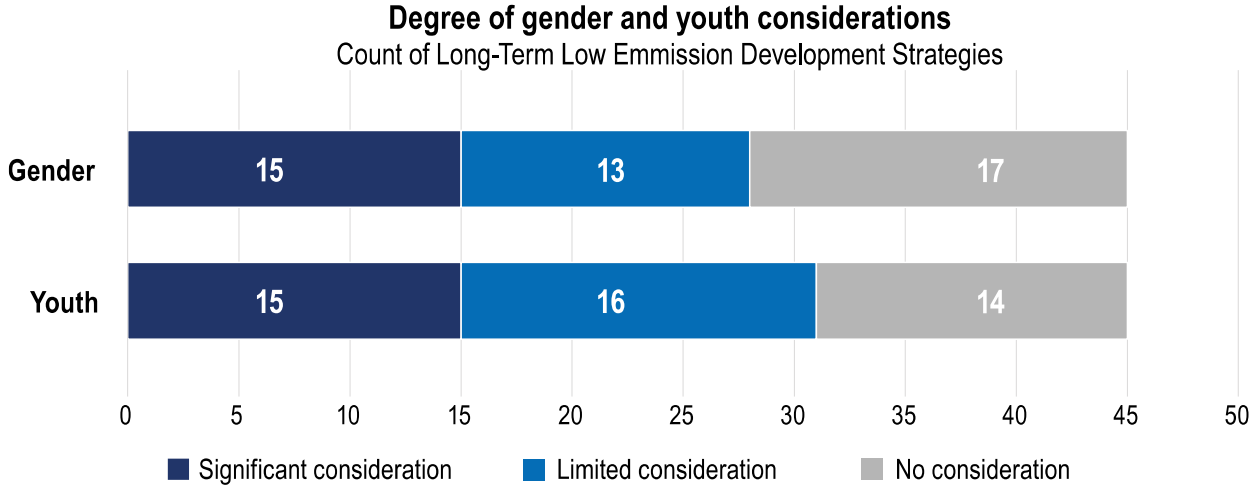
Integrating gender considerations throughout the development of new nationally determined contributions can support more equitable and sustainable climate action

Taking gender inclusion to the next level requires utilising gender analysis to set targets, including budgets for gender-focused actions, strengthening gender indicators for measuring progress on commitments and taking an intersectional approach to topics.

Cambodia's NDC, for example, was one of two that met all the gender-responsive criteria[6] (IUCN, 2021[3]). The 2020 process and resulting document integrated gender considerations throughout the development process thanks to work across government ministries and with women's organisations and gender-focused stakeholder groups. The NDC notes many gender indicators throughout sectoral plans and has built gender into the online tracking system for measuring progress on NDC implementation (UN Women and CDRI, 2021[4]).

Like the NDCs, the LT-LEDS outline a country's vision for the future but look beyond the timeline of the NDCs to 2050. These should consider the far-reaching socio-economic impacts of climate action and can facilitate a clear just transition (UNDP, 2023[5]). However, a synthesis report from the UNFCCC has noted a significant lack of gender considerations in these long-term planning documents[7] (UNFCCC, 2022[6]). Additional analysis found that only 33% of the 45 LT-LEDs reviewed[8] gave significant consideration to gender[9] (Figure 30.2) (NDC Partnership, 2024[7]). Countries could maximise the impact of long-term planning by integrating gender and youth inputs within specific sector planning, through target setting, and by deepening alignment with other development priorities for more equitable and sustainable development.

Figure 30.2. Long-term strategies to lower emissions are less likely than nationally determined contributions to consider youth and gender



Note: "Significant consideration" means gender and youth stakeholders are considered extensively within LT-LEDS documents. "Limited consideration" means gender and youth are mentioned within LT-LEDS documents but only in terms of broader stakeholder engagement. "No consideration" means gender and youth are not considered within LT-LEDS documents. See: https://unfccc.int/sites/default/files/resource/cp2022_06_adv.pdf.
Source: NDC Partnership (2024[7]), *Gender and Youth in Long-term Low Emission Development Strategies*, https://ndcpartnership.org/sites/default/files/2024-02/gender-and-youth-long-term-low-emission-development-strategies.pdf.

Burkina Faso has taken steps to maximise gender co-benefits as part of its development process (GGGI and UN Women, 2024[8]), including through gender analysis to identify sectors important for women's future employment, a standing Gender Technical Working Group that analysed gender impacts and consultative workshops (GGGI and UN Women, 2024[8]). This process also produced a step-by-step guide for other countries to integrate gender into their LT-LEDS (GGGI and UN Women, 2024[8]).

A growing number of countries – to date, 53 – are requesting targeted support from the NDC Partnership to develop or update their NDCs, LT-LEDS or both, including to integrate gender into the process. In the lead-up to COP30 in 2025, the number of requests is expected to grow. Implementing partners must be prepared to respond to help ensure that NDC development processes are inclusive and support whole-of-society engagement to bolster the implementation of climate strategies.[10]

Recommendations to strengthen gender inclusion in climate policy

The next round of NDC submissions is an opportunity for all countries to align their climate action to the global goal of a sustainable future that leaves no one behind. While many countries are still finalising implementation plans for their current NDCs, they must also look ahead to develop 2035 targets. The NDC Partnership is supporting efforts to meaningfully strengthen the integration of gender equality issues in this round of NDC planning and ongoing implementation with developing countries.[11] Significant support is still needed to build capacity for the design and implementation of climate policies and actions that fully integrate gender considerations.

Opportunities for the global community to streamline NDC enhancement efforts include:

- Expanding and funding gender-responsive stakeholder engagement processes to develop long-lasting, inclusive and meaningful consultations processes, including by drawing on a range of

experiences and best practices to ensure inclusive stakeholder engagement (NDC Partnership, 2024[9]).

- Supporting the alignment of NDC enhancement with other strategies, such as the LT-LEDS, national adaptation plans, national biodiversity strategies and gender equality policies. Alignment of these critical documents and of the government agencies, partners and funders implementing climate commitments can ensure a clear path towards a sustainable and equitable future.

Partners have highlighted opportunities to make the next set of NDCs the most attentive to gender equality, just transitions, intergenerational equity and human rights. Some recommended actions include:

- Deepening gender considerations within the sectoral commitments of the NDCs. Strengthening sectoral gender targets and indicators through informed gender analyses offers an impactful framework for future integration into project design, just transition considerations and inclusion as elements of NDC financing.
- Developing strong gender indicators and measurement, reporting, and verification systems as cornerstones for measuring progress against gender equality and social inclusion goals. Thoughtful data collection is essential to understand how climate actions are impacting communities and individuals within a country, sector or workforce.

As stakeholders raise ambitions on the mobilisation of finance to meet collective goals, they should consider:

- Mobilising funding in line with the implementation of NDCs, ensuring that social inclusion principles apply. Financial institutions are rapidly adopting gender strategies and policies, and these frameworks can be replicated for increased alignment around gender equality and inclusive climate finance (NDC Partnership and IUCN, 2022[10]).
- Supporting capacity building within governments to integrate gender and inclusion into the NDCs, implementation plans, investment frameworks and project development. These efforts should also ensure that expertise within national gender agencies is fully tapped and that a whole-of-government approach supports mainstreaming throughout NDC development and implementation.
- Budgeting appropriately for gender-focused actions and projects that mainstream gender equality. Gender-responsive budgeting showcases a meaningful allocation of the required resources and is crucial to implementing gender-focused actions.

The Paris Agreement calls for approaches that are participatory, cross-cutting and gender-responsive. These will drive more robust and inclusive policy design that will lead to stronger development outcomes for countries and communities. The impacts and effects of climate change are far-reaching and interconnected. The responses must be as well.

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Notes

[1] The Paris Agreement was adopted in 2015 as a legally binding international treaty setting forth the goal to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and to pursue "efforts to limit the temperature increase to 1.5°C above pre-industrial levels". The treaty and related information are available at: https://unfccc.int/process-and-meetings/the-paris-agreement.

[2] NDCs are a country's commitment on actions it will take to reduce its greenhouse gas emissions and build resilience to adapt to the impacts of climate change. The LT-LEDS are voluntary country communications providing a vision for future development. For more information, see: https://unfccc.int/process-and-meetings/the-paris-agreement. National adaptation plans allow Parties to outline plans for reducing vulnerability to the impacts of climate change and facilitate adaptation measures in policies. More information can be found at: https://unfccc.int/topics/adaptation-and-resilience/the-big-picture/introduction. National biodiversity strategies are instruments for implementing the Convention on

Biological Diversity and outline country strategies for conservation and sustainable use of biological diversity. For more information, see: https://www.cbd.int/nbsap/introduction.shtml.

[3] The enhanced Lima Work Programme on Gender and its gender action plan were adopted at COP25 in 2019. More information is available at: https://unfccc.int/topics/gender/workstreams/chronology-of-gender-in-the-intergovernmental-process.

[4] The 57 countries whose NDCs were part of the analysis included 4 developed countries (among them the European Union) and 53 developing countries.

[5] Parties to the UNFCCC were invited to communicate their INDCs in advance of the Paris Conference held in 2015. These documents were intended to outline national efforts toward low emissions and climate-resilient development in pursuit of the goals of the draft Paris Agreement. As countries formally joined the Paris Agreement in 2016, their INDCs could be converted to or resubmitted as nationally determined contributions. See: https://www.wri.org/indc-definition for more information.

[6] Gender-responsive criteria in the International Union for Conservation of Nature's 2021 report focused on if gender and/or women were mentioned in the NDCs, how women were portrayed, how gender-responsive components were included in the NDCs, and how gender was mainstreamed across adaptation and mitigation actions and sectors. For more information, see: https://genderandenvironment.org/gender-and-ndcs-2021.

[7] This analysis is based on the UNFCCC LT-LEDS synthesis report (https://unfccc.int/documents/619179) and the synthesis report on gender-responsive climate policies, plans, strategies and action (https://unfccc.int/documents/613847).

[8] The LT-LEDS analysed were submitted by NDC Partnership members in 18 developed countries and 27 developing countries.

[9] "Significant consideration" means gender and youth stakeholders are considered extensively within LT-LEDS documents. "Limited consideration" means gender and youth are mentioned within LT-LEDS documents but only in terms of broader stakeholder engagement. "No consideration" means gender and youth are not considered within LT-LEDS documents. See: https://unfccc.int/sites/default/files/resource/cp2022_06_adv.pdf.

[10] In response to growing requests for NDC enhancement support, the NDC Partnership and the UNFCCC are developing an NDC 3.0 Navigator with technical inputs from the United Nations Development Programme, the World Resources Institute and more than 30 partners. The tool is meant to help countries take stock of current ambition efforts, identify nationally appropriate opportunities to further raise their ambition, consider the key strategies to strengthen implementation and unlock finance, and identify relevant guidance and sources of support. The tool will offer countries a broad menu of options to identify opportunities that work best for them, taking into account the calls of the first global stocktake and preparing for implementation and mobilisation of finance in the development of their NDC update. This effort is guided by the principle that NDCs should be owned by all and underpinned by robust whole-of-society processes.

[11] Environment and Climate Change Canada provides support to the NDC Partnership for gender equality initiatives.

31 Human rights and Indigenous peoples in just energy transitions

Joan Carling, Indigenous Peoples Rights International

A human rights-based approach that acknowledges past injustices and deliberately engages Indigenous communities in deciding, designing and collaborating in renewable energy projects is key to ensuring that transitions are just. This chapter highlights examples from Australia, Canada, Guatemala and New Zealand of benefit-sharing models; community-owned initiatives; and partnerships between Indigenous peoples, governments and the private sector that balance the needs of different stakeholders. It focuses on how development co-operation policy frameworks should integrate a human rights-based approach as an integral component of responsible business conduct, support inclusive mechanisms for financial and technical support to Indigenous peoples, and facilitate equitable arrangements to address the climate crisis and contribute to reducing poverty and inequalities.

Key messages

- Upholding Indigenous rights benefits both the Indigenous communities and the green transition process by avoiding lengthy legal battles and conflicts while directly addressing poverty and inequalities.
- The principles of free, prior and informed consent alongside meaningful engagement and impact mitigation can shape green transitions in ways that are respectful of Indigenous rights and ensure appropriate benefit sharing.
- Indigenous peoples are demonstrating their active support for just transitions by designing new equitable benefit-sharing partnership models for renewable energy projects that respect human rights.

A human rights-based approach to energy transitions acknowledges past injustices to Indigenous peoples and their present development challenges

Energy transition processes can seriously threaten the rights of Indigenous peoples. The foundation of a human rights-based approach to energy transitions is acknowledgement of the historical injustices perpetrated against Indigenous peoples. Indigenous communities have endured colonisation, land dispossession and cultural marginalisation, often at the hands of states and development actors such as corporations and investors. While Indigenous peoples represent only 6.2% of the global population, they comprise 18.7% of the world's extreme poor, according to a study for the International Labour Office (Oelz, Kumar Dhir and Harsdorff, 2017[1]), a situation likely to have deteriorated further due to impacts of the COVID-19 crisis. Indigenous peoples also tend to lack access to energy, education, health and basic infrastructures (ILO, 2016[2]). As a result of this legacy of exclusion and discrimination, they suffer from relatively poorer health and illiteracy and are more likely to experience disability and reduced quality of life: their life expectancy is estimated to be 20 years less than non-Indigenous counterparts in some countries (UN DESA, 2015[3]). Further, Indigenous peoples have difficulty participating fully in the formal economy, enjoying access to justice, and participating in political processes and decision making (ILO, 2016[2]).

The legacy of these injustices continues to reverberate, shaping contemporary power dynamics and fuelling distrust between Indigenous peoples, states and development actors, including in relation to development co-operation. It is estimated that 36% of the world's remaining intact forests (Fa et al., 2020[4]), at least 24% of the above-ground carbon in tropical forests (Veit and Reytar, 2017[5]), and up to 80% of the world's remaining biodiversity (World Bank, 2023[6]) are found on land and territories traditionally inhabited by Indigenous peoples. Yet, their lands and resources are forcibly and systematically undermined by the pursuit of economic development targets such as energy development, large-scale mining, agribusiness and commercial tourism, among others. A recent study suggested that more than half of the energy transition minerals and metals are located on or near the lands of Indigenous and peasant populations (Owen et al., 2023[7]). If the process to extract these minerals follows historical precedent of dispossession and exclusion of the participation of Indigenous peoples in development projects, this could be detrimental to their well-being now and in the future. Conversely, adopting a human rights-based approach to energy transitions would avoid perpetuating existing inequalities and uphold Indigenous peoples' rights.

Energy transitions must uphold Indigenous peoples' rights and require their free, prior and informed consent

Extractive industries and large-scale energy projects have historically caused significant harm to ecosystems, water sources and traditional livelihoods, disproportionately affecting Indigenous communities. Mitigating these environmental and social impacts is a critical duty for both states and companies. Amid the green transition, adhering to effective environmental and social safeguards, including human rights due diligence, is more essential now than ever as the emergence of new initiatives and instruments such as bio-credits and efforts to mobilise funds for so-called nature-based solutions also will seriously impact on Indigenous peoples.

Embracing a human rights-based approach to energy transitions is essential to guarantee just transition processes that do not result in human rights violations. A human rights-based approach to the energy transition requires respect for Indigenous knowledge and cultural heritage and recognition that both are vital to fostering resilience across generations. By integrating Indigenous perspectives into energy planning and decision making, societies can also draw on this rich knowledge to develop energy solutions that are culturally sensitive and thereby sustainable.

> Upholding free, prior and informed consent (FPIC) is central to ensuring a human rights-based approach for Indigenous peoples.

Upholding free, prior and informed consent (FPIC) is central to ensuring a human rights-based approach for Indigenous peoples. Requiring FPIC in energy transitions affirms that Indigenous peoples have collective rights – to self-determination and to participate in decisions affecting their lands, territories and resources – and that these distinctive rights are a means for them to achieve social equity and justice due to their historical marginalisation and systemic discrimination.

Furthermore, a human rights-based approach demands economic empowerment and social equity for Indigenous peoples as core elements of development co-operation. Ensuring access to justice and remedies is central, as Indigenous communities frequently encounter barriers in seeking legal recourse and redress for human rights violations. Transparent and accessible grievance mechanisms are essential for holding perpetrators accountable and providing meaningful remedies, thus fostering a culture of accountability within energy companies and government institutions.

The failure to obtain genuine consent from Indigenous communities for renewable energy projects has led to protracted conflicts, legal battles and reputational damage for energy companies and governments. For example, the wind farms licensed to operate on Indigenous peoples' territories in Kenya and Norway prompted legal action against both governments. Norway's supreme court ultimately ruled that the cultural rights of Saami to practice reindeer herding had been violated and the African Court on Human and Peoples' Rights affirmed that approval of the wind farms in Kenya violated the community land rights of the Ogiek (Business and Human Rights Resource Centre, 2023[8]; Amnesty International, 2023[9]). These cases demonstrate that not respecting FPIC in practice can result in energy transition processes that pose serious threats to Indigenous peoples.

Though not always respected in practice, the rights of Indigenous peoples are enshrined in a range of global declarations

Numerous decisions and recommendations of United Nations (UN) human rights bodies and procedures, for instance the 2008 UN Declaration on the Rights of Indigenous Peoples, underscore the need to uphold the rights of Indigenous peoples, including the proper conduct of FPIC in energy transition efforts. The

principles of FPIC are also affirmed in the UN Guiding Principles on Business and Human Rights (OHCHR, 2011[10]) as well as the *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*, which state that enterprises should particularly respect the human rights of individuals belonging to specific groups or populations and pay special attention to any adverse impacts on individuals at heightened risk of marginalisation and vulnerability, including Indigenous peoples (OECD, 2023[11]). Other OECD guidance, including the *Due Diligence Guidance on Responsible Business Conduct*, provides practical guidance on FPIC and Indigenous peoples (OECD, 2018[12]). Indigenous peoples expect that the implementation of this OECD guideline, particularly in relation to the conduct of FPIC, will be consistent in respecting their rights to their lands, territories and resources, and to their cultural heritage and the right to self-determination, as affirmed by the UN Declaration on the Rights of Indigenous Peoples (UN DESA, 2015[3]). The Committee on the Elimination of Racial Discrimination also emphasises the need for states to fully implement FPIC in all decision-making processes that affect Indigenous peoples, especially regarding development projects involving their lands and resources (OHCHR, 2013[13]).

Equitable benefit-sharing arrangements and partnerships with Indigenous communities are advancing climate action

Meaningful engagement with Indigenous peoples through open and constructive dialogue is crucial for building trust, respect and co-operation in energy transition initiatives. Historically, energy projects have often employed top-down approaches that marginalise Indigenous voices and prioritise profit. Successful initiatives, however, highlight the value of co-creating solutions with Indigenous communities and utilising their traditional knowledge and expertise in sustainable resource management. Meaningful partnerships enable states, companies and investors to navigate complexities, mitigate risks and achieve shared prosperity.

The just transition from fossil fuels to renewable energy can catalyse transformational changes, and when anchored in respect for and protection of Indigenous peoples' rights and well-being, transitions also contribute to reducing poverty and inequalities. Models of collaboration already exist whereby states and the private sector support Indigenous-owned and -led renewable energy development projects. Some of these good practices of ownership, co-ownership partnerships, and community-owned and managed renewable energy partnerships were presented during the Conference on Indigenous Peoples and the Just Transition held in April 2024, which brought together 87 Indigenous peoples' representatives from 35 different countries (Indigenous Peoples Rights Tribunal, 2024[14]). There are also numerous examples of community-led and -owned energy projects that can be replicated in Indigenous communities without access to energy that nonetheless need financial and technical support and assistance.

Models of collaboration already exist whereby states and the private sector support Indigenous-owned and -led renewable energy development projects.

The success of these initiatives is due to positive policy frameworks for renewable energy development as well as partnerships that include benefit-sharing arrangements, respect of Indigenous peoples' rights in relation to their lands and resources, and their participation in decision making. These elements allow for their knowledge and cultural heritage to be respected, thereby establishing a collective sense of ownership and responsibility.

The following examples demonstrate how development co-operation for energy transitions can be deployed to support ownership and co-ownership by Indigenous peoples.

Indigenous Clean Energy (Canada): Co-ownership and full ownership of renewable energy projects

The Indigenous Clean Energy platform promotes Indigenous-led capacity building and collective action in Canada's clean energy transition. It offers various programmes such as capacity development, information sharing, energy efficiency initiatives, training for Indigenous youth and mentorship. Indigenous peoples in Canada own 20% of the country's renewable energy portfolio, with a mix of fully owned and co-owned projects. The Canadian government and Indigenous peoples have started a journey towards shared prosperity in the energy transition that offers broader lessons about the value of establishing good relations and collaboration while respecting the rights, needs and aspirations of Indigenous peoples.

Rotokawa II Nga Awa Purua Geothermal Plant of Tauhara North No. 2. Trust (New Zealand): Co-ownership of a renewable geothermal plant

A joint venture between the Tauhara North No. 2 Trust, owned by Māori Indigenous people in New Zealand, and Mighty River Power led to the development of a major geothermal power station on Trust-controlled land. The project, including the Nga Awa Purua Power Station, benefits the community economically and socially. The Trust owns 25% of the Nga Awa Purua Joint Venture, with agreements including equity ownership, a ground lease and royalty payments. The power generated can electrify 140 000 homes and generate 3% of New Zealand's energy needs.

Tribal Clean Energy Network (Australia): Network supporting community-owned renewable energy projects

The Tribal Clean Energy Network collaborates with various stakeholders to support Indigenous peoples in Australia in transitioning to clean energy. Its work includes supporting communities in clean energy projects, promoting industry partnerships, and advocating for policy reform to remove regulatory barriers and promote government investment. The government of Australia has also created and filled the post of Ambassador for First Nations People, whose key priorities include advancing the rights and interests of First Nations globally; sharing experiences and knowledge of reconciliation processes and other related issues; embedding First Nations perspectives into Australia's foreign policy; supporting First Nations trade and investment, for instance by advising the Department of Foreign Affairs and Trade; and bolstering Australia's First Nations diplomatic capability and advocacy.

Community-owned microgrids (Guatemala)

The collective Madreselva supports Indigenous peoples in Guatemala to develop and manage their own electricity generators and grids at affordable prices, emphasising community ownership and environmental stewardship. It provides technical support and funding for renewable energy projects with active participation from women and men of the community, which sets electricity rates to cover maintenance and administration costs.

Partnership between the Right Energy Partnership and the United Nations for access to renewable energy by Indigenous communities

The collaboration between the Right Energy Partnership and the United Nations Development Programme (UNDP) involves the allocation of at least USD 1 million every year from the UNDP Small Grant Programme to support Indigenous-led and -owned renewable energy projects in Indigenous communities in developing countries. It has supported solar, micro-hydro and biogas projects in six countries: Cambodia, Cameroon, Democratic Republic of the Congo, El Salvador, Honduras and Nepal. These community initiatives have significantly improved access to clean water, electricity, lighting and other essential services in Indigenous

communities, thereby enhancing the overall quality of life and promoting better health outcomes. Empowerment of marginalised groups, especially Indigenous women and youth, has been a key benefit, leading to greater economic opportunities and social participation. The community-based energy projects have benefited Indigenous communities by contributing to environmental conservation, emissions reduction and climate change mitigation; promoting economic diversification through sustainable energy use, eco-tourism and other activities; enhancing educational opportunities; improving community cohesion and co-operation; advancing gender equality through initiatives such as the training of women in solar technology; heightening disaster readiness; and generating cost savings by increasing community ownership of local resources.

Conclusion

Any meaningful transition towards just and fair energy transitions must begin with a recognition of past wrongs done to Indigenous peoples and a commitment to redress historical injustices and marginalisation, including by increasing international development co-operation. OECD research shows that Indigenous peoples still receive only a limited share of bilateral biodiversity-related official development finance (OECD, 2023[15]). Likewise, a study by the Rainforest Foundation Norway estimates that between 2011 and 2020, projects supporting tenure and forest management for Indigenous peoples accounted for less than 1% of official development assistance for all climate change mitigation and adaptation activities (Rainforest Foundation Norway, 2021[16]). Furthermore, most of the disbursements occurred through large intermediaries, with Indigenous peoples' organisations receiving only a small fraction and small sub-grants (Rainforest Foundation Norway, 2021[16]).

In moving forward with the green transition, development co-operation actors can increase support for Indigenous peoples by embracing human rights-based approaches and energy partnership models. This will not only contribute to reducing poverty and lessening the economic disparity between Indigenous peoples and other groups, it will also foster much-needed co-operation, collaboration and partnerships to collectively address the global climate crisis and advance sustainable development for present and future generations. The lessons learnt from past experiences of Indigenous peoples underscore the imperative of embracing a human rights-based approach to energy transitions, supporting Indigenous-led and -owned renewable energy projects, and facilitating equitable benefit-sharing models. Development co-operation providers should also ensure policy coherence in upholding human rights, social equity and meaningful participation by Indigenous communities in decision-making processes around development planning and implementation at all levels.

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32 In my view: Putting human rights, justice, and equity at the centre is the only credible pathway for Indigenous peoples

Helena Gualinga, Ecuadorian environmental and human rights activist

Indigenous peoples in the Amazon have long fought to protect their lands, forests, waters and their living beings – not just for their own sake but for the benefit of the entire planet. At the frontline of defending the Amazon, indigenous peoples have often risked their lives and been subject to persecution, criminalisation, threats, intimidation and assassinations. They now face the destruction of their cultures and livelihoods due to climate change, leading to cultural, spiritual and economic impoverishment and inequality.

Global policy makers increasingly promote what they call the green transition. But many indigenous peoples, who struggle daily to protect the environment, view this warily as a new form of colonialism, imposed in a way that often ignores or violates their rights. Rather than talking about a green transition, we should talk about transitioning away from fossil fuels and decarbonising the economy. In this context, policy makers in OECD countries ought to put human rights, justice and equity at the centre of all such policies.

Rather than talking about a green transition, we should talk about transitioning away from fossil fuels and decarbonising the economy.

Human rights. The rights of indigenous peoples are enshrined in international instruments like the United Nations Declaration on the Rights of Indigenous Peoples and the International Labour Organization Convention No. 169 as well as the American Convention on Human Rights, national constitutions and judicial decisions. Yet, purported climate change mitigation projects like hydroelectric power plants, bioenergy plantations, mining and carbon offset projects have involved serious human rights violations. In this regard, I call for the following of global and OECD policy makers:

- Meet domestic and international human rights obligations through adopting binding human rights due diligence regulations, including binding free, prior and informed consent.
- Provide support for indigenous human rights defenders, including access to justice.
- Adopt biodiversity and human rights no-go zones for mining, oil extraction and other harmful activities in the Amazon with the full participation of indigenous peoples in decision making and exclude diplomatic or financial support for projects in such no-go zones.

- Ensure that indigenous peoples' rights, as enshrined in the United Nations Declaration on the Rights of Indigenous Peoples, are central to any climate change mitigation and adaptation, biodiversity, bioeconomy, and renewable energy policies or action plans, and ensure that such policies are developed with full and effective consultation with indigenous peoples and their effective participation in decision making.
- Abolish investor state dispute settlement mechanisms because they are incompatible with human rights and environmental protection and perpetuate poverty and inequality.

Justice. Indigenous peoples in the Amazon now face a dire situation and the possible collapse of the Amazon rainforest, and we are reaching several tipping points where the very survival of the indigenous peoples who have tirelessly fought to protect nature in the Amazon is at risk. It is unfair that indigenous peoples must bear the brunt of the negative impacts of both climate change and efforts for climate change mitigation and adaptation. For the transition to a decarbonised economy to be just, I call for the following:

- Recognise the differentiated historical roles, responsibilities and duties in climate change mitigation and adaptation. Co-operate with indigenous peoples in the remediation of historical and ongoing injustices against them, such as environmental impacts from oil exploitation and mining extraction.
- Indigenous peoples to be consulted and co-operated with on any policies or action plans on the energy transition in line with their right to free, prior and informed consent.
- Adopt and implement effective policies, regulations and laws to address unsustainable consumption patterns, reduce demand for minerals and biomass and combat all illegal extraction and trade of gold and timber in the Amazon in co-operation with indigenous peoples.

Equity. Indigenous peoples in the Amazon and elsewhere are diverse. There is also diversity within indigenous communities. The transition to a decarbonised economy must be equitable for all groups, including women, youth, children, elders and people with disabilities. For the transition to be equitable, I call for the following:

- Provide flexible funding without using intermediaries directly to indigenous peoples – including to women and youth, indigenous human rights defenders, indigenous peoples' representative institutions, and grassroot indigenous-led organisations or networks – to support them to mobilise, convene and build capacity to exercise their rights and their own social, cultural and economic priorities.
- Support indigenous-led climate change mitigation and adaptation activities such as renewable energy and conservation, including with emergency funds to address drought, flooding and wildfires.
- Support the participation of indigenous peoples, including women and youth, in decision making in international forums such as the OECD, the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity as well as national and subnational decision-making bodies.

33 Meaningful community participation in Just Energy Transition Partnerships

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Just energy transition partnerships (JETPs) are significant opportunities to accelerate green transitions in low- and middle-income countries and do so in ways that reduce poverty and inequality. This chapter highlights opportunities to leverage JETP investments for poverty and inequality reduction, through deliberate community participation in the design and implementation phases providing a civil society and local community perspective. It shares lessons on co-production and funding mechanisms for all stakeholders involved in the current and next generation of JETPs – particularly international partners who can help improve impact on emissions reduction and contribution to social goals by promoting more inclusive processes and flexible funding.

Key messages

- Civil society experience with two of the first just energy transition partnerships, in Indonesia and South Africa, finds that there is scope to better decentralise processes to more efficiently target interventions and the necessary broad-based support to implement just transitions.
- The International Partners Group can encourage co-production during the design of strategies and implementation plans and ensure increased allocation for community priorities.
- The next generation of JETPs would benefit from a more collaborative approach that prioritises in-depth community participation from the very beginning of the policy design process.

Introduction

JETPs are multilateral co-operation frameworks designed to accelerate the energy transition in Global South countries in ways and for results that are fair and equitable. Indonesia, South Africa and Viet Nam have signed JETPs; India and Senegal are also expected to sign one (Pineau and Irish, 2023[1]), though India's proposed JETP has met with domestic opposition (Sen and Kala, 2022[2]). As a key international framework bringing together country governments and international partners, JETPs are significant opportunities to shape green transitions in ways that reduce poverty and inequalities. However, in the two years since the first partnership was launched, the anticipated boost in financing from the JETP mechanism for green transitions remains elusive.

> JETPs are significant opportunities to shape green transitions in ways that reduce poverty and inequalities.

Experience from South Africa and Indonesia, the first two JETP countries, offers some insights on how to enhance meaningful community engagement and respond to community priorities. This chapter, drawing on analysis by civil society, points to potential risks to be managed in relation to the promise of inclusion and actions that can be taken in all JETPs to improve processes and outcomes.

Though announced with great fanfare, multi-billion dollar pledges and ambitious targets, the first JETPs have yet to mobilise significant public and private financing

JETPs are underpinned by a range of financing mechanisms. South Africa and the International Partners Group[1] (IPG) signed the first JETP at the 2021 United Nations Climate Conference (COP26). The IPG initially committed USD 8.5 billion, which it subsequently increased to USD 9.3 billion. The overarching goal of the JETP with South Africa is to support the country in accelerating its move towards renewable energy by ensuring funding for programmes that address employment and local economic activity losses from the shift away from coal. The financing is meant to support South Africa's own investment plan for a just energy transition that, in the words of South Africa's Presidential Climate Commission (2022[3]), will "benefit all South Africans by driving economic growth, creating jobs, and increasing our energy security". Approximately USD 600 million has been allocated to projects. Civil society and media reports have, however, criticised the transparency of project selection (Fraser, 2024[4]).

Indonesia's JETP with the IPG was announced in November 2022 at the Group of Twenty (G20) Summit in Bali. This partnership began with considerable momentum and multi-billion US dollar pledges for energy transition financing. The Indonesia JETP sets out two main goals: first, peaking power sector emissions

by 2030 with an absolute emissions cap of 290 million-ton CO_2 equivalent and achieving net zero by 2050; second, accelerating the use of renewable energy so that it comprises at least 34% of the power generation by 2030. The signatories pledged to work to mobilise USD 20 billion through the partnership over the next three to five years in the form of grants, concessional loans, commercial loans, guarantees and private investment. It was anticipated that approximately half the total capital would be mobilised from private finance under the co-ordination of the Glasgow Financial Alliance for Net Zero.

Early JETPs: learning from missed opportunities to solicit broad community and stakeholder input on the country-specific priorities

Green energy transitions carry a range of socio-economic risks for workers in coal-fired plants and coal mines and for the wider value chains and communities that are dependent on these activities. A just transition is one that builds social consensus around the nature and pace of the transition and includes plans to support or compensate those who might lose livelihoods in the process.

JETP agreements do not specify how the mobilised financing is to be spent in each country. Rather, the principle is that each country determines its own just transition pathway based on local context and priorities and then presents its plan to the international partner group. The underlying assumption is that this plan will be developed based on extensive consultation with a wide range of stakeholders including workers, the business sector and broader civil society. The crucial first step is to co-produce a clear vision of where the country should transition to and how it plans to get there. To date, these vision statements have prominently featured in the JETP language calling for a coal phase-out.[2] Without inclusive consultation, however, it is almost impossible to create the necessary broad-based buy-in to implement a plan. As the Indonesian and South African experiences suggest, building national consensus at the initial stage is fundamental to avoid subsequent opposition to transition.

...the principle is that each country determines its own just transition pathway based on local context and priorities and then presents its plan to the international partner group.

Local communities often have the best ideas of how to address poverty and inequality. Allowing them to define and direct the local development path greatly increases the likelihood that the green transition will actually deliver on its promises of reducing poverty and inequality. The challenge, of course, is that co-production is a much lengthier process of policy making than the orthodox approach. However, the cost of delay in finalising policies and plans must be weighed against the very real possibility that a failure to embrace co-production can create significant broad-based opposition to an energy transition (Lenferna, 2023[5]).

It would be helpful to build public support and understanding of just energy transitions if an obligation for genuine co-production is integrated into all JETP-funded programmes. Fostering genuine co-production means more than simply increasing the number of meetings on energy transitions, engaging more people, and disseminating information in various formats and languages. Co-production is not merely a more expansive form of participation; rather, it is an entirely different approach to policy design (McGuinness and Slaughter, 2019[6]).

Timely consultation and transparency are key to ensure stakeholder engagement and support

Timely and meaningful consultation of local communities is a stated priority but challenging in practice. Several stakeholder consultations were held during the drafting process and South Africa's just transition framework promised procedural[3] and distributive justice.[4] At the same time, both the JETP and the associated investment plan were developed to final document stage and approved by the national cabinet before they were publicly available. The guiding document for Indonesia's JETP - the Comprehensive Investment and Policy Plan (CIPP), was released in November 2023 and presented priority projects to be financed based on five investment focus areas[5] as well as the just transition guiding framework as well as identified and committed funding from the IPG and private financiers. Indonesia's JETP mandates inclusive political dialogue with non-governmental organisations and other actors, and the CIPP contains a detailed concept of what constitutes a just transition and calls for extensive participation from relevant stakeholders and the public (Just Energy Transition Partnership Indonesia, 2023[7]).

Media and civil society in both countries contended that local chambers of commerce, municipalities, labour groups and civil society did not have sufficient opportunities to participate in developing the policies and plans and that consultation with local communities in the later stages of the planning process limited scope to influence the plan.[6] For example, a local official in the coal-mining Mpumalanga Province was quoted as saying that the government had yet to explain or discuss its just energy transition: "We hope that this programme doesn't negatively affect the unemployment rate that is already here because, if that's the case, our people are going to be against the transition" (Molelekwa, 2023[8]). Other media reported that trade unions complained of no "credible plans for creating jobs", some analysts said the JETP financing is skewed towards capital equipment (Rahim, 2023[9]) or that the drafting process lacked transparency and had limited stakeholder input, including on how financing was to be disbursed (Pradipta Pandu, 2023[10]) (Waluyo, 2023[11]).

Aligning ambitious timelines with sufficient time for consultation is challenging. For example, the JETP for Indonesia planned to have a secretariat and a comprehensive investment plan delivered within six months although the first draft of the CIPP was released for limited stakeholder consultation by August 2023 and disseminated with a two-week window for public comment in early November – a year after the JETP was signed. The JETP Secretariat has since reported that it conducted more than 200 in-depth dialogues or focus group discussions with various stakeholders in 2023 (Just Energy Transition Partnership Indonesia, 2024[12]).

Responding to local community priorities such as access to affordable energy and water. The Indonesia roadmap is focused on on-grid systems and prioritises projects ready to finance (i.e. the capital deployment approach). Most of the designated top priority projects[7] are large-scale centralised renewable energy projects by public utilities[8] and private companies. It does not include small-scale projects at the community level, such as off-grid installations that are often not commercially viable, achieving universal affordable electricity access including through decentralised renewable energy[9], which would particularly benefit poorer and more remote communities – though these are often priority projects for communities that hope to hasten their access to energy rather than wait for years, or decades, for the public utility to reach them.

Universal access to genuinely affordable, sufficient[10] electricity – which means zero tariff for the 30% of the South African population who live in extreme poverty – could be the most significant pro-poor strategy that a green transition might facilitate. The high cost of electricity, for instance, has long been considered a priority issue for households and small enterprises and a key driver of poverty, household malnutrition and inequality as it erodes disposable income and prevents households from engaging in productive economic activity or expanding existing activity (Ledger and Rampedi, 2022[13]). South Africa already has a free basic electricity policy, but it covers only 50 kilowatts per household per month and is not well implemented (Ledger, 2021[14]). Increasing the allowance to a level that would support socio-economic development (e.g. 350 kilowatts per month) would cost the state an estimated additional ZAF 70 billion

(South African rand), equivalent to USD 3.6 billion, per year, but offers significant development benefits (Ledger and Rampedi, 2022[13]). For instance, making it less likely that poor households have to divert money for food to pay for electricity, thereby directly improving household nutrition, households with access to affordable electricity are more likely to start their own small enterprises, and the more affordable electricity is, the more likely they are to expand existing enterprises (Ledger and Rampedi, 2022[13]). While researchers and local communities had identified the potential of these and other important issues to develop and benefit poorer communities, they are not included among the priority focus areas for South Africa's just energy transition projects (Ledger and Rampedi, 2022[13]).

Another priority issue for local communities in South Africa is the reallocation of water rights currently used by coal-fired power stations. Eskom, the state-owned power company, used approximately 380 million cubic metres of fresh water in 2020, a significant amount given the general water scarcity in the Province of Mpumalanga where the majority of coal-fired plants are located. Redirecting water to support broad-based socio-economic development in areas impacted by coal closures could potentially be a driver of significant pro-poor development.

Community co-production is not just important for social justice. Rather, it is an effective approach to policy development that fosters better problem definition and creates much-needed broad-based support for contested policies. Better inclusion and co-production of detailed plans for transitions reinforces social legitimacy the lack of which is a significant barrier to successful JETP implementation. The perception of limited genuine co-production in developing investment plans can also feed into narratives that the energy transition is something that has been imposed on the country (Creamer, 2023[15]; Jacobs, 2023[16]).

By supporting genuine co-production and more flexible funding priorities, the IPG and other stakeholders can enhance just energy transition partnerships.

Commitments to genuine co-production has implications for development co-operation. The donor community has committed to the principle that just energy transitions must be developed to reflect and consider each country's specific socio-economic and political context. In practice, donors must also be prepared to accept that a country's funding priorities might be different than their own. In the specific context of Indonesia, for example, prioritising funding for community-based projects may not align with the international community's desire to fund big projects that will rapidly reduce emissions. But a failure to embrace (and fund) country priorities – as articulated by a wide range of community stakeholders rather than a small group of technical experts or policy makers – will erode political support for exactly the outcomes that JETPs are trying to encourage.

International partners in JETPs should consider the relative weight of different instruments, particularly grants, in the total financing package. Some have argued that loans should not be the biggest part of the funding mechanism of JETPs, as achieving successful and impactful energy transitions is a shared responsibility of Global North countries assisting the Global South.

Both Indonesia's and South Africa's experience with JETPs highlights the importance of more grant funding in the mix as grant funding is essential to support community-led and pro-poor interventions that are unlikely to attract private sector investment. The Indonesian CIPP, noting that "many just transition initiatives have limited private returns but very high potential social returns", also calls grants "the most appropriate form of funding support for the just transition" (Just Energy Transition Partnership Indonesia, 2023[7]). Currently, Indonesia's CIPP allocates only USD 153.8 million for grants out of a committed total of USD 20 billion[11], which is not sufficient to allow less bankable, small-scale, community-based renewable energy projects to flourish. Unless decentralisation is mandated as an integral part of the JETP and the just transition framework,[12] transition decisions will be taken from the national-level viewpoint and deprived

of local context and diverse perspectives. Thus, addressing inequality in energy access and development across Indonesia will remain a challenge.

The JETP mechanism is based on supporting nationally developed plans. While respecting country ownership the IPG should keep in mind that if the plans are not based on co-production and if they do not reflect local priorities and local conceptualisations of what a just transition looks like, they may, in fact, hinder rather than support rapid progress. International partners thus need to emphasise the importance of co-production approaches for each individual country. The donor community can also contribute to knowledge exchange that highlights successful examples of collaborative problem solving such as public sector innovation labs (Monteiro and Kumpf, 2023[17]) as well as examples of how renewables can facilitate increased free electricity allocations to poor households (Government of Western Australia, 2023[18]).

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Notes

[1] The founding members of the IPG are the European Union, France, Germany, the United Kingdom and the United States. Denmark and the Netherlands joined in 2023.

[2] A coal phase-out would be in place of adaptation or an equitable energy system. Indonesia's JETP was preceded by a presidential decree mandating the early retirement of coal power plants.

[3] Procedural justice is delivered when communities are fully involved in the design of policies and programmes.

[4] Distributive justice is delivered when the benefits (and losses) from the green transition are distributed in such a way that poverty and inequality are reduced.

[5] The five investment focus areas are transmission lines and grid deployment; early coal-fired power plant retirement and managed phase-out; dispatchable renewable energy acceleration; variable renewable energy acceleration; and renewable energy supply chain enhancement.

[6] These consultations usually involve the presentation of the plans to community groups and other stakeholders followed by a question-and-answer session. To date, this approach has led to very few changes to established plans.

[7] Selection and prioritisation criteria are explained in Chapter 5 of the CIPP document and focus on impact to decarbonisation pathways and optimal use of funds. See: https://jetp-id.org/cipp.

[8] These include projects of PLN, Indonesia's sole state utility company.

[9] The CIPP does include a relevant top priority project in this area but it is not related to new development of decentralised renewable energy. The project is part of the wider de dieselisation programme that is focused on replacing diesel generators of the State Electricity Company (PLN) with a hybrid of renewable energy sources and energy storage, with the assets and operation remaining under PLN's purview.

[10] Sufficient electricity is enough electricity to support a minimum standard of living and to engage in economic activity.

[11] The public finance share covers grants, concessional loans, multilateral development bank guarantees, non-concessional loans and equity investment.

[12] Indonesia's JETP Secretariat is planning to draft a just transition implementation plan in 2024.

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