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.

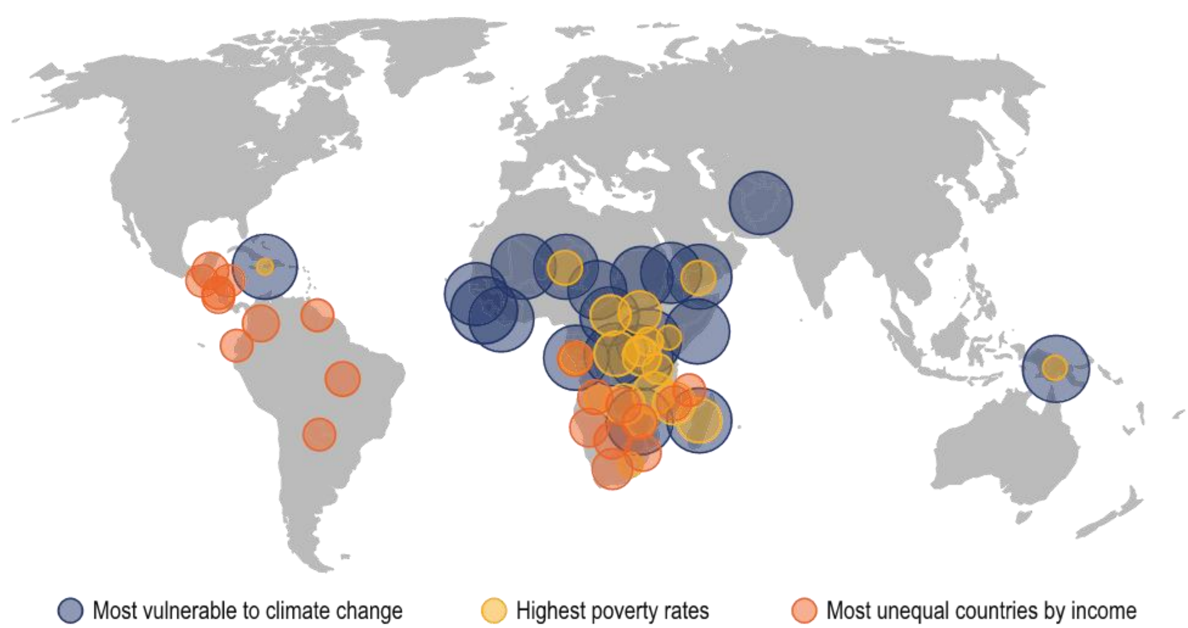
Poverty and inequalities are rising with the climate crisis

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.

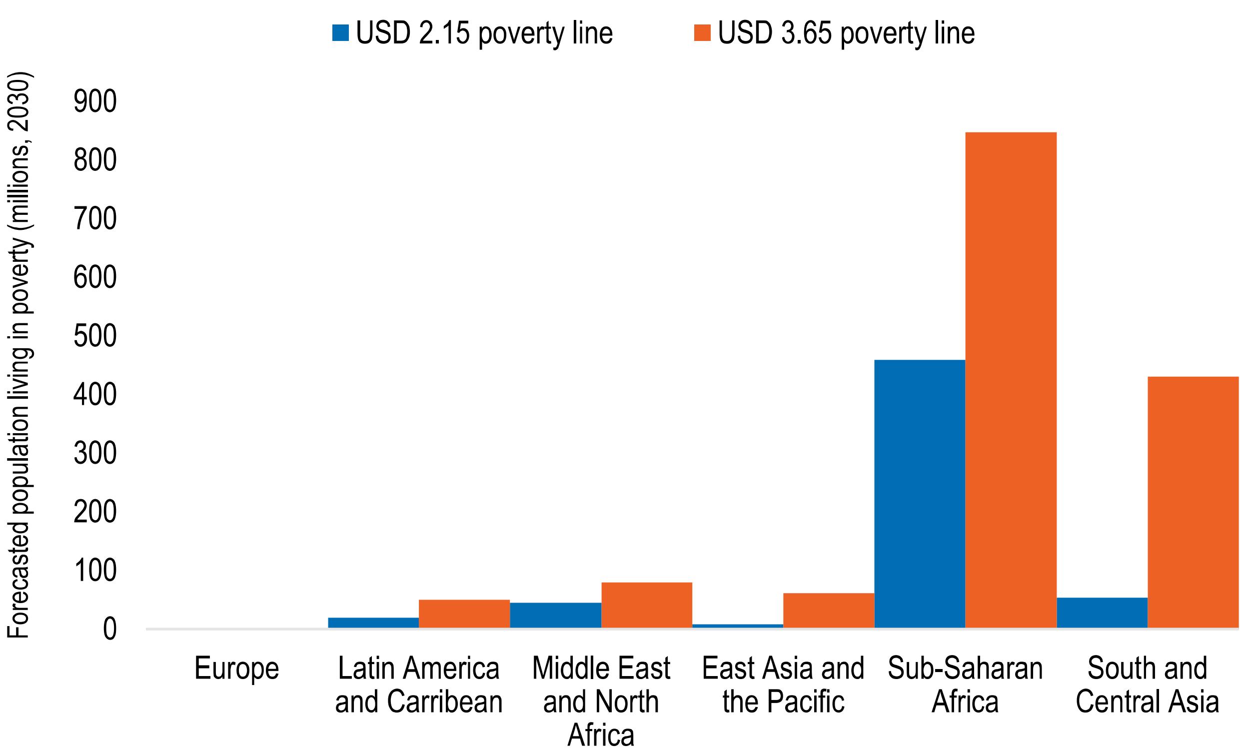
Sources: World Bank (2024[13]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ND-GAIN (2021[14]), *ND-GAIN Notre Dame Global Adaptation Initiative: Country Index* (database), https://gain.nd.edu/our-work/country-index; World Bank (2024[15]),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

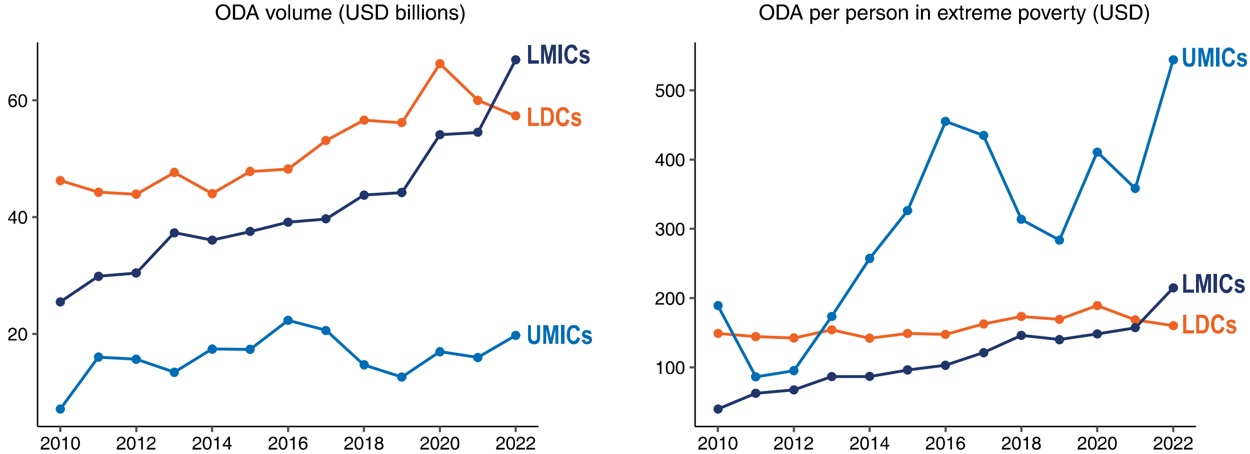
- Less than one of every ten US dollars, or 9.5%, of Development Assistance Committee (DAC) members' bilateral official development assistance went to grants for **poverty-reducing sectors** in 2022 (Sustainable Development Goal indicator 1.a.1, which tracks resources to poverty reduction programmes), 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 her 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 pathway (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]).

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>
> *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.

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]).

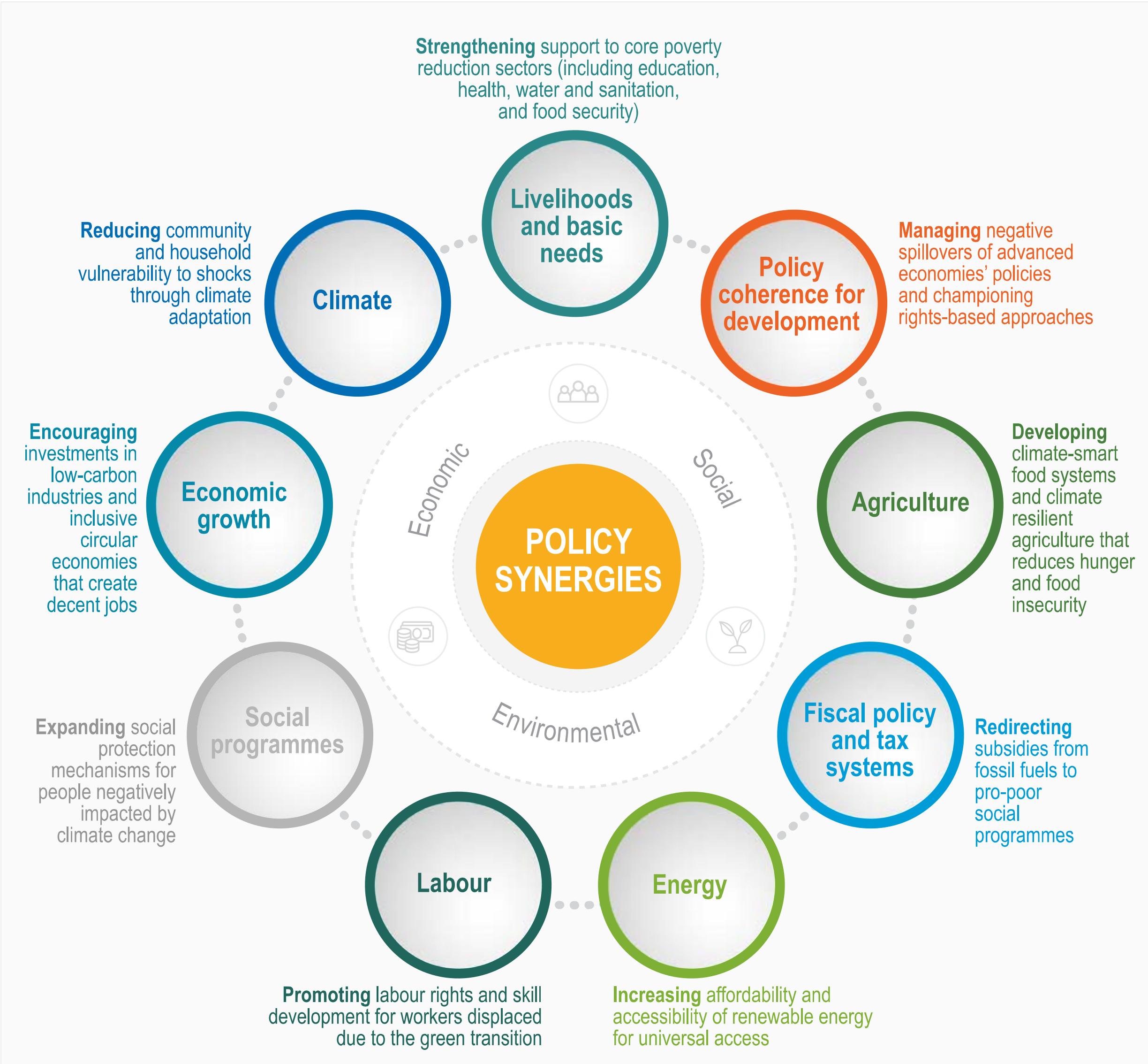
Policy coherence for development

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 Madrid (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. This is more ambitious - but achieving this goal will mean putting in place policies that protect people from falling back into absolute poverty and building climate resilience (see Chapters 2, 3 and 4).

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 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 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 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).

Inclusive transitions will strengthen democratic processes. 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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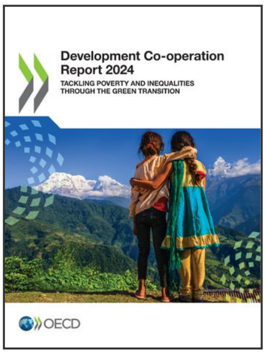
Notes

[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.



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