United Nations | Department of Economic and Social Affairs

The New Economics of Social Inclusion

Making Transformations Work for All

WORLD SOCIAL REPORT 2026

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United Nations

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

The Department of Economic and Social Affairs of the United Nations Secretariat is a vital interface between global policies in the economic, social and environmental spheres and national action. The Department works in three main interlinked areas: (i) it compiles, generates and analyses a wide range of economic, social and environmental data and information on which States Members of the United Nations draw to review common problems and to take stock of policy options; (ii) it facilitates the negotiations of Member States in many intergovernmental bodies on joint courses of action to address ongoing or emerging global challenges; and (iii) it advises interested Governments on the ways and means of translating policy frameworks developed in United Nations conferences and summits into programmes at the country level and, through technical assistance, helps build national capacities.

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Foreword

The transformations reshaping our world are testing not only our economies and institutions, but also our commitment to human dignity, equality and solidarity.

Rapid advances in artificial intelligence are transforming how people learn and work. Climate change is threatening lives, livelihoods and communities. Conflict and geopolitical fragmentation are weakening cooperation precisely when our shared challenges demand more of it. Demographic change is also reshaping societies, economies and patterns of work.

At the same time, poverty, inequality and exclusion continue to deny billions of people the opportunity to shape their own futures. Women and girls, young people, people with disabilities, migrants, Indigenous Peoples and many others still face unequal access to opportunities, resources, services and representation.

This report advances the New Economics of Social Inclusion. This approach recognizes that social inclusion is more than an aspiration or a moral imperative; it is a foundation for peace, and a driver of resilient economic growth and sustainable development.

The evidence presented in this report is compelling. Across countries, economic progress does not automatically translate into social inclusion. Public policies, institutional choices and good governance are essential to ensuring that the profound transitions shaping our world benefit all people.

Investments in education, job creation and skills training are essential so that people everywhere can benefit from technological advancements and the growth of new industries. Inclusive institutions and policymaking can ensure that all voices are represented. And governments need to adopt equity-focused approaches to labour markets and taxation.

The international context matters too. Revitalized multilateralism can expand development finance, promote fair taxation, facilitate technology transfer and enable all countries to participate meaningfully in the opportunities created by the digital and green transitions. International cooperation is also essential to addressing cross-border challenges.

The transformations reshaping our world are inevitable. Excluding people from their benefits is not.

By placing social inclusion at the heart of national policies and international cooperation, we can ensure that the momentous transitions of our time expand opportunity, strengthen resilience and advance progress on the Sustainable Development Goals, delivering for present and future generations.

António Guterres
United Nations Secretary-General

Explanatory Notes

Symbols

- A hyphen (-) between years, for example, 2025-2026, signifies the full period involved, including the beginning and end years.
- A full stop (.) is used to indicate decimals.
- A dollar sign ($) indicates United States dollars, unless otherwise stated.

Details and percentages in tables may not necessarily add to totals because of rounding.

Notes on regions, development groups, countries and areas

The designations employed in this publication and the material presented in it do not imply the expression of any opinions whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The term "country" as used in this report also refers, as appropriate, to territories or areas.

In this publication, data for countries and areas are often aggregated in six continental regions: Africa, Asia, Europe, Latin America and the Caribbean, Northern America, and Oceania. Further information on continental regions is available from UN DESA Statistics Division, Standard country or area codes for statistical use (M49). Countries and areas have also been grouped into geographic regions based on the classification being used to track progress towards the Sustainable Development Goals of the United Nations.

The designation of "developing" and "developed" is intended for statistical purposes and does not express a judgment about the stage in the development process reached by a particular country or area. Developed regions comprise all countries and areas of Europe and Northern America, plus Australia, New Zealand and Japan. Developing regions comprise all countries and areas of Africa, Asia (excluding Japan), Latin America and the Caribbean, and Oceania (excluding Australia and New Zealand). Further information is available from UN-OHRLLS.

The classification of countries and areas by income level is based on gross national income (GNI) per capita as reported by the World Bank. Income group data is not available for all countries and areas.

Abbreviations

AI	artificial intelligence
DST	digital services tax
GDP	gross domestic product
HIPC	heavily indebted poor countries
ILO	International Labour Organization
IMF	International Monetary Fund
ITU	International Telecommunication Union
LDCs	least developed countries
LLDCs	landlocked developing countries
NEET	share of youth not in employment, education or training
NESI	New Economics of Social Inclusion
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SAR	Special Administrative Region
SDGs	Sustainable Development Goals
SMEs	small and medium-sized enterprises
SIDS	small island developing States
SIT	socially inclusive transformation
UHC	universal health coverage
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNRISD	United Nations Research Institute for Social Development
WHO	World Health Organization
WID	World Inequality Database
WIID	World Income Inequality Database
WTO	World Trade Organization

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY
End poverty in all its forms everywhere

2 ZERO HUNGER
End hunger, achieve food security and improved nutrition and promote sustainable agriculture

3 GOOD HEALTH AND WELL-BEING
Ensure healthy lives and promote well-being for all at all ages

4 QUALITY EDUCATION
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

5 GENDER EQUALITY
Achieve gender equality and empower all women and girls

6 CLEAN WATER AND SANITATION
Ensure availability and sustainable management of water and sanitation for all

7 AFFORDABLE AND CLEAN ENERGY
Ensure access to affordable, reliable, sustainable and modern energy for all

8 DECENT WORK AND ECONOMIC GROWTH
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

10 REDUCED INEQUALITIES
Reduce inequality within and among countries

11 SUSTAINABLE CITIES AND COMMUNITIES
Make cities and human settlements inclusive, safe, resilient and sustainable

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Ensure sustainable consumption and production patterns

13 CLIMATE ACTION
Take urgent action to combat climate change and its impacts

14 LIFE BELOW WATER
Conserve and sustainably use the oceans, seas and marine resources for sustainable development

15 LIFE ON LAND
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

17 PARTNERSHIPS FOR THE GOALS
Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

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Table of Contents

Foreword . . . 3
Explanatory Notes . . . 4
Abbreviations . . . 5
Acknowledgements . . . 7
Executive Summary . . . 13

1. The New Economics of Social Inclusion . . . 19
   Introduction . . . 20
   The importance of social inclusion . . . 21
   Uneven, incomplete progress on social inclusion . . . 22
   New and emerging challenges to social inclusion . . . 23
      The risk of widening inequalities and exclusions from digital and AI divides . . . 23
      The potential for climate change to weaken livelihoods, services and adaptive capacity . . . 26
      The capacity of energy transitions to expand resilience, while distributional risks remain . . . 28
      The continuing effect of geopolitical pressures on challenges to social inclusion . . . 28
   The mounting costs of social exclusion . . . 30
      The speed and scale of transformations and their impact on exclusion . . . 30
      The economic cost of exclusion and delayed inclusion . . . 30
   The New Economics of Social Inclusion . . . 32
      Guiding principles of the New Economics of Social Inclusion . . . 33
      How NESI advocates for socially inclusive transformation . . . 34
   Policy compact for socially inclusive transformation . . . 36
   Conclusions . . . 36

2. Towards a Socially Inclusive Transformation . . . 39
   Introduction . . . 40
   Benchmarking socially inclusive transformation . . . 40
      Economic transformation . . . 40
      Energy transformation . . . 41
      Digital transformation . . . 41

Economic equity . . . 41
Social equity . . . 42
Benchmarking progress on SIT: key insights . . . 43
Increased socially inclusive transformation scores with a rise in income, but vastly different scores among countries at similar levels of income . . . 43
Progress in transformation not always accompanied by inclusiveness . . . 43
Uneven progress across different transformations and equity dimensions, with social equity and energy transformation emerging as the weakest links . . . 44
SIT dashboard for LDCs, LLDCs and SIDS . . . 44
Sharply divergent pathways in middle-income countries, with low-income countries furthest behind in terms of digital transformation and social equity . . . 46
Leaders in transformation and inclusion . . . 47
Conclusions . . . 47

3. Challenges and Opportunities in Advancing Socially Inclusive Transformation . . . 49
Introduction . . . 50
The persisting deficits across key dimensions of social inclusion . . . 50
Barriers to economic participation . . . 50
Barriers to education and skill development . . . 54
Inequities in healthcare access and outcomes . . . 55
Deficits in voice and representation . . . 57
New opportunities and challenges that transformation presents . . . 57
New opportunities from economic transformations . . . 58
Digital technologies and artificial intelligence . . . 61
The energy transformation . . . 67
Conclusions . . . 69

4. Institutions and Policies for Socially Inclusive Transformation . . . 71
Introduction . . . 72
Expanding people's access to education, health, and social protection . . . 72
Education: from opportunity to skills for the future . . . 72
Health systems for building resilience and socially inclusive transformations . . . 75
Providing universal social protection in a digital era . . . 77
Universal access to digital and green energy services . . . 78
Advancing inclusive digital transformation . . . 78
Energy access for all . . . 79
Fostering inclusive labour markets during technological and green transformations . . . 80
Decent work and portable benefits for gig workers . . . 80
Active labour market policies during technological and green transformations . . . 81
Reducing gender pay gaps . . . 82
Steering innovation towards employment creation . . . 83
Policies and institutions for ensuring shared prosperity . . . 83
Improving labour's share of income . . . 84
Fiscal policies: taxation for socially inclusive transformation . . . 87
Policy coherence, sequencing and coordination . . . 90
Conclusions . . . 90

5. International Cooperation for a Socially Inclusive Transformation 93
Introduction 94
A paradigm shift in national development planning 94
From structural transformation to socially inclusive transformation 94
From wage-only employment to diversified livelihood and compensation for non-market value generation 95
From one-degree-for-lifetime to lifelong learning 95
From extractive to regenerative digital economic systems 95
From concentrated ownership to distributed participation, including in digital and green assets 95
From reactive to anticipatory governance for shaping future transformations 96
From global competition to global cooperation on shared infrastructures 96
Strengthening international cooperation and multilateralism in an increasingly fragmenting world 96
The gains of multilateralism despite persisting challenges 96
International cooperation in taxing the digital economy 97
Multilateralism weakened by geopolitical fragmentation 98
The way forward 100

Bibliography 101

Appendix 111
Socially inclusive transformation (SIT) scores by country 111

Figures

1.1 Persistent gaps across key dimensions of inclusion 22
1.2 Rising within-country income inequalities 24
1.3 Growing income gaps: 1950–2022 25
1.4 How the digital divide and the AI divide hinder social inclusion 25
1.5 How climate change hinders social inclusion 27
1.6 Disaster driven internal displacements in 2024 27
1.7 Geopolitical fragmentation and social inclusion 29
1.8 Immediate versus delayed investments in social inclusion, 2025–2045 31
1.9 The New Economics of Social Inclusion: making transformations work for all 35
2.1 Socially inclusive transformation (SIT) scores and income levels 43
2.2 Global patterns in socially inclusive transformation 44
2.3 Regional performance across sub-pillars 45
2.4 Socially inclusive transformation (SIT) in countries in special situations and other developing countries 45
2.5 Performance across sub-pillars, by income group 46
3.1 Male and female labour force participation rate, 1990–2025 51
3.2 Labour force status by disability status and region, 2025 or latest available year . . . 52
3.3 Percentage and composition of informal employment as a share of total employment, by sex and country income group, 2023 54
3.4 Minimum proficiency in mathematics at the end of lower-secondary education, 2022 or latest available year 55
3.5 Proportion of women experiencing problems in accessing healthcare, 2024 or latest available year 56

3.6 Share of non-agricultural agrifood systems employment in total employment 60
3.7 Changes in employment by disability status, 2019–2022 64
4.1 Tax revenue and public health spending, per capita, 2024 76
4.2 Social protection benefits, effective global coverage, 2017–2023 77
4.3 Relative redistribution through taxes and transfers, median, by country group, 2000 and latest year available 87

Boxes

1.1 Comparing structural transformation, integrated inclusive development, and the New Economics of Social Inclusion 33
2.1 Methodology of the socially inclusive transformation (SIT) score 42
3.1 Youth employment policies shifting South Africa's growth path 59
3.2 Impacts of artificial intelligence on the energy transition: risks and opportunities . . . 61
3.3 Harnessing digital transformation and AI for the inclusion of Communities Discriminated on Work and Descent 65
5.1 Debt relief and social development: evidence from the Heavily Indebted Poor Countries Initiative. 98
5.2 Strengthening international tax cooperation for social inclusion 99

Figure boxes

3.1.1 Simulated economic effects of youth employment policies in South Africa 59

Tables

2.1 Top five countries by each pillar and combined SIT score 47
2.2 Top five countries in terms of their scores under each sub-pillar 47
4.1 Policy interventions by area and objectives for equity, adaptation and resilience. . . . 92

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Executive Summary

The world is being reshaped by rapid technological advances, accelerating climate pressures and rising geopolitical fragmentation. In this uncertain world, while countries are grappling with simultaneous economic, digital and energy transformations, the cost of leaving people behind is rising. These transformations can offer major opportunities to raise productivity, expand access to services and accelerate sustainable development, but they can also deepen existing inequalities when people lack the capabilities, opportunities, infrastructure, protection or voice needed to adapt.

Social inclusion — the process of improving the terms of participation in society for disadvantaged people, through enhanced opportunities, access to resources, voice, and respect for rights — is a core tenet of development. It determines whether people can participate in economic life, build capabilities, and influence the decisions that shape their futures.

Socially inclusive transformation requires the full and equitable participation of all people, especially groups that continue to face structural disadvantages and discriminatory environmental barriers, including women, youth, older persons, persons with disabilities, migrants, Indigenous Peoples and others in vulnerable situations.

Transformative pressures are inevitable; exclusions are not. The question for policymakers then becomes how to ensure that ongoing transformations are socially inclusive. The report argues that governing these transformations requires a paradigm shift in development planning. It advances a New Economics of Social Inclusion that places social inclusion at the centre of transformation, so that change expands opportunity, strengthens resilience and delivers broadly shared prosperity.

The development challenge

The central development challenge today is twofold: to enable productive transformations and to ensure that these transformations work for all. While these transformations are changing production and trade patterns, disrupting livelihoods and supply chains, and compressing the time available for adjustment, they are also raising the risk of entrenching exclusions.

Long-standing development priorities remain urgent. Poverty, inequality, unemployment, weak health and education outcomes, inadequate infrastructure and limited voice continue to restrict participation. When people, firms and communities cannot connect to jobs, skills, finance, digital systems, clean energy, social protection and decision-making, economies lose productivity, dynamism and resilience. Exclusion becomes both a societal failure and an economic constraint.

The New Economics of Social Inclusion

The New Economics of Social Inclusion (NESI) starts from a simple premise: under conditions of rapid and overlapping transformations, social inclusion is not only a social objective or a downstream outcome of growth, but part of what enables economies to adapt, sustain productivity and manage transformations.

NESI argues that social inclusion is not just a dividend of successful transformation but also a condition that helps make it possible. It is therefore both a social objective and an essential driver of economic progress. Economies can only transform successfully when all people can participate productively in economic life, access quality education and health services, obtain finance and access infrastructure, and contribute their skills and ideas. By expanding opportunities for women, youth, older persons, persons with disabilities, migrants, Indigenous Peoples and other marginalized groups, social inclusion enlarges the productive workforce, strengthens human capital, increases innovation and entrepreneurship, improves labour allocation and spreads productivity gains more widely. It can also boost aggregate demand by expanding economic opportunities and increasing incomes and household purchasing power.

Where access to learning, connectivity, finance, protection and voice is narrow, exclusion becomes self-reinforcing. It limits entry into new economic activities, slows the diffusion of new technologies and weakens the capacity of economies to adapt. Under-

investment in people not only leads to exclusion; it can also become an obstacle to transformation itself.

As transformations accelerate, the time available for adjustment shrinks and advantages accumulate more quickly. Exclusions become increasingly costly because those left outside key systems face steeper barriers to catching up later. Delayed inclusion does not merely postpone social progress; it interrupts productive pathways, leads to political instability, weakens resilience and raises the future cost of enabling participation.

NESI is grounded in two mutually reinforcing principles:

- **Adaptive capacity:** the ability of people, households, firms and communities to access and use the systems needed to work, learn, invest, adopt technology, withstand disruption and move towards higher productivity and well-being. These systems include education and skills, health, infrastructure, digital and energy access, productive employment, social protection, care, finance and risk-sharing.
- **Inclusive institutions:** rules and policy processes that keep markets contestable, widen access to opportunities and resources, and enable people to exercise agency and voice. They are especially important where control over technology, data, standards, finance and investment is concentrated.

Together, these principles connect people's ability to respond to change with the institutional conditions that enable them to participate and shape it.

What the country-level evidence shows

The guiding principles of NESI provide the foundation for socially inclusive transformation: governing economic, digital and energy transformations so that everyone can contribute to change, benefit from it, and have a voice in how it unfolds.

Grounded in the NESI framework, the report examines to what extent countries have advanced socially inclusive transformation. It benchmarks 168 countries over 2000–2024 across two pillars: transformation and inclusiveness. To this end, it develops a dashboard of indicators for socially inclusive transformation, indicative of the ability to thrive economically and adapt to rapidly changing circumstances (*transformation*), while ensuring that transformation is socially equitable and inclusive *(inclusiveness*). The transformation pillar covers indicators of economic, energy and digital transformation, while the inclusiveness pillar covers indicators of economic and social equity.

The results show that while transformation and inclusiveness are linked, there is a clear "conversion gap". Countries with comparable transformation scores can have very different inclusion outcomes, especially in Africa, Asia and the Americas. Countries with similar income levels also differ vastly in terms of their transformation and inclusion scores. This shows that income levels alone does not determine socially inclusive transformation. National policies, institutions and governance choices play a critical role in shaping whether transformation benefits society broadly.

Progress across sub-pillars is uneven. Economic transformation has advanced in many countries, but digital transformation, energy transition and social equity remain major areas of divergence. Social equity is the most uneven dimension across regions and income groups, while energy transition is among the weakest areas, especially in Africa and Asia. These findings point to unequal capacities across countries to manage transformation in ways that are both sustainable and socially inclusive.

Countries in special situations face distinct constraints. Least developed countries show the weakest performance across both transformation and inclusiveness, reflecting broad structural challenges. Small island developing States perform relatively better on inclusiveness but lag in transformation, especially in energy and digital transformation. Landlocked developing countries show some progress in transformation but weaker inclusion outcomes, suggesting that connectivity and access constraints limit the distribution of benefits.

Overall, country-level evidence underscores that socially inclusive transformation requires deliberate policy and institutional action to ensure that

economic, digital and energy transformations are productive, resilient and broadly shared.

Opportunities and risks created by transformations

Over recent decades, there has been important progress towards social inclusion. More children attend school, access to health services has expanded, and new opportunities have emerged for both economic participation and civic engagement.

However, these gains have not been shared equally. Entrenched barriers continue to restrict meaningful participation for many, including women, youth, older persons, persons with disabilities, migrants, Indigenous Peoples and others. As a result, large gaps persist across key dimensions of social inclusion — *economic participation, education and skills development, health, and voice and representation* — leaving disadvantaged social groups further behind and weakening societies' adaptive capacity in the context of rapid change.

Ongoing transformations present both opportunities and risks, especially for disadvantaged people. Economic transformation can create more productive and better-paid employment, including through dynamic services, agrifood systems and other emerging activities. However, these opportunities require targeted skills development, technological upgrading and policies that ensure access for disadvantaged groups.

Digital technologies and artificial intelligence (AI) can expand access to jobs, education, and healthcare, support remote work and strengthen public services. At the same time, digital divides, unequal skill acquisition, biased systems and automation can deepen labour-market and social inequalities. Young workers and entry-level occupations may face particular adjustment pressures, while unequal access to AI-related skills can reinforce existing wage gaps. Inclusive digital transformation therefore requires universal connectivity, broad AI literacy, accessible design, accountability and safeguards.

The energy transformation can expand electricity access, generate new employment, reduce pollution and strengthen resilience. However, workers and communities dependent on fossil fuels may bear concentrated costs; new infrastructure can create land and livelihood conflicts; and carbon pricing can disproportionately affect lower-income households. A just transition requires skills matching, community participation, social protection, affordable energy access and place-based support.

The direction and distributional effects of these transformations are not predetermined. Emerging opportunities will only translate into socially inclusive outcomes if countries address entrenched barriers, close capability gaps, and invest in people to ensure equitable access to opportunities, resources and representation. This requires deliberate policy choices, institutional reforms, and regulatory guardrails that place social inclusion at the centre of transformation.

A policy compact for socially inclusive transformation

A broad policy compact, guided by the NESI principles of *adaptive capacity* and *inclusive institutions*, is needed to embed inclusion within transformation rather than treating it as a separate social agenda. The compact can be organized around four connected policy areas:

1. Expand people's capabilities	2. Ensure universal digital and energy access
Universal quality education, lifelong learning, digital, AI and green skills, resilient health systems and universal social protection	Affordable digital connectivity and reliable, sustainable energy, including decentralized and off-grid solutions for underserved communities
3. Foster inclusive labour markets	**4. Ensure shared prosperity**
Decent work, portable benefits, active labour-market policies, equal pay, worker voice and innovation strategies oriented towards job creation	Collective bargaining, adequate wage frameworks, profit-sharing and fiscal systems that tax income, wealth, including inheritance and capital gains

Country-level experiences and successful policy examples

The report goes beyond identifying policy priorities. It brings together country-level experiences

that show how governments have translated different elements of the policy compact into practice. These examples are not presented as one-size-fits-all model. Rather, they illustrate how policy design can respond to different institutional capacities, labour-market structures, fiscal conditions and development constraints, while pursuing the common objectives of strengthening adaptive capacity and building more inclusive institutions.

Education reforms can build capabilities, prepare learners for digital transformations and strengthen employability in emerging economic activities. For instance, several countries and regions, like China, India and the European Union, have started implementing extensive AI-literacy frameworks in schools, while others, such as the Philippines, have developed technical and vocational education and training programmes for green transitions.

Examples of health system reforms include the increased use of digital tools, drone delivery systems, and AI-enabled diagnostic tools. When integrated into broader healthcare strategies, such approaches can substantially strengthen socially inclusive health systems.

Some countries, for example Uruguay, have successfully expanded social protection coverage to informal, low-income and self-employed workers. Innovative financing mechanisms include windfall taxation, levies on natural resource extraction, and broadened employer payroll contributions. For some countries, however, domestic resources will remain insufficient to provide universal social protection.

Countries have expanded access to digital and energy infrastructure by building out the necessary infrastructure, subsidizing fees for poor communities, where needed, as in Nigeria. And, in the case of digital infrastructure, developing supportive governance frameworks and fostering digital skills. In both cases, this requires strengthening institutions for planning, regulating and adequately financing national and local strategies, and integrating planning into other development goals.

Policy examples for greater labour market inclusivity include portable benefits that can be supported by multi-employer or sectoral schemes, and active labour market policies such as job matching and training programmes. Several countries have developed strategies for addressing gender pay gaps, including through national reporting mechanisms and equal pay laws. More broadly, governments can use policy levers — like the industrial policy introduced in Germany during its renewable energy transition — to steer innovation towards greater employment creation, including through tax reforms, regulation and public procurement.

Policies to mitigate growing income and wealth inequalities include efforts to raise the labour share of income and tax reforms. Recent examples of the former include rules and regulations that strengthen collective bargaining and union representation; minimum wage policies; living wage frameworks; profit-sharing and co-determination within companies; and enabling policy frameworks for cooperatives. Tax reforms have been targeting both income and wealth inequalities, through more progressive income taxation and new or increased taxes on wealth, including inheritance and capital gains. Many countries have also introduced digital service taxes to ensure that digital service providers contribute fairly to domestic revenues.

The report emphasizes adaptation rather than replication: countries should draw lessons from successful experiences, while sequencing and tailoring reforms to their own contexts. Implementation also requires policy coherence. It will take an all-of-government approach to ensure that economic, fiscal, labour-market, social, industrial, digital and energy policies work together rather than at cross-purposes. Macroeconomic frameworks should treat decent work as a central objective; tax systems should support both financing and distributional goals; and technology and investment policies should consider job quality, participation and social-protection financing from the outset.

Need for a paradigm shift in national development planning

The report calls for a fundamental rethinking of national development planning. In a context shaped by climate pressures, rapid technological change,

artificial intelligence and geopolitical fragmentation, development planning must move beyond short-term economic growth objectives and place social inclusion, resilience, sustainability and adaptive capacity at the centre of long-term sustainable development policy.

Paradigm shifts are needed, from a focus on structural transformation alone to socially inclusive transformation; from a narrow focus on wage employment to building diversified livelihoods and portable protections; from lifelong dependence on a single qualification to continuous learning, reskilling and active labour market support; from concentrated ownership to wider participation in digital and green assets; from reactive to anticipatory governance capable of managing future transitions; and from extractive to regenerative production and consumption systems.

Measures of progress must also evolve. GDP remains useful but cannot by itself capture how well economies build capabilities, resilience, inclusion and environmental sustainability. Planning, budgeting and investment appraisal should give greater weight to the quality, distribution and durability of progress.

Multilateralism and its past successes

The report highlights that multilateralism has historically supported inclusive development through global development frameworks, financing institutions, health partnerships, labour standards, human rights treaties, trade rules, data monitoring and debt relief. Multilateral actions have successfully mobilized resources, established shared goals and standards, and strengthened accountability, although it faced challenges. However, today's geopolitical fragmentation, declining development cooperation, rising military spending, high debt burdens and weakened multilateral decision-making are undermining countries' capacity to invest in inclusive development.

Countries need international cooperation

National action alone is insufficient in an interdependent world where transformations cross national boundaries. International cooperation is needed to address debt challenges, expand development finance, diffuse technology, strengthen social standards, support interoperable infrastructure, and coordinate taxation of the digital economy. Geopolitical fragmentation and conflicts are weakening collective action and undermining development cooperation. Renewed multilateralism, more representative global governance and stronger support for developing countries are essential if the transition to a green and digital economy is to be stable, balanced and inclusive. National paradigm shifts in development planning and renewed international cooperation are two halves of the same agenda: pursued together, they can make the ongoing transformations work for all.

The way forward

The ongoing transformations require a new generation of development planning centred on social inclusion across economic, digital and energy transformations. Guided by the principles of NESI, governments should strengthen adaptive capacities including through lifelong learning and universal social protection and build inclusive institutions that enable all people and communities to contribute to and benefit from change. National action must be supported by renewed international cooperation to address debt burdens, financing gaps, digital taxation, technology divides and climate vulnerabilities.

A renewed multilateral agenda is needed for (i) expanding fiscal space for social investment through stronger international tax cooperation, improved domestic resource mobilization, access to more affordable long-term development financing, comprehensive and systematic support for developing countries to reduce the cost of capital and debt service burden; and (ii) promoting wider access to technology, innovation and digital infrastructure so that developing countries can participate more effectively in the global economy. Reforms to global governance arrangements are needed to make them more representative, inclusive and responsive to contemporary challenges, thereby restoring confidence in collective action and strengthening accountability for development outcomes.

1 The New Economics of Social Inclusion

This chapter introduces the New Economics of Social Inclusion (NESI), a framework that treats inclusion as a productive investment and a condition for resilient, sustained and broadly shared transformation. It examines persistent gaps in participation and how technological change, climate pressures, energy transitions and geopolitical fragmentation can deepen exclusion and raise the costs of delayed action. NESI advances a paradigm shift: placing inclusion at the centre of how transformation is planned and governed. Two mutually reinforcing principles — adaptive capacity and inclusive institutions — guide this approach. The chapter outlines a policy compact covering people's capabilities, universal access to digital and energy infrastructure, inclusive labour markets and shared prosperity.

Key messages

- **Rapid transformations make social inclusion more urgent and harder to achieve.** Technological advances, accelerating climate change and geopolitical fragmentation are reshaping opportunities and risks. Without inclusive policies, these changes can widen divides and create new barriers to participation.
- **Delaying inclusion carries growing social and economic costs.** Exclusion weakens growth potential, resilience and adaptability. Delayed action also allows barriers to become entrenched, making future inclusion more difficult and costly.
- **Social inclusion is a productive investment and a condition for sustained transformation.** Broad participation strengthens productivity, resilience and the durability of growth. Inclusion therefore needs to shape transformation from the outset, rather than being treated as an outcome expected to follow economic growth.
- **Adaptive capacity and inclusive institutions are central to making transformations work for all.** The New Economics of Social Inclusion (NESI) advances a paradigm shift in how transformation is planned and governed. It calls for strengthening people's ability to adapt while ensuring that institutions keep opportunities open and gains broadly shared.

Introduction

The world today exists within a complex web of transformations that are straining societies and testing the resilience of economies, institutions and individuals. Geopolitical tensions, accelerating climate change, rapid technological advancements — including artificial intelligence (AI) and shifts in global production and trade — are reshaping patterns of production and consumption, thus disrupting livelihoods and supply chains while also creating new opportunities and changing the conditions for economic and social inclusion.

The challenges raised by these transformations are not transitory. However, as nations divert their resources towards immediate crisis management, longer-term development priorities such as addressing poverty, inequalities, exclusions, unemployment, illiteracy, poor health, and building sustainable infrastructure are being neglected. At the same time, investments in such priorities are more urgent than ever to ensure that the ongoing transformations lead to more productive, resilient and broadly shared outcomes.

These growing and overlapping transformations are reshaping the conditions for social inclusion, which refers to the process of ensuring that all individuals and groups — regardless of their background, identity or circumstances — have equal opportunities, access to resources, and the ability to participate fully in economic, social, cultural and political life. Economic, digital and energy transformations can widen opportunities when they expand access to jobs, basic services, infrastructure and markets; for example, off-grid solar has brought electricity to hundreds of millions of people in previously underserved areas, and mobile-money platforms have expanded financial inclusion in regions with limited formal banking. But these transformations can also deepen exclusion when the benefits accrue mainly to people, firms and places that already have the necessary resources, skills and institutional access that allow them to benefit from them.

Social inclusion is a core tenet of development because it determines whether people can participate in economic life, build capabilities, and influence the decisions that shape their futures. Over recent decades, many countries have reduced poverty and expanded access to essential services. Yet progress has remained uneven. In many contexts, growth has not generated enough decent jobs, learning gaps have persisted despite expanded school enrolment, and households' economic security remains fragile. These are not just social failures; they are also economic constraints that weaken productivity, resilience and the durability of growth.

Responses to climate pressures, technological change and geopolitical disruptions are individually and collectively reshaping adjustment pathways and conditions of participation. Change happens faster, scale effects are stronger, the time to adjust is shorter, and shocks propagate more quickly through interconnected systems. Under these conditions, adaptation adds new challenges to development efforts: whether economies can (i) adjust continuously with broad participation and (ii) prevent shocks and transitions from producing lasting scars. Delayed adaptation becomes more costly, and the social and economic penalties of leaving people outside key systems become larger.

One reason these exclusions persist is that policy has often treated growth and social inclusion as a sequence rather than a joint process. Earlier development approaches often prioritized growth and structural transformation, with social outcomes expected to follow through essential public services and redistribution. More recent approaches moved towards greater integration, recognizing that inclusion and sustainability must be built into transformation processes. That shift remains essential, but is no longer sufficient in current conditions.

Where access and participation are broad, productivity gains are available to more people and progress is more resilient against setbacks. Where access and participation are narrow, growth becomes concentrated, fragile and harder to sustain. Access and participation are often most limited for people from disadvantaged groups, such as women, persons with disabilities, and Indigenous Peoples. Failing to address such exclusions during transformations can raise the future costs of inclusion, because technologies, policies and institu-

tions often evolve around those already included. Later changes then become more difficult and more expensive.

This report advances the conceptual framework of a New Economics of Social Inclusion (NESI) for an era shaped by climate change, rapid technological change, fragmenting geoeconomics and increased risks of marginalization and exclusion. NESI treats social inclusion as a productive investment and a core condition of stable and sustained transformation, not a downstream outcome of economic growth. More specifically, it builds a strong economic case for social inclusion to be at the centre of transformations, with two mutually reinforcing guiding principles: adaptive capacity and inclusive institutions. The central policy challenge is therefore to govern economic, digital and energy transformations in ways that widen adaptive capacity, strengthen inclusive institutions, and keep participation broad and effective as economies change. This is what gives rise to socially inclusive transformation.

After making the case that social inclusion is both a development objective and a critical enabler, this chapter explains why current conditions are making exclusions costlier and harder to reverse. It then sets out the New Economics of Social Inclusion, identifies the main pathways through which social inclusion shapes transformation, and draws out the policy implications of prioritizing socially inclusive transformation.

The importance of social inclusion

Social inclusion has been defined as "the process of improving the terms of participation in society for people who are disadvantaged on the basis of age, sex, disability, race, ethnicity, origin, religion, or economic or other status, through enhanced opportunities, access to resources, voice and respect for rights" (United Nations, 2016). This definition places participation of people at the centre of development policy.

Unlike poverty or inequality, which are most often tracked as outcomes, social inclusion is both a process and an outcome of development. A key issue is whether people can participate effectively in the systems that shape life opportunities, including access to productive work, finance, digital and physical infrastructure, quality education and skills, essential public services, social protection, and avenues for voice and representation.

At a time of rapid change, this also encompasses whether people and households can adapt as economies change with sufficient agency and voice to influence how transformations are governed (United Nations, 2025c). It also includes the quality of participation: whether people can remain secure, recognized, and effective participants in institutions as economies change.

This perspective is closely aligned with the central commitment of the 2030 Agenda for Sustainable Development: to leave no one behind. Inclusion is embedded across the Sustainable Development Goals (SDGs), including Goals on poverty, education, gender equality, decent work, reduced inequalities, and inclusive institutions. It is also a foundation for progress in Goals linked to growth, industrialization, innovation and resilience. Accelerating progress on these Goals can help people withstand shocks and adapt to change by expanding access to essential services, social protection and decent work, and strengthening inclusive institutions.

This broader understanding is also consistent with the Doha Political Declaration, adopted at the Second World Summit for Social Development in 2025, which recognizes the importance of equitable access, productive capacities, structural transformation, digital transformation, innovation and macroeconomic support as part of sustained, inclusive and sustainable growth and development. In that sense, social inclusion is intrinsically part of how development becomes more dynamic, resilient and widely shared (United Nations General Assembly, 2025, para. 30d).

Access and participation are often most limited for people facing disadvantage because of their social identity, poverty, limited education or where they live—including rural and remote areas and communities affected by industrial decline. They face persistent barriers to formal employment, finance, essential services, social protection and institutional voice. This means that social inclusion matters

not only for social justice, but also for the generation of sustained economic gains: When participation is broad-based across all groups, economies access a deeper pool of talent, strengthen human capital formation, improve labour allocation, support firms' investment in productive capacities, and become more resilient to shocks. When participation is narrow, economies underuse talent, weaken social mobility, limit the broad diffusion of productivity gains, and make growth harder to sustain (Gollin and Kaboski, 2023; United Nations, 2025c).

For this reason, social inclusion should be understood not only as a development objective, but also as a critical enabler that shapes how growth, structural change and adaptation unfold.

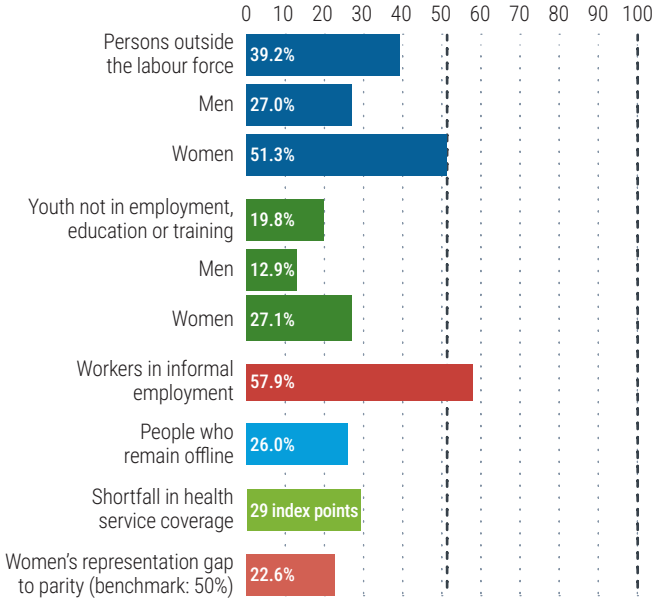
Uneven, incomplete progress on social inclusion

Many countries have made important gains in income growth, poverty reduction and access to basic services. Yet progress on social inclusion remains uneven and incomplete. The central problem is not only that some outcomes remain unequal, but that growth and transformation have not consistently widened people's ability to participate in economic life, build capabilities, access essential services and exercise voice in the decisions that affect them.

Countries at similar income levels often display very different levels of inclusion, as also discussed in chapter 2, which provides cross-country evidence to show that higher income and economic transformation do not automatically produce inclusive outcomes. This points to a persistent "conversion gap": the gains from transformation are not reliably converted into broader participation, access and security.

The same pattern is visible across all measures of inclusion for different social groups, as examined in chapter 3. Women's labour force participation remains substantially below men's.[1] The share of youth not in employment, education or training remains high in many countries, with persistent gender gaps; persons with disabilities continue to face major barriers to economic participation; and informal employment remains widespread. Gaps also persist in access to healthcare, education, digital infrastructure and channels of political participation. These disadvantages interact over the life course, limiting social mobility, weakening resilience and making it harder for people and communities to benefit from ongoing transformations (figure 1.1).

Figure 1.1
Persistent gaps across key dimensions of inclusion



Source: UN DESA, based on data from the United Nations Global SDG Indicators Database (ILO, WHO, ITU and IPU series) and the World Bank World Development Indicators (accessed in June 2026).
Notes: World values, most recent year available for each panel. Labour force participation is shown for women and men aged 15 and over (2024, ILO modelled estimates via the World Bank). Youth not in employment, education or training refers to the population aged 15–24 (2025, SDG indicator 8.6.1). Informal employment is expressed as a share of total employment (2025, SDG 8.3.1). The universal health coverage service coverage index is on a 0–100 scale (2023, SDG 3.8.1). Internet access shows the share of the population not using the Internet (2025, SDG 17.8.1). The parliament panel shows the share of seats held by women in 2025, with 50% shown as the gender-parity benchmark (SDG 5.5.1a).

These patterns show why progress on inclusion cannot be inferred from growth, transformation or aggregate poverty reduction alone. Inclusion depends on whether economic opportunities, services and participation in decision-making processes are accessible to all. Where these systems remain unequal, transformation can raise aggregate output while leaving many people with limited security, weak bargaining power and few practical routes into new opportunities.

1 This indicator does not capture unpaid household and care work, which women perform disproportionately.

Furthermore, these persistent gaps in social inclusion have been accompanied by rising income inequalities, both within country and between countries. Within-country income inequalities have increased across a wide range of countries. Over the past 25 years (2000–2024), more than 50 countries — spanning all income groups — have seen a rise in internal income disparities, including 23 high-income countries (figure 1.2 on page 24). These have been marked by the rising fortune of billionaires in the past five years, with the number of billionaires surpassing 3,000 for the first time in 2025. Their collective wealth grew by 81% since 2020, reaching $18.3 trillion in 2025 (Maitland and others, 2026).

There has also been no convergence in income levels between countries over time. Since the 1980s, and more markedly after 2000, the per capita income gap between "Western Offshoot" countries (Australia, Canada, New Zealand and the United States of America) and developing regions such as South and South-East Asia and sub-Saharan Africa has widened steadily (figure 1.3 on page 25).

Growing inequalities matter not only because they reflect unequal outcomes, but because they can reinforce unequal access to assets, political influence, finance and new opportunities. Such concentration of income further limits access and opportunities for disadvantaged groups and makes the benefits of transformation harder to diffuse broadly (Maitland and others, 2026).

New and emerging challenges to social inclusion

Persistent exclusions are being reshaped by rapid technological change, climate pressures and responses, and shifts in geopolitics. The United Nations system has mapped these shifts extensively, notably in the *Global Sustainable Development Report 2023* and in the Six Transitions identified as interconnected entry points for accelerating the 2030 Agenda (Independent Group of Scientists appointed by the Secretary-General, 2023; United Nations Sustainable Development Group, 2023). This report examines them through a different lens: their consequences for social inclusion.

While these forces can widen opportunities when they expand access to clean energy, digital services, new markets, and more productive activities, they can also deepen exclusion when people, firms, and places lack the infrastructure, capabilities, finance and institutional voice needed to benefit from them. The question is therefore not only how to overcome current exclusions, but how to govern these transformations so that more people can remain active, secure and effective participants as economies change.

The risk of widening inequalities and exclusions from digital and AI divides

As digital systems become more central to work, services and public life, access gaps increasingly translate into exclusion across multiple domains (figure 1.4 on page 25)

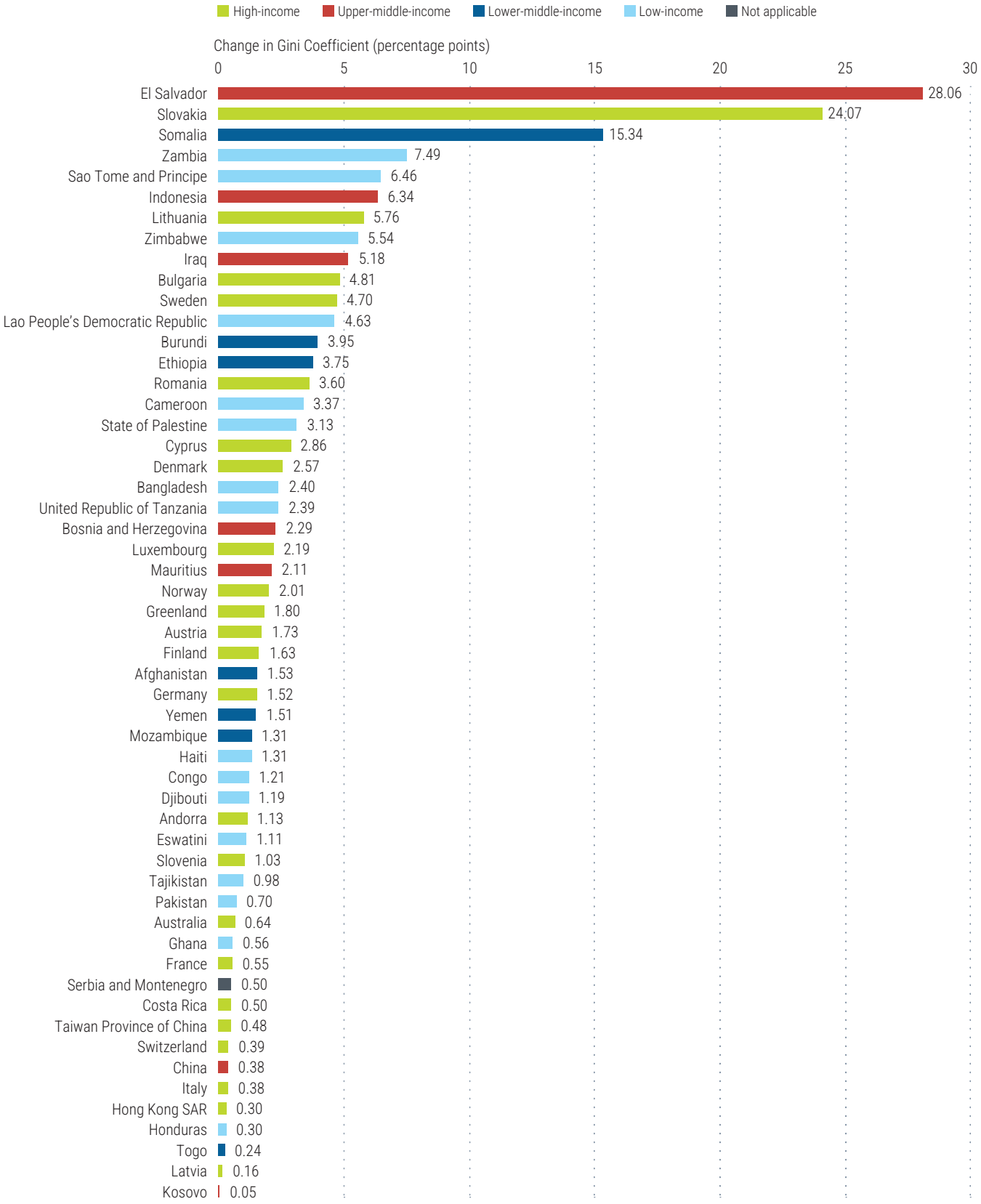
People without connectivity, devices or relevant skills face growing barriers to education, employment, finance, health services and public administration. The rapid spread of AI could further widen digital divides and create new forms of exclusion if access to connectivity, computer capacity, data, digital skills and institutional capacity remains uneven (World Bank, 2025a).

Connectivity remains a basic barrier, but it is no longer the only one. The International Telecommunication Union (ITU) estimates that 2.2 billion people (just over a quarter of the world's population) remained offline in 2025, most of them in low- and middle-income countries, while affordability, service quality and digital skills continue to limit meaningful use among those who are connected (ITU, 2025).

These gaps determine whether people can build the capabilities needed to generate future income, adapt to changing skill requirements, and participate in future opportunities. Where these foundations are weak or unevenly distributed, AI can further widen productivity gaps and narrow access to new opportunities for learning, work and market participation. Limited access today can lead to reduced learning, weaker labour market prospects, and lower visibility in digital marketplaces, creating feedback loops in which exclusions deepen over time.

Figure 1.2

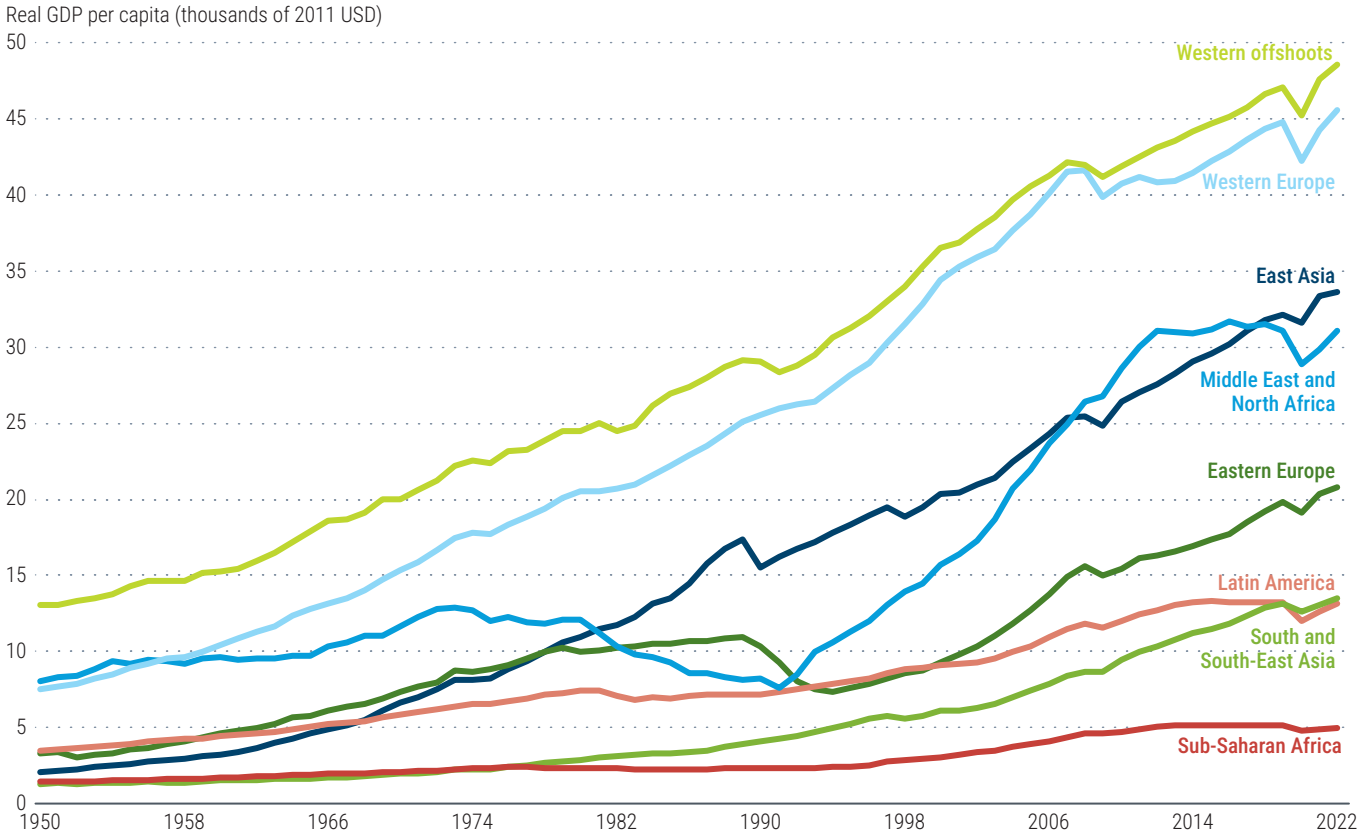
Rising within-country income inequalities



Source: UNU-WIDER (2026).

Figure 1.3

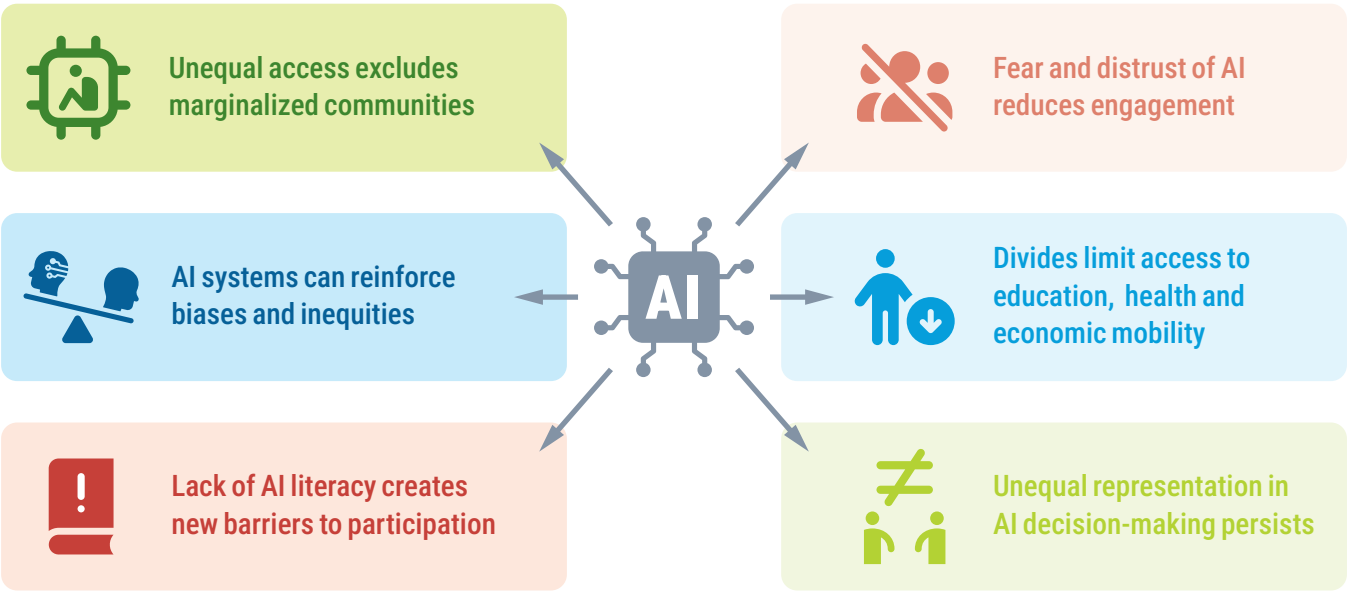
Growing income gaps: 1950-2022



Source: Bolt and van Zanden (2024a; 2024b).

Figure 1.4

How the digital divide and the AI divide hinder social inclusion



Source: UN DESA.

The digital and AI divide produces compounding exclusions that affect education, income, health, voice, identity and dignity. Inequality can shift from material deprivation of people towards capability-based exclusion of people; this shift is harder to reverse without systemic intervention. For example, students without devices fall behind and face long-term disadvantages, creating learning poverty that can become intergenerational. Unequal access to digital infrastructure, skills and AI-enabled tools can therefore turn existing disadvantages into harder-to-reverse capability gaps. The risk is not only that some people remain offline, but that they become less able to learn, work, access services, reach customers and use emerging tools as these systems become more central to economic and public life.

Digital platforms can reduce search costs, expand market reach and support digital payments, especially for smaller firms and underserved users. The expansion of mobile-enabled financial services shows how digital systems can widen inclusion when connectivity, regulation and user access align (Klapper and others, 2025). At the same time, digital infrastructures and platform ecosystems are becoming more concentrated. In AI specifically, high-income countries dominate innovation, computer infrastructure and start-up funding, which can make it harder for less connected firms and economies to adopt and adapt AI-enabled tools on equal terms (World Bank, 2025). These risks are especially relevant for micro and small firms, informal workers and underserved regions, where weaker connectivity, limited finance and lower digital capabilities can make adoption more difficult.

Digital exclusion also has civic and political dimensions. As public services, information flows and channels for civic participation move online, limited digital literacy and access can reduce participation of people in governance and weaken their voice (United Nations, 2024b). When digital channels are not complemented by accessible alternatives, people who are not connected may face greater barriers to public services, civic participation and visibility in administrative systems and policy processes. Digital and AI divides often fall unevenly on women and migrants, who may face weaker digital access, more limited training opportunities, language or documentation barriers, and less secure attachment to formal labour markets and education systems. Countries with weak digital infrastructure also risk falling behind in innovation, data systems and green technology adoption.

The potential for climate change to weaken livelihoods, services and adaptive capacity

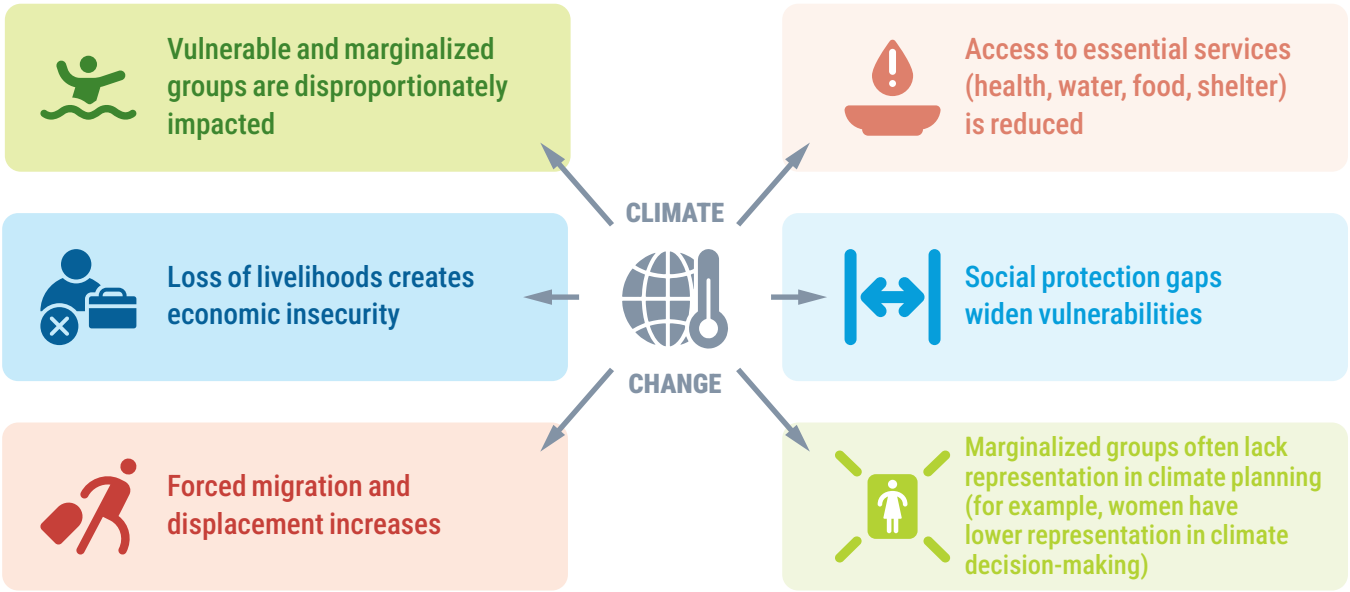
Climate change affects social inclusion through the same channels emphasized above: economic participation, access to essential services, capabilities and voice (figure 1.5). It damages livelihoods, infrastructure, health, and local ecosystems, while also straining the institutions and fiscal systems needed to support adaptation. The burden falls disproportionately on low-income countries and on vulnerable populations within countries where exposure is high and adaptive capacity is limited (Intergovernmental Panel on Climate Change, 2022).

Rising heatwaves are already causing severe human and economic losses. Heat-related mortality reached an estimated 546,000 deaths per year in 2012–2021, a 63% increase compared with 1990–1999, equivalent to roughly one heat-related death per minute globally (Romanello and others, 2025).

The impacts are uneven and compounding. Of the 1.1 billion multidimensionally poor people worldwide, 887 million people are exposed to at least one of the four major climate hazards (floods, droughts, cyclones and heatwaves). Among those exposed, 651 million face two or more hazards and 309 million face three or four. About 11 million live in regions exposed to all four (UNDP, 2025). These exposures intersect with poverty, food insecurity and fragile livelihoods, magnifying existing forms of exclusion.

Disasters also cause displacement on a vast scale. Nearly 45.9 million disaster-related internal displacements were recorded across 163 countries and territories in 2024, the highest annual figure since the Internal Displacement Monitoring Centre (IDMC) began reporting in 2008 (IDMC, 2025). About 39% occurred in South Asia and sub-Saharan Africa (figure 1.6).

Figure 1.5
How climate change hinders social inclusion



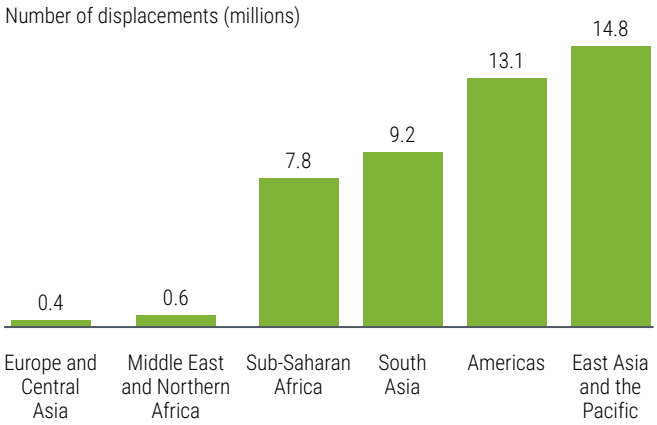
Source: UN DESA.

Climate impacts are also directly affecting productivity and income. In 2024, high temperatures resulted in an estimated 639 billion potential labour hours lost globally, about 98% above the 1990–1999 average. The associated potential income loss reached $1.09 trillion (about 1% of global gross domestic product (GDP)). The burden is highly unequal: losses were equivalent to about 5% of GDP in countries with a low Human Development Index (HDI), and 4% in countries with a medium HDI, compared with 1% in countries with a high HDI and 0.7% in countries with a very high HDI (Romanello and others, 2025). These losses are likely to be concentrated among workers in heat-exposed livelihoods, especially manual workers in agriculture, construction, fisheries and other outdoor or poorly cooled settings (WMO and WHO, 2025).

These effects not only lower welfare of people in the short run, they also weaken the capacity of households, firms and communities to invest, move into better opportunities, and recover from shocks without long-term scarring. As shocks become more frequent and intense, the resulting volatility increases uncertainty in energy, insurance and commodity markets, thus raising the cost of investment and discouraging investments in exposed regions.

Climate risk therefore affects participation of people both directly and indirectly: directly, by altering where they can work, live, travel, study and access essential services; and indirectly, by narrowing public and private capacity to support adjustment. These pressures often weigh more heavily on women and migrant populations, especially where care burdens, insecure tenure, informal work, displacement, and weaker access to protection reduce adaptive capacity.

Figure 1.6
Disaster driven internal displacements in 2024



Source: UN DESA, based on Internal Displacement Monitoring Centre (IDMC) (2025).

The capacity of energy transitions to expand resilience, while distributional risks remain

Energy transitions can support social inclusion when they expand access to affordable, reliable and clean energy, reduce exposure to air pollution, create new employment, and strengthen resilience. Distributed renewable energy, in particular, can help extend electricity access to underserved communities where grid expansion is slow or costly.

At the same time, moving away from fossil fuel–based systems requires deep restructuring of production, employment and regional economies. Job losses in coal mining, oil extraction and carbon-intensive industries can create concentrated hardship in situations where alternative opportunities are not yet in place. Without compensation, retraining and local transition strategies, adjustment costs can fall disproportionately on less protected workers and communities, increasing resistance and delaying transformation. Where carbon pricing or other fiscal incentives are used, policy design matters, because poorer households may face higher relative adjustment costs unless revenues or complementary measures are used to protect them (see chapters 3 and 4).

Representation gaps can compound both climate and transition risks. Marginalized groups often remain underrepresented in climate planning and decision-making, which may result in mitigation and adaptation strategies that fail to reflect the needs of those most exposed, thus reinforcing structural inequities and weakening legitimacy.

The continuing effect of geopolitical pressures on challenges to social inclusion

Geopolitical tensions can also affect social inclusion through economic channels like trade, finance, technology access, migration and development cooperation (figure 1.7). Countries with weaker productive capacities may face higher barriers to upgrading, diversification and job creation as supply chains are reconfigured, industrial policy expanded, technology controls tightened and development finance becomes more constrained. Rising military expenditure can also crowd out development spending, further narrowing fiscal space for investments in capabilities, services and adaptation. Violent conflicts also have more dramatic direct effects on social inclusion through the loss of lives and livelihoods and reduced access to health, education and other essential services.

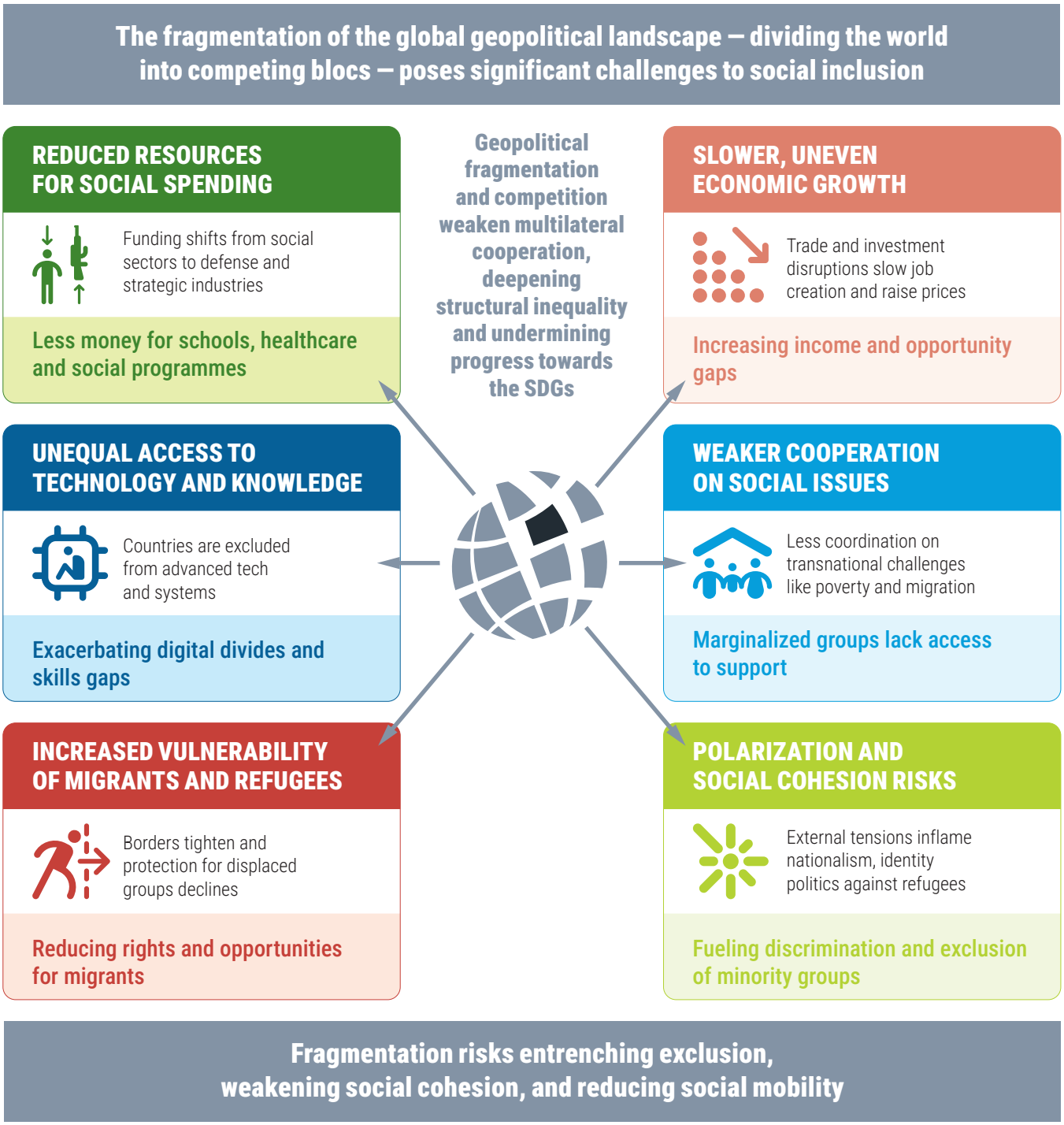
In low-income and vulnerable economies affected by conflict and fragility, including least developed countries, these are not background conditions but direct constraints on both transformation and inclusion: conflict destroys productive assets, deters investment and weakens institutions, while displacement disrupts education, health services and livelihoods (United Nations and World Bank, 2018). The relationship can become self-reinforcing, as weak transformation and narrowing opportunity aggravate the social pressures that feed instability.

Rising conflicts and geopolitical tensions are weakening international cooperation, disrupting trade and supply chains, and diverting financial and political resources away from development priorities. Not surprisingly, military expenditures are also rising sharply: more than half of countries increased defense spending as a share of GDP between 2020 and 2024, and all nine nuclear-armed states have expanded their arsenals since 2022. Global spending on nuclear weapons exceeded $100 billion in 2024 — with a high concentration among a small group of major powers — and announced large increases in future budgets (SIPRI, 2024).

Fragmentation also reshapes the conditions for participation in global markets. Geopolitical tensions are already affecting trade flows and point to risks of more fragmented trading relationships (WTO, 2023). Model-based evidence suggests that geoeconomic fragmentation would reduce trade and incomes, with larger relative losses for many emerging market and developing economies (Hakobyan, Meleshchuk and Zymek, 2023).

As multilateral coordination becomes more difficult, countries with limited fiscal and institutional capacity face growing obstacles in accessing the financing, technology and knowledge needed for digital transformation, climate action and poverty reduction. Where fiscal space, institutional capacity

Figure 1.7
Geopolitical fragmentation and social inclusion



Source: UN DESA.

and international cooperation are limited, shocks deepen exclusion and raise the costs of adjustment. Migrant populations are often especially exposed when conflict, border tightening, displacement, or legal insecurity interact with segmented labour markets and uneven access to services and rights. Women may also be disproportionately affected where instability increases unpaid care burdens, insecurity, service disruptions, and exclusion from recovery and peacebuilding processes.

The mounting costs of social exclusion

At present, change is happening faster, gains are concentrating more quickly, and disruptions are propagating more easily across borders and sectors. Under these conditions, existing gaps in skills, access to finance, social protection and representation carry heavier consequences, amplifying the costs of exclusion.

Accelerated change, concentrated scale effects, and recurrent shocks reshape the core drivers of growth. They affect how capital accumulates, how learning spreads, and how reallocation occurs. Access to enabling systems determines whether productivity gains diffuse across firms and households or remain concentrated. Integration continues to be necessary but is not sufficient, because the channels linking growth to broad-based participation have become more conditional and more fragile. The binding issue is whether economies have the capacity and rules to adapt in ways that sustain socially inclusive transformation and broad participation while having to adjust continuously under pressure.

The speed and scale of transformations and their impact on exclusion

Technology may be changing faster than people can acquire new skills, than infrastructure can adapt, or than institutions can adjust. Labour market signals are also moving quickly. For example, as reported in the Artificial Intelligence Index Report 2025 (Maslej and others, 2025), the share of job postings requiring AI skills rose in most covered countries between 2023 and 2024, and 60% of survey respondents expect AI to change how they work within five years (Maslej and others, 2025).

The energy transition similarly demands rapid shifts in investment, infrastructure, standards, and technology, and requires reskilling for displaced workers from fossil fuel sectors. Geopolitical fragmentation and tighter technology regimes are abruptly disrupting access to inputs and markets; where institutional capacity and adaptability are weak, disruption can cause excessive firm exits, especially among small and medium-sized enterprises (SMEs), job losses, and lasting scarring.

Scale effects have also intensified. Advantages in infrastructure, finance, market access and organizational capability accumulate rapidly, raising the penalty for latecomers and outsiders. Clean energy manufacturing is highly concentrated, so early movers capture learning and cost gains that make later entry harder and more expensive. Market participation often requires meeting technical and regulatory requirements and financing large upfront adjustments, while financing conditions vary sharply across countries. A denser patchwork of trade rules, standards, testing and certification is further raising compliance costs, especially for smaller economies.

Without buffers such as savings, social protection and fiscal capacity, people cannot readily retrain, relocate or upgrade, while governments may be forced to divert resources towards short term stabilization. This makes adjustment more disruptive and increases the risk of lasting exclusion.

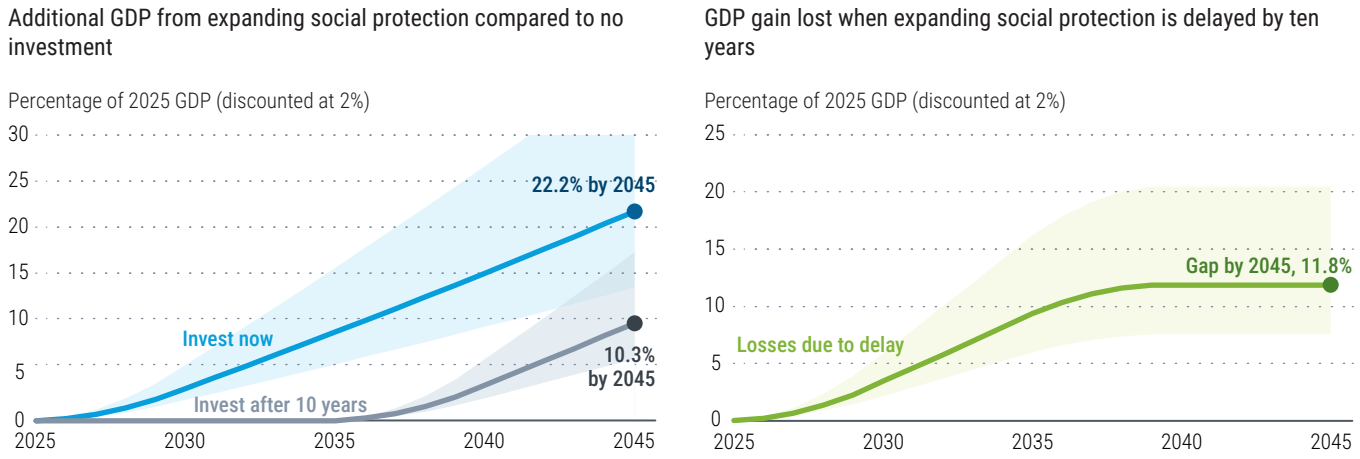
The economic cost of exclusion and delayed inclusion

Exclusion is not only a social shortfall. It also carries economic costs as it keeps households, workers and firms from accessing the systems that support continuity, adjustment, and productive risk-taking. When access to social protection, skills, finance and basic security is limited, shocks are more likely to interrupt learning, weaken labour force attachment, force distress sales of assets, and push people and firms away from pathways of upgrading. Delayed investment in social inclusion therefore does more than postpone social progress. It can make adaptation more difficult, reduce resilience, and weaken the conditions for sustained productivity growth.

These costs arise across different dimensions of social inclusion, including labour market participation, finance, health, social protection, and education and skills. Social protection provides one measurable example: as it helps people manage shocks, remain connected to work and invest in reskilling,

Figure 1.8

Immediate versus delayed investments in social inclusion, 2025–2045



Source: UN DESA calculations, based on the average of eight country estimates of the GDP effects of social protection investment reported in Development Pathways (2021): Bangladesh, Colombia, Costa Rica, Georgia, Ghana, India, Rwanda, and Serbia.

Note: The left panel shows the cumulative GDP gain from expanding social protection relative to no investment. The right panel shows the GDP gain that is lost when investment is delayed by 10 years, measured as the difference between the two cumulative gain curves. The calculation assumes a five-year phase-in of effects, 3% annual baseline GDP growth, and a 2% discount rate. It does not compare social protection with alternative uses of public expenditure or model country-specific financing constraints.

it can reduce the risk that temporary disruptions become lasting exclusions. Despite recent expansion, 47.6% of the global population—about 3.8 billion people—remained without any social protection benefit in 2023. At the pace of progress observed since 2015, universal coverage by at least one benefit would not be reached until 2073 (ILO, 2024f). Delayed inclusion is therefore not simply a temporary policy lag; it can leave large parts of the population outside the systems that help people manage shocks, remain connected to work, and invest in mobility.

Building social protection systems requires substantial resources. ILO estimates indicate that universal social protection floors would require additional spending equivalent to about 3.3% of GDP, or roughly $1.4 trillion annually, across low- and middle-income countries. For low-income countries, the financing gap is estimated at 52.3% of GDP, while for low- and middle-income countries as a group, it is equivalent to 10.6% of current government expenditure (Cattaneo and others, 2024).

Evidence from sub-Saharan Africa suggests that cash transfers can have effects beyond the households that receive them. As recipients spend the money on food, services and other basic needs, part of the benefit circulates through local economies, with estimated gains ranging from 1.3 to 2.5 times the original transfer. In Brazil, each additional unit of social protection spending was estimated to raise household consumption by 2.3 units after two years. In Lebanon, each additional dollar of cash assistance generated about $2.13 in GDP (ESCWA, 2024). Review evidence also finds village-level income multipliers of 2.5 to 2.8, alongside persistent gains in consumption, food security, and assets after programmes ended (Banerjee and others, 2024).

Timing has a critical impact on positive outcomes. An eight-country modelling study estimates that a 1% of GDP increase in social protection investment raises absolute GDP by 1.1% on average, with effects varying by country structure and model assumptions (Development Pathways, 2021). Using that estimate, figure 1.8 illustrates how gains diverge when investment in social inclusion — in this case, through social protection — begins earlier rather than later.

Extending that estimate over time, the figure compares cumulative gains under earlier and delayed investment. The simulation results show that investment in 2025, with effects phased in over five years, yields cumulative discounted GDP gains equivalent to about 22.2% of 2025 GDP by 2045, while delaying

the start by ten years yields gains of about 10.3%. The implied loss from waiting is therefore about 12% of 2025 GDP (figure 1.8).[2]

Put simply, delaying investment means giving up gains that would otherwise accumulate year after year. As illustrated in figure 1.8, a ten-year delay reduces cumulative discounted gains by about 12% of 2025 GDP over two decades.

The New Economics of Social Inclusion

Persistent exclusions, emerging challenges and the mounting costs of leaving people behind call for a New Economics of Social Inclusion (NESI). NESI starts from a simple premise: under conditions of rapid and interconnected change, social inclusion is not just a social objective or a downstream outcome of growth, but is at the core of how economies adapt, transform and grow.

Most of the post-war development models treated broadly shared gains mainly as a later outcome of development, not a condition for it. Lewis anticipated rising wages once surplus labour was absorbed, while Kuznets argued that inequality could eventually decline as transformation advanced (Kuznets, 1955; Lewis, 1954). Neoclassical and endogenous growth theories placed capital accumulation, human capital and technological change at the centre of long-term growth, without making the breadth of participation a core concern (Romer, 1990; Solow, 1956).

In practice, growth and transformation have not consistently produced broader participation. Later approaches widened the frame. The 1995 Copenhagen Declaration made social integration, poverty eradication and productive employment joint priorities. Sen (1999) treated substantive freedoms as both an end and a principal means of development, while the work of the United Nations Research Institute for Social Development (UNRISD) on transformative social policy presented social policy as productive, protective and redistributive (Mkandawire, 2004; UNRISD, 2006). Berg and Ostry linked lower inequality to more durable growth, while Acemoglu and Robinson argued that inclusive institutions underpin long-term prosperity (Acemoglu and Robinson, 2012; Berg and Ostry, 2011). World Bank and United Nations reports developed related frameworks for social inclusion and inclusive development (United Nations, 2013, 2016; World Bank, 2013).

NESI builds on this lineage, sharing the view of capability and well-being economics that growth is not the sole objective of policy. Growth and transformation remain objectives, and inclusion is treated as a design condition rather than an expected by-product. NESI therefore reframes the development question from *"Who benefits from growth?"* to *"What conditions of inclusion allow transformation and growth to remain adaptive, broadly shared and socially sustainable?"*

From this perspective, the central constraint is unequal access to the economic, social and political systems that people need in order to adapt continuously to change. These systems include learning and reskilling, connectivity and infrastructure, finance and risk sharing, health and social protection, and institutions that support voice, coordination and fair access to opportunity. Where access to these systems is broad, people can adjust more continuously, productivity gains diffuse more widely, and shocks are less likely to produce lasting exclusion. Where access is narrow, productivity gains become more concentrated, and growth becomes slower and more fragile.

This matters especially in a context where adjustment time is compressed, and scale effects are stronger. Under these conditions, exclusion is more likely to become self-reinforcing because those left outside key systems face steeper barriers to catching up later.

The core feedback loop that NESI seeks to make explicit is that exclusion is not only an underinvestment in people; it can also act as a change-blocking mechanism inside the growth process, as uneven adaptation concentrates advantage, concentrated advantage shapes the rules, and those rules restrict the pathways through which productivity gains

2 These figures are cumulative discounted gains over two decades, expressed relative to GDP in the base year; they should not be read as the annual GDP effect in 2045. Both investment paths assume the same eventual GDP effect, phased in over five years, with the delayed path starting ten years later. The illustration measures cumulative GDP gains forgone through delay; it does not estimate a higher future cost of establishing social protection.

Box 1.1

Comparing structural transformation, integrated inclusive development, and the New Economics of Social Inclusion

Structural transformation, integrated inclusive development, and the New Economics of Social Inclusion (NESI) all examine how economies grow and how that growth reaches people, but differ in the constraints they emphasize and where they see inclusion entering the causal chain.

In the structural transformation tradition, development is driven by productivity-enhancing reallocation of labour and capital from less productive to more productive uses, alongside within-sector upgrading and firm-level learning (Alisjahbana and others, 2022; Gollin and Kaboski, 2023). The central concern is whether economies can sustain reallocation and upgrading over time. Inclusion matters, but it often enters as an expected outcome of successful transformation, rather than as a condition for the process to function.

Integrated inclusive and sustainable development approaches treat economic, social and environmental objectives as joint requirements rather than separate tracks. They emphasize policy coherence, institutional coordination and improving the terms under which disadvantaged groups participate (Diwakar and others, 2025; United Nations, 2016). The central concern is implementation across systems, including managing trade-offs, strengthening institutions, and aligning policy instruments so that growth, inclusion and sustainability reinforce each other.

NESI draws on both approaches but makes a more specific claim for current conditions, which are distinguished by their speed, simultaneity and systemic interaction: adjustment time is compressed, transformations overlap and can amplify one another, and scale effects allow advantages to compound rapidly while path dependence raises the cost of delayed inclusion.

Under these conditions, NESI underlines that inclusion is not only a social objective or a policy principle; it is a binding part of the growth mechanism. Access to learning, connectivity, finance and social protection shapes adaptive capacity; and inclusive institutions shape market structure and rule-setting, influencing who can participate, which firms can enter and scale, and how widely gains diffuse as standards, platforms and compliance requirements evolve.

NESI therefore treats inclusion as a condition for sustained dynamism and clarifies how integrated inclusive development can remain effective under accelerated change.

Source: UN DESA.

spread. The result is narrower entry, slower diffusion, and weaker long-term adaptation.

If inclusion were merely an outcome of growth, transformation gains would be expected to translate progressively into broader participation. Chapter 2 instead documents persistent conversion gaps. Countries at similar levels of income and transformation show very different inclusion outcomes. This is a pattern one expects when the pace of diffusion is set by access to enabling systems and the rules that govern them, not by growth alone. NESI thus shifts the focus from inclusion as something that follows successful development to inclusion as one of the conditions that makes successful development possible (box 1.1).

Guiding principles of the New Economics of Social Inclusion

NESI argues that social inclusion shapes transformation through two reinforcing channels, which also serve as its two guiding principles: adaptive capacity *and* inclusive institutions. Together, they provide a dual test for policy: whether people have the means to adapt and whether the rules governing change keep opportunity open and broadly shared.

Adaptive capacity describes the ability of people, households and communities to access and use the systems they need to sustain participation, adapt, and improve their prospects as conditions change. As economies reorganize around new technologies, new energy systems, and different global rules, participation depends increasingly on whether people and firms can connect to and use enabling systems effectively.

Social inclusion ultimately concerns people and social groups as subjects and rights holders. Firms enter the framework as economic channels. Their access to financing, technology, infrastructure and markets matters because access shapes productive participation, employment and the diffusion of gains.

In practice, these systems cluster around transition-enabling functions like renewing skills and learning; sustaining health and caregiving; securing energy access and digital connectivity; financing adjustment and sharing risk; and protecting continuity and mobility through social protection and access to productive employment.

These systems are part of the infrastructure of transformation, because they shape who can work, learn, invest, adopt new technologies, move through disruption, and remain productive. Where access is broad, productivity gains can diffuse more widely, and adjustment is less likely to produce lasting exclusion. Where access is narrow, shocks interrupt economic participation and learning, productive risk-taking declines, and exclusion becomes more persistent.

Digital exclusion illustrates the point. People who remain offline have limited access to digital markets, services and learning opportunities (ITU, 2025). Broader policy shifts consistent with this principle may include supporting diversified livelihoods and recognizing caregiving and other forms of non-market work alongside formal employment.

Inclusive institutions describe a setting where the rules, institutions, and policy processes that govern transformation keep opportunities open, markets contestable, and access broadly shared. It is not enough for people to be formally connected to markets and systems if they have little agency, weak voice, or limited influence over the rules that govern access to opportunity.

These questions include how standards, data and intellectual property are governed, how ownership and bargaining power are distributed and whether affected groups have a meaningful voice in decisions. Some examples of such institutions include cooperatives and worker-owned platforms, shared-ownership arrangements for digital and green assets, and anticipatory governance that gives affected groups a voice before transition choices become locked in.

When advantage compounds rapidly, concentrated control over technology, finance and investment can narrow entry, slow diffusion and reduce dynamism. This kind of asymmetry is visible in current market structures: just 100 firms account for over 40% of global business research and development investment, concentrated in a small number of economies (UNCTAD, 2025). The international policy environment is also becoming denser. More than 2,500 industrial policy measures were introduced in 2023, with roughly seven in ten classified as trade-distorting (Haraguchi and Kamiya, 2025). Industrial policy can support transformation; the relevant question for NESI is whether its design broadens productive capacity, entry and opportunity, or instead entrenches existing advantage.

These two channels are mutually reinforcing. Adaptive capacity determines whether people, households and communities have the means to participate, adjust and achieve upward mobility and productivity gains. Inclusive institutions determine whether the pathways of adjustment remain accessible, fair and open to broader participation. When both are present, productivity gains diffuse more widely, progress is more resilient, and adjustment is less likely to produce lasting exclusion. When both are weak, the gains from growth become more concentrated, adaptation becomes more fragile, and the costs of delayed inclusion rise.

How NESI advocates for socially inclusive transformation

As NESI argues, the capacity to work, invest, learn, adopt and adjust is inherently connected to the ability to have a voice in the systems, institutions and rules that determine participation (figure 1.9). Socially inclusive transformation is the process of governing economic, digital and energy change so that everyone can contribute to it, benefit from it, and have a voice in how it unfolds. Its intended outcome is transformation that is productive, resilient and broadly shared. NESI thus provides the framework; adaptive capacity and inclusive institutions are its guiding principles; socially inclusive transformation is the process that puts them into practice; and the policy compact, set out below, organizes the response around four areas.

Figure 1.9

The New Economics of Social Inclusion: making transformations work for all

Today's challenges call for a New Economics of Social Inclusion

1 THREE INTERCONNECTED CHALLENGES

- CLIMATE CHANGE
- DIGITAL ADVANCEMENT INCLUDING AI
- GEOPOLITICAL FRAGMENTATION

If unaddressed, these challenges will deepen inequalities, weaken resilience and slow sustainable development

2 THE NEED FOR NESI

A NEW ECONOMICS OF SOCIAL INCLUSION (NESI)

NESI places social inclusion at the centre of economic, digital and green transformation so that change expands opportunity, strengthens resilience and delivers broadly shared prosperity

Social inclusion is both a moral imperative and an economic strategy

- Stronger growth and productivity
- Better human capabilities
- Greater resilience to shocks
- Cohesive societies and stability

NESI PURPOSE

Ensure that ongoing transformations work for all — especially those who face structural disadvantages

3 NESI IN ACTION

NESI GUIDING PRINCIPLES

BUILDING ADAPTIVE CAPACITIES

Equip people, communities and economies with skills, resources, technology and safety nets needed to anticipate change, manage risks and seize new opportunities

BUILDING INCLUSIVE INSTITUTIONS

Strengthen institutions and governance to be accountable, participatory and responsive — ensuring voice, representation and fairness so that opportunities and benefits are broadly shared

POLICY COMPACT FOR SOCIALLY INCLUSIVE TRANSFORMATION

Governments, social partners, civil society, communities, the private sector and international partners commit to:

- Expanding people's capabilities
- Ensuring universal access to digital and energy infrastructure
- Fostering inclusive labour markets
- Ensuring shared prosperity

4 PARADIGM SHIFTS ADVANCED BY NESI

PARADIGM SHIFT IN DEVELOPMENT THINKING

FROM structural transformation alone **TO** socially inclusive transformation

Make broad participation central to how economies change

FROM inclusion as a downstream outcome **TO** inclusion as a condition for transformation

Invest in inclusion from the outset to support resilience and sustained growth

FROM access alone **TO** effective participation, agency and voice

Enable people to use opportunities and shape decisions

FROM fragmented sectoral responses **TO** coordinated action

Align policies to expand adaptive capacity and strengthen inclusive institutions

Source: UN DESA.

Adopting this approach represents a paradigm shift in development thinking. It means moving from focusing only on structural transformation to building socially inclusive transformation. This would mean shifting from viewing social inclusion as a downstream outcome to treating it as a condition for resilient and sustained transformation; from focusing on access alone to strengthening effective participation, agency and voice; and from fragmented sectoral responses to coordinated action that can expand both adaptive capacity and inclusive institutions.

The practical question is whether transformations are being shaped in ways that keep people connected to opportunity and enable firms to invest, adapt and support productive participation as conditions change. Answering it calls for a policy compact.

Policy compact for socially inclusive transformation

Since social inclusion shapes how people work, learn, adopt technology, withstand disruption, and share in the gains of change, it cannot be treated as an afterthought to growth or transformation. Socially inclusive transformation requires that economic, digital, energy, labour market, fiscal and social policies be designed so that participation remains broad as transformation unfolds. The goal is to widen participation, protect people who are excluded or at risk of exclusion, and help households and communities remain secure through change, while enabling firms to invest, adapt and generate productive opportunities.

The policy compact commits policymakers to govern transformations in ways that widen adaptive capacity and expand pathways into productive participation. It does not create a separate agenda; it brings greater discipline to existing agendas by requiring transformation policies to address exclusion from the outset. Its commitments build on a long-standing international consensus — from the Copenhagen Declaration and Programme of Action through the 2030 Agenda to the 2025 Doha Political Declaration. NESI applies these commitments through a dual test. In practical terms, the test asks whether major strategies enable people to adapt while remaining connected to systems of opportunity, and whether the rules and institutions that shape transformation keep opportunity open and broadly shared.

The policy compact is organized around four areas:

1. Expanding people's capabilities
2. Ensuring universal access to digital and energy infrastructure
3. Fostering inclusive labour markets
4. Ensuring shared prosperity

Together, the four policy areas put into practice the paradigm shift advanced by NESI. They place social inclusion at the centre of how transformation is planned and governed, as a condition for productive, resilient and broadly shared growth. Both guiding principles apply across all four areas. Policies strengthen adaptive capacity by widening people's ability to learn, work, adopt technology and sustain their livelihoods through change. They strengthen inclusive institutions through rules and governance arrangements that keep opportunities open and give people a meaningful voice in decisions. These principles reinforce each other. Investments in capabilities and universal access require equitable institutions, while inclusive labour markets and shared prosperity depend on people having the means to participate effectively. Chapter 4 develops these policy areas through policy options and country experiences. Chapter 5 examines how this paradigm shift can guide national development planning and the international cooperation needed to support implementation.

Conclusions

This chapter argues that exclusion is not only a social shortfall to be addressed after economic growth. It is a direct constraint on present and future human and economic potential. When adaptive capacity is narrow and institutions are weak

and not inclusive, investment becomes more selective, learning and innovation slow down, productivity gains diffuse less widely, and adjustment becomes a short-term emergency measure. Shocks then leave deeper and more lasting scars, because people, households, firms and communities are displaced from higher-productivity trajectories and face high barriers to re-entry.

The New Economics of Social Inclusion makes this mechanism explicit: social inclusion is a core condition for productive, resilient and broadly shared transformation and growth. This would imply shifting focus from *structural transformation* to *socially inclusive transformation*. This is the paradigm shift advanced by NESI. This approach can help accelerate implementation of the Sustainable Development Goals through 2030 and sustain progress beyond that date.

The chapters that follow build on this argument in different ways. Chapter 2 benchmarks observable dimensions of transformation and inclusion associated with progress towards the intended outcome of socially inclusive transformation. Chapter 3 examines access barriers across four key dimensions of social inclusion that affect adaptive capacity — economic participation, education and skills development, health, and voice and representation — and considers new risks and opportunities from current transformations for different groups.

Chapter 4 develops the policy architecture for socially inclusive transformation. It sets out a policy compact, applies a dual test centred on widening adaptive capacity and strengthening inclusive institutions, and develops four policy areas: expanding people's capabilities, ensuring universal access to digital and energy infrastructure, fostering inclusive labour markets, and ensuring shared prosperity. Chapter 5 draws together the implications of this paradigm shift for development planning and examines the international cooperation needed to advance socially inclusive transformation.

2 Towards a Socially Inclusive Transformation

This chapter benchmarks the progress of 168 countries in the past 25 years on socially inclusive transformation (SIT) by measuring advancements in economic, digital and energy transformation alongside economic and social equity. The analysis shows that transformation and inclusiveness do not automatically reinforce one another. Countries with similar income levels or transformation scores often achieve very different inclusion outcomes, highlighting the importance of national policies and institutions. Significant disparities persist across regions and income groups, with digital transformation, social equity and energy transformations showing the greatest variation. While several countries lead in specific dimensions, balanced progress remains rare, underscoring the need for integrated and inclusive transformation strategies.

Key messages

- **Transformation does not automatically lead to inclusion.** Countries with similar levels of economic, digital, and energy transformation often achieve very different inclusion outcomes, demonstrating that transformation does not guarantee shared prosperity.
- **Income levels do not determine socially inclusive transformation (SIT) outcomes.** Countries at similar levels of gross domestic product (GDP) per capita frequently record very different SIT scores, underscoring that neither transformation nor inclusiveness is necessarily associated with higher income levels.
- **Social equity and energy transformation are the most uneven dimensions of progress.** Large disparities exist across regions and income groups, with Africa and parts of Asia lagging particularly in digital and energy transformation, while social equity outcomes vary more widely than transformation outcomes.
- **Regional and country experiences diverge sharply, underscoring the importance of tailored policy approaches.** European countries have generally advanced furthest in both transformation and inclusion, while many African countries lag, particularly in digital and energy transformation. Yet countries facing similar structural conditions often achieve very different inclusion outcomes, demonstrating that national institutions, policy frameworks and implementation capacities are decisive in shaping socially inclusive transformation.

Introduction

As economies have grown, a central issue is whether they have also advanced the twin and mutually reinforcing objectives of economic transformation and social inclusion. This chapter examines the extent to which current economic, digital and green transformation pathways are socially inclusive, and presents evidence to show that while these transformations are accelerating across most countries, the inclusiveness of transformations varies significantly. As argued by the New Economics of Social Inclusion, countries with greater inclusiveness are better prepared to successfully navigate current and future challenges.

To study these trends systematically, this chapter presents an empirical assessment of the degree to which countries are advancing concurrently along key dimensions of transformation (economic, digital and energy transformation), as well as economic and social equity. Using this framework, the assessment benchmarks 168 countries with available data between 2000 and 2024, and presents results at the global, regional and income-group levels. The assessment helps in identifying the practices of relatively successful countries that may offer valuable lessons on the policies and institutions capable of fostering socially inclusive transformation.

Benchmarking socially inclusive transformation

Grounded in the New Economics of Social Inclusion framework, the empirical assessment organizes country-level data into two pillars: a transformation pillar and an inclusiveness pillar. Taken together, these constitute a dashboard of indicators for socially inclusive transformation that measure a country's ability to thrive economically and adapt to rapidly changing circumstances (*transformation*), while ensuring that transformation is equitable and inclusive (*inclusiveness*).

While many indicators could be associated with socially inclusive transformation, the selection of indicators follows three principles: (i) relevance to transformation and inclusion dynamics; (ii) cross-country comparability; and (iii) data availability over time. Some indicators ("voice and representation," for example) are covered in chapter 3 as they do not have comparable country-level data over this period. Selection of indicators also considers the correlation between them.

Pillar I: Transformation

A. Economic transformation

- Change in agricultural value added to total value added
  Source: World Bank, World Development Indicators
- Change in export diversification index
  Source: UNCTAD
- Change in labour productivity
  Source: World Bank, World Development Indicators

B. Energy transition

- Growth in CO_2/ million $ of GDP
  Source: Global SDG Indicators
- Growth of renewables in total energy consumption
  Source: World Bank, World Development Indicators

C. Digital transformation

- Technology readiness index
  Source: Oxford Insights
- Digital infrastructure index
  Source: Oxford Insights

The transformation pillar benchmarks countries' progress on economic, digital and energy transformation.

Economic transformation

Economic transformation is assessed through indicators that capture the depth and quality of structural change:

- **Change in agricultural value added to total value added**[1] shows how agriculture's contribution evolves relative to the overall economy. A declining share often reflects movement towards manufacturing and services with higher productivity.
- **Change in export diversification index**[2] captures changes in the breadth and complexity of a country's export basket. Economies that

1 Based on World Bank, World Development Indicators database (accessed on 15 May 2026).

2 Based on UNCTADstat Data Centre (accessed on 15 May 2026).

export only a narrow set of goods (often commodities) are more exposed to shocks, price volatility and declining terms of trade. Rising diversification signals movement towards higher value added production and greater resilience in global markets.

- **Change in labour productivity**[3] reflects improvements in output per worker. Rising productivity is central to sustained income growth and improved living standards. Tracking this indicator helps to gauge whether technology adoption, skills upgrading, and investments are translating into more productive work.

Energy transformation

Energy transformation is assessed through indicators that capture decarbonization and shifts to clean energy:

- **Change in CO_2 emissions per million dollars of GDP**[4] indicates changes in the carbon intensity of economic activity. Rising emissions intensity signals unsustainable growth patterns. Declining intensity reflects progress towards decoupling growth from environmental degradation and aligning structural change with climate goals.
- **Growth of renewables in total energy consumption**[5] measures the transition towards cleaner energy systems. An increasing share of renewables signals technological progress, improved energy security, and alignment with global emissions-reduction objectives.

Digital transformation

Digital transformation is assessed by a country's readiness to deploy advanced technologies and the infrastructure needed to sustain them:

- **Technology Readiness Index**[6] evaluates a country's readiness to harness emerging digital technologies for economic and social development, including enabling conditions such as digital skills, innovation ecosystems, data governance, and regulatory capacity. Strong performance indicates the potential to harness emerging technologies for greater productivity and inclusion; weak performance signals risks of widening divides.
- **Digital Infrastructure Index**[6] captures the availability and quality of digital networks and connectivity. Robust digital infrastructure is foundational for participation in the modern economy, enabling digital services, innovation, and technology-intensive growth models.

The inclusiveness pillar benchmarks economic and social inclusion. It provides a multidimensional view, encompassing poverty, inequality, gender barriers in labour markets, youth disconnection, and access to education and healthcare.

Economic equity

The economic dimension is assessed through indicators that capture deprivation, income distribution, and gender parity in labour markets:

Pillar II: Inclusiveness

A. Economic equity

- Proportion of population below national poverty line (%)
  Source: Global SDG Indicators
- Gini index (Standardized)
  Source: UNU-WIDER, World Income Inequality Database
- Ratio of female to male in labour force participation (%)
  Source: World Bank, World Development Indicators

B. Social equity

- Universal health coverage (UHC) index
  Source: Global SDG Indicators
- Gross enrolment ratio, secondary (both sexes, %)
  Source: UNESCO Institute for Statistics (UIS)
- Share of youth not in employment, education or training (NEET, %)
  Source: ILOSTAT

3 Based on World Bank, World Development Indicators (accessed on 15 May 2026).

4 Based on UN DESA, Statistics Division, Global SDG Indicators Database (accessed on 15 May 2026).

5 Based on UN DESA, Statistics Division, Global SDG Indicators Database (accessed on 15 May 2026).

6 Based on Oxford Insights (2024).

- **Proportion of population below the national poverty line**[7] measures the share of people lacking the resources needed to meet basic living standards within their context. High poverty reflects exclusion from opportunities and a pervasion of weak protection systems; tracking it helps assess whether growth is reducing deprivation.

- **Gini coefficient**[8] measures income inequality. Higher values indicate greater inequality, helping assess whether growth translates into equitable economic outcomes across the population.

- **Ratio of female to male labour force participation rate**[9] measures gender parity in employment and access to labour markets. A higher ratio reflects stronger inclusion of women and fuller utilization of a country's human capital.

Social equity

The social dimension is assessed through indicators capturing access to health services and education, as well as youth engagement:

- **Universal Health Coverage (UHC) Index**[10] measures access to essential health services in key service areas. Good health enables individuals to learn, work and participate fully in community life. This index thus reflects the capacity of national health systems to support a healthy and productive population.

- **Gross enrolment ratio, secondary**[11] measures participation in secondary education relative to the eligible age group. Education provides access to socioeconomic opportunities, ranging from improved employability to better health outcomes and greater political representation. In the context of rapid transitions, higher enrolment rates indicate whether the education system is preparing youth for evolving skill demands.

- **Share of youth not in employment, education or training (NEET)**[12] captures youth disengagement from both labour markets and education. High NEET rates indicate lost productivity and social disengagement, and signal structural weaknesses in integrating youth into the economy's future.

These measures are aggregated into the socially inclusive transformation (SIT) dashboard and composite score. Progress towards SIT is benchmarked for 168 countries for the period 2000–2024 under the transformation and inclusiveness pillars. The methodology adopted for estimating comparative scores and the data sources are described in Box 2.1.

Box 2.1

Methodology of the socially inclusive transformation (SIT) score

The socially inclusive transformation (SIT) score measures countries' progress in economic, digital, and energy transformation, alongside economic and social equity, using a three-tier hierarchical indicator framework. The SIT score comprises two pillars: (i) the transformation pillar, divided into three sub-pillars: economic, energy, and digital transformation; and (ii) the inclusiveness pillar, divided into two sub-pillars: economic equity and social equity. The sub-pillars are measured using a total of 13 indicators, all normalized at the global level and oriented so that higher values consistently indicate better performance.

For the transformation pillar, growth rates are computed for the period 2000–2024 to capture the long-term changes. For the inclusiveness pillar, averages are computed using the most recent five years of available data in order to reflect current social outcomes while limiting annual volatility. Scores are calculated as the equally weighted average of the underlying components, and the two pillar scores are added equally to produce the overall SIT score. A higher score indicates stronger comparative performance and does not imply that transformation or inclusion has been fully achieved. This approach ensures transparency and comparability across countries.

7 Based on World Bank, Poverty and Inequality Platform (accessed on 15 May 2026).

8 Based on UNU-WIDER (2026).

9 Based on World Bank/ILOSTAT (accessed on 15 May 2026).

10 World Health Organization, Global Health Observatory (accessed on 15 May 2026).

11 UNESCO Institute for Statistics (accessed on 15 May 2026).

12 ILOSTAT (accessed on 15 May 2026).

Benchmarking progress on SIT: key insights

Using the methodology described in box 2.1, the SIT scores for 168 countries are estimated for the period 2000–2024 under the two pillars of transformation and inclusiveness. Scores range from 51 to 160 with a median of 105, and half of all countries score between 88 and 133. The two pillar scores are strongly but not perfectly correlated, with a Pearson correlation coefficient of 0.84. SIT scores for all countries are reported in the Appendix on page 111.

The results in this section are presented at the global, regional and country levels, as well as according to their development status and incomes. Some critical insights emerge from examining these pathways.

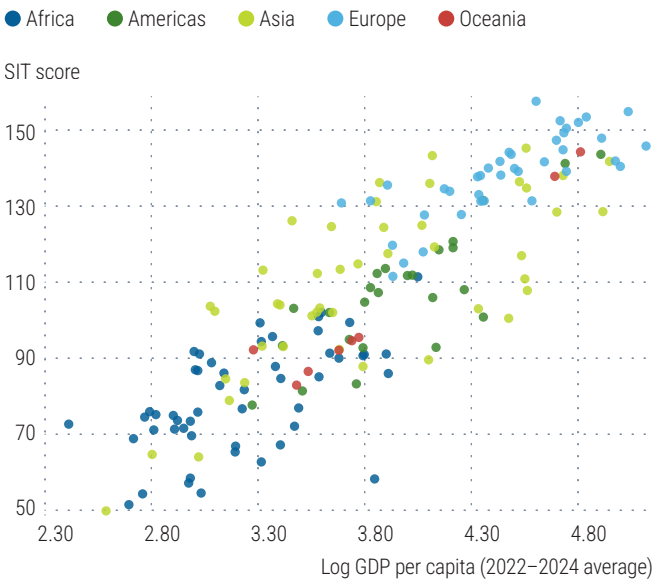
Increased socially inclusive transformation scores with a rise in income, but vastly different scores among countries at similar levels of income

The results show that while there is an overall positive relationship between income levels and SIT scores, countries at similar income levels display very different SIT scores, especially in Africa, Asia and the Americas (figure 2.1).

More specifically, plotting SIT scores against the average per capita incomes of countries over 2022–2024 reveals the following:

- There is a **distinct regional cluster**:
  - European countries are concentrated at the upper right quadrant of figure 2.1, with high incomes, consistently high SIT scores and the lowest dispersion compared to other regions.[13]
  - Asian countries are spread widely across income levels. Some countries have achieved high SIT scores at middle-income levels, but the dispersion in SIT scores is high, indicating uneven socially inclusive transformation pathways.

Figure 2.1
Socially inclusive transformation (SIT) scores and income levels



Sources: UN DESA calculations, based on the Socially Inclusive Transformation (SIT) scores; World Bank, World Development Indicators; and UN DESA, Statistics Division, M49 regional classifications.

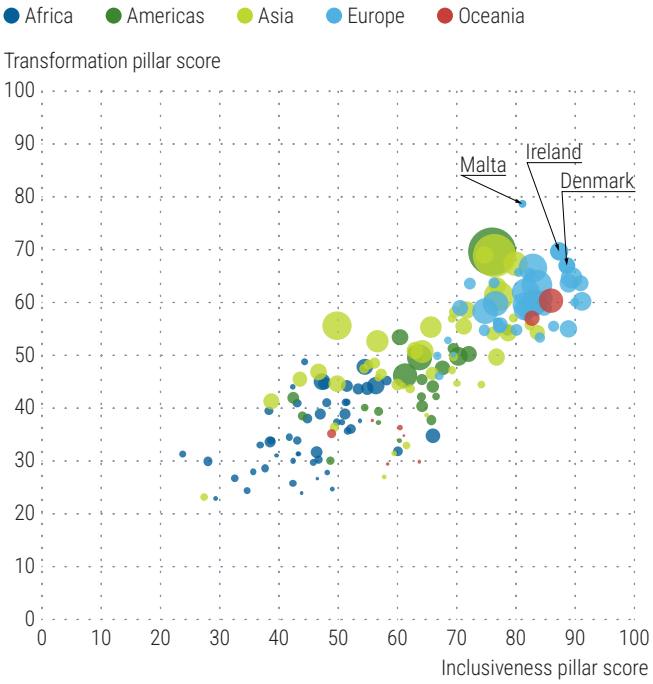
  - The Americas are concentrated between middle- to upper-middle-income levels with mostly strong performance in SIT scores, but higher dispersion than European countries.
  - African countries are clustered in the lower left quadrant in terms of incomes and SIT scores, although a few countries outperform others at similar income levels.
- **At similar income levels, countries display very different SIT scores**, especially in Asia and Africa, which suggests that a country's context matters. While these countries have similar income levels and face similar constraints, their policies, institutions and governance arrangements can significantly influence their ability to achieve socially inclusive transformation.

Progress in transformation not always accompanied by inclusiveness

Transformation and inclusiveness scores are strongly correlated. However, countries with similar transformation scores show very different inclusiveness outcomes (figure 2.2), indicating that

13 Dispersion in SIT scores for Europe is the lowest (10.86), followed by Africa (14.08), Americas (16.47), Asia (22.18), and Oceania (22.52).

Figure 2.2
Global patterns in socially inclusive transformation



Sources: UN DESA calculations, based on the Socially Inclusive Transformation (SIT) scores; World Bank, World Development Indicators; and UN DESA, Statistics Division, M49 regional classifications.
Note: The three countries with the highest SIT scores are Malta, Ireland, and Denmark.

pathways towards greater inclusion can diverge significantly across countries.

- Pronounced regional clustering persists in the comparison between pillars, with European countries clustering at the high end of both transformation and inclusiveness.
- Most African countries remain concentrated at lower levels, pointing to persistent structural constraints and regional inequalities.
- Asian countries are most dispersed with respect to their performance in both pillars.

Uneven progress across different transformations and equity dimensions, with social equity and energy transformation emerging as the weakest links

Within the transformation pillar, country scores are plotted across economic, digital and energy transformation indicators; under the inclusiveness pillar, country scores are plotted across social and economic equity indicators. Regional disparities reflect unequal capacities to manage socially inclusive transformation. In the past 25 years, more countries have made progress with respect to their economic transformation as compared to their digital and energy transformation (figure 2.3). Social equity outcomes are more uneven as compared to economic equity outcomes across regions.

- Digital transformation shows the highest dispersion, followed by social equity. Some Asian countries are among the best performers generally, while some score the lowest in digital transformation. Wide heterogeneity suggests multiple development pathways in Asia and strong dependence on national policy choices rather than regional averages.
- African countries are clustered at the lower end across all pillars including energy transformation and digital transformation along with social equity, indicating persistent structural and capacity gaps as compared to other regions.
- Countries in the Americas show wide dispersion on digital transformation and social equity, while Oceania shows high dispersion across all pillars.
- Energy transformation is the weakest and most uneven sub-pillar, with lower and more compressed scores for Africa and Asia indicating slower progress on green transformation compared to other dimensions.

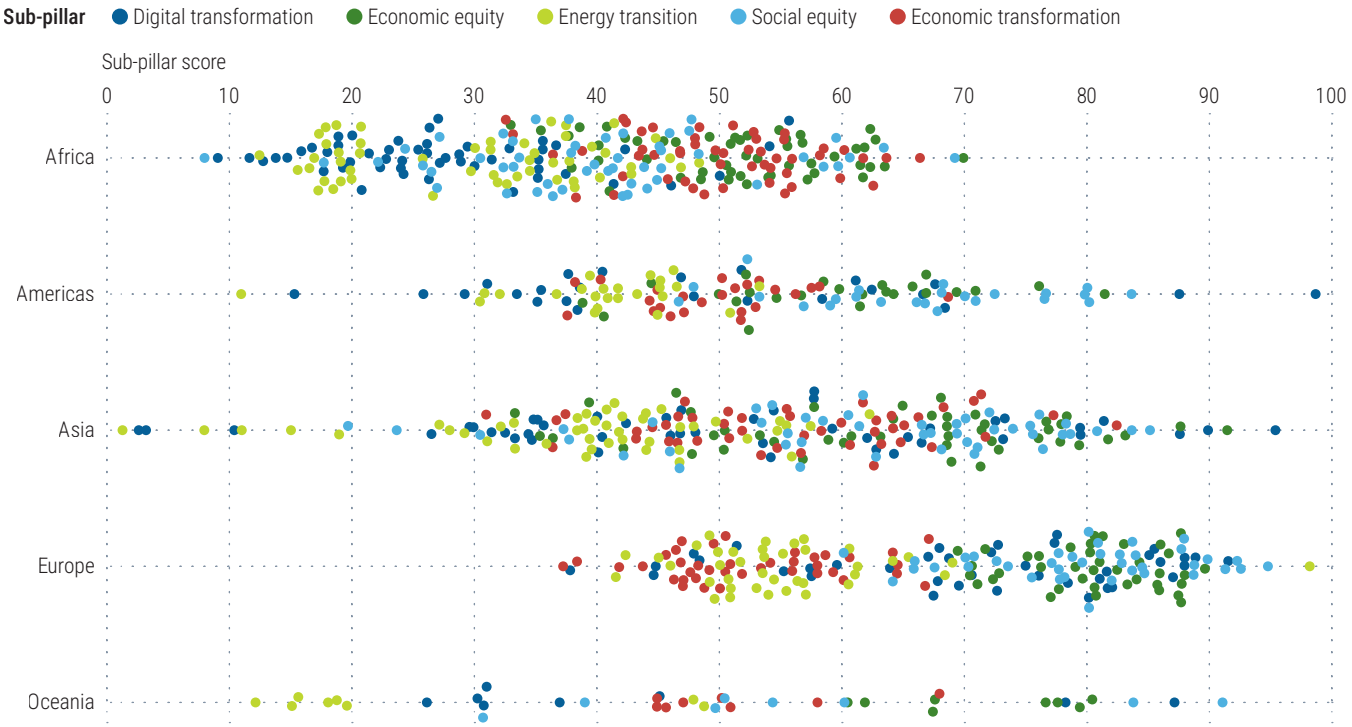
SIT dashboard for LDCs, LLDCs and SIDS

Countries in special situations, including least developed countries (LDCs), landlocked developing countries (LLDCs), and small island developing States (SIDS), face structural conditions that shape both their transformation pathways and their ability to achieve inclusive outcomes.

These groups are characterized by persistent vulnerabilities, including limited diversification, geographic constraints, exposure to external shocks, and capacity limitations. They therefore provide a

Figure 2.3

Regional performance across sub-pillars



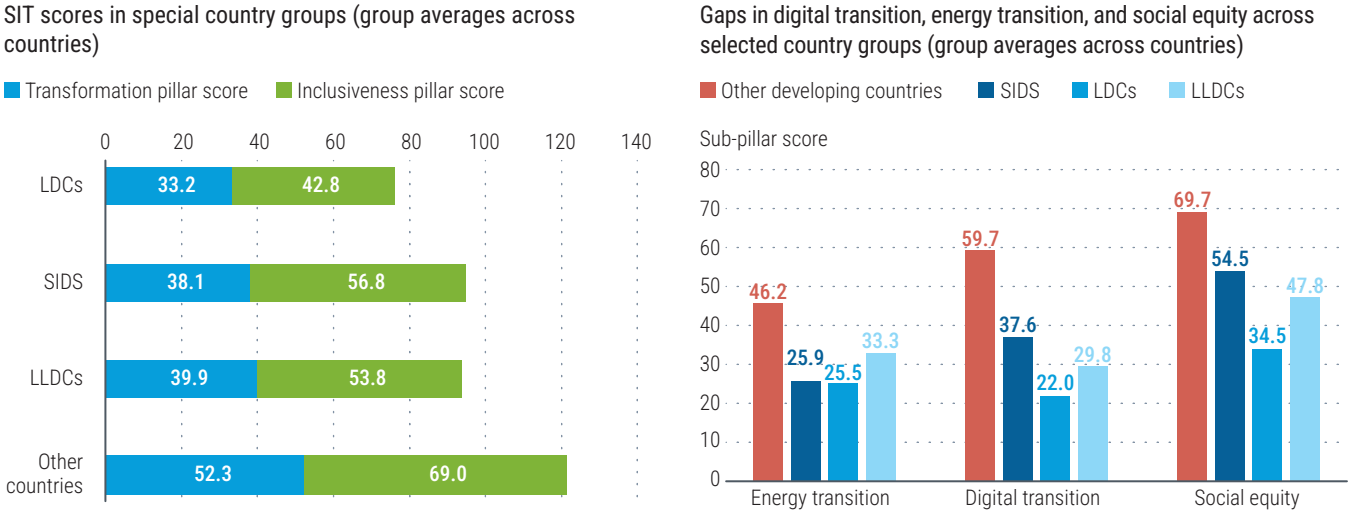
Sources: UN DESA calculations, based on the Socially Inclusive Transformation (SIT) scores, and UN DESA, Statistics Division, M49 regional classifications.

useful lens for understanding how structural factors influence the relationship between transformation and inclusion.

Across the three groups, progress on socially inclusive transformation remains constrained, although the nature of these constraints varies (figure 2.4).

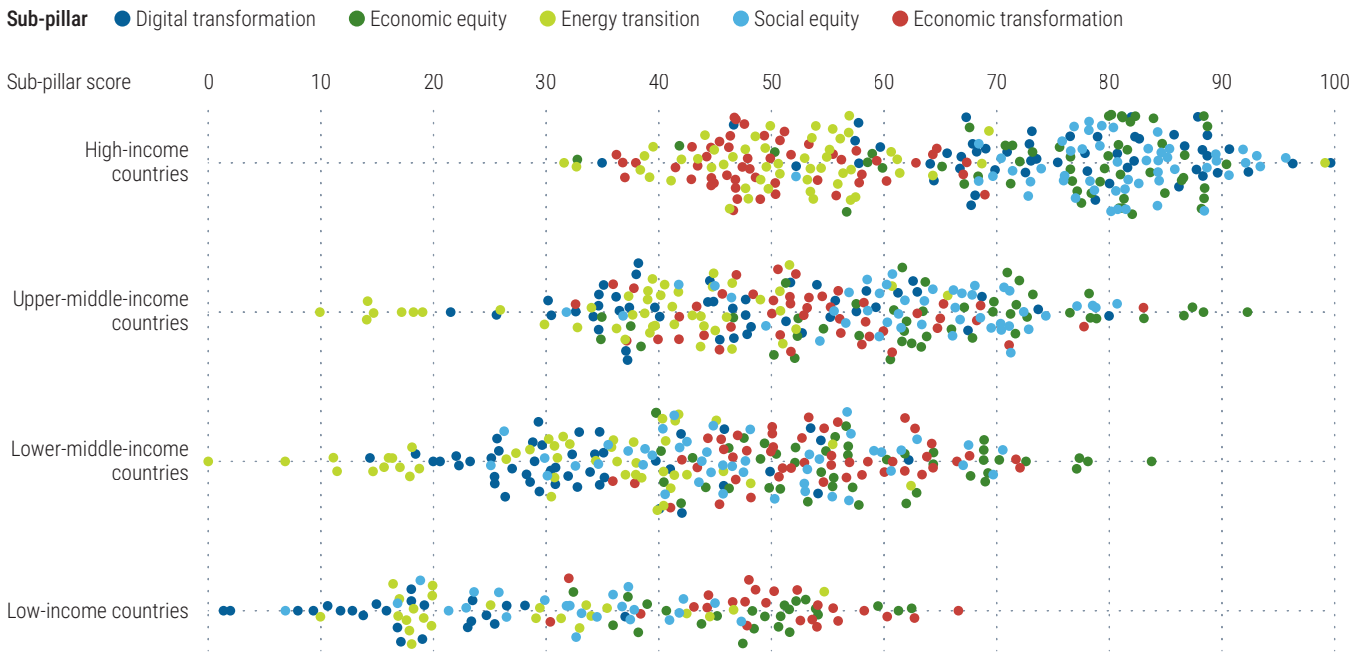
Figure 2.4

Socially inclusive transformation (SIT) in countries in special situations and other developing countries



Sources: UN DESA calculations, based on the Socially Inclusive Transformation (SIT) scores, and UN DESA, Statistics Division, M49 regional classifications.
Notes: LDCs = least developed countries; LLDCs = landlocked developing countries; SIDS = small island developing States. The country lists are based on UN-OHRLLS country-group information and classifications (accessed on 15 May 2026).

Figure 2.5
Performance across sub-pillars, by income group



Sources: UN DESA calculations, based on the Socially Inclusive Transformation (SIT) scores, and World Bank country and income classifications for fiscal year 2026.

- LDCs face the most broad-based challenges, with weaker performance across both the transformation and inclusiveness pillars. This reflects systemic constraints that affect both the pace of transformations and their inclusiveness. Within this, gaps in digital transformation and social equity are particularly pronounced, pointing to persistent limitations in technological readiness and access to essential services.
- SIDS show a different pattern. Their performance in inclusiveness is closer to the other developing countries' averages, but this is not matched by similar progress in the transformation pillar. Weaker outcomes in energy transformation and digital development suggest that sustaining transformation remains a challenge, even where social outcomes have improved.
- LLDCs present a more uneven picture. Their performance in the transformation pillar is relatively strong, indicating some progress in this area. However, this is not matched by similar gains in inclusiveness. More limited progress in digital transformation and weaker outcomes in social equity point to constraints in connectivity and access — constraints that determine who can actively participate in and benefit from transformation.

The differences across these groups underline that constraints are not uniform. LDCs face more systemic constraints across both transformation and inclusion. SIDS face more specific constraints in sustaining transformation. LLDCs show that progress in transformation does not automatically translate into inclusion, particularly where connectivity-related barriers persist. These patterns highlight the need for differentiated policy approaches, as countries facing common challenges can experience very different underlying constraints.

Sharply divergent pathways in middle-income countries, with low-income countries furthest behind in terms of digital transformation and social equity

- Many low-income and lower-middle-income countries lag in digital transformation while high-income countries have high scores, highlighting the wide digital divide (figure 2.5).

Table 2.1

Top five countries by each pillar and combined SIT score

	Transformation Pillar	Inclusiveness Pillar	SIT (combined score)
1	Malta	Belgium	Malta
2	Ireland	Finland	Ireland
3	United States	Iceland	Denmark
4	Singapore	Netherlands	Finland
5	China	Sweden	Netherlands

Source: UN DESA.

Table 2.2

Top five countries in terms of their scores under each sub-pillar

	Economic transformation	Energy transition	Digital transformation	Economic equity	Social equity
1	China	Malta	United States	Iceland	Belgium
2	Armenia	United Kingdom	Singapore	Denmark	Finland
3	Cambodia	Ireland	United Kingdom	Slovakia	Sweden
4	Georgia	Ukraine	Republic of Korea	Finland	Netherlands
5	Guyana	Luxembourg	Finland	Slovenia	Australia

Source: UN DESA.

- Social equity is highly concentrated in the upper ranges for high-income countries, but shows large dispersion for lower-middle-income and low-income countries.
- Performance of middle-income and low-income countries remains weakest in energy transformation as compared to other sub-pillars.
- Middle-income countries are the key "divergence zone," especially for social equity and energy transformation.

Leaders in transformation and inclusion

Table 2.1 presents the five highest scoring countries in both pillars as well as in terms of their combined SIT scores. Table 2.2 reports the five countries that have advanced the furthest within each sub-pillar.

- The top five countries under the transformation pillar are largely distinct from the top five countries under the inclusiveness pillar — highlighting the "conversion gap" between transformation and inclusiveness.
- Different countries lead across each of the sub-pillars. Fully balanced performance across sub-pillars is rare; most countries that appear as top performers in one dimension of transformation do not appear in other dimensions or under the inclusiveness sub-pillars. For example, digital leaders like the United States of America, Singapore and Republic of Korea do not appear in the top five under the inclusiveness pillar.

Conclusions

This chapter illustrates that many countries have undergone significant transformation over the past 25 years, but with varying degrees of social inclusion. Faced with accelerating pressures from climate change, rapid technological change (including artificial intelligence), and fragmenting geopolitics, countries must now manage accelerated economic, digital and energy transformations while also improving and protecting economic and social equity. Such equity is essential to creating greater productivity and resilience and ensuring that gains from transformation are broadly shared.

The benchmarking results yield several clear conclusions:

First, countries at similar income levels display markedly different SIT outcomes, underscoring that

neither transformation nor inclusiveness are automatically associated with higher GDP per capita.

Second, countries with comparable transformation performance show a range of different inclusiveness outcomes, revealing that to make transformations work for all, other country-specific factors such as policies and institutions matter.

Third, progress across the five subpillars is extremely uneven. Digital transformation and social equity exhibit particularly high variations across regions and income groups, and energy transformation emerges as the weakest dimension, especially for Africa and Asia, indicating slower progress for all on green transformation relative to other dimensions.

Finally, the analysis shows that different countries are leading across the different sub-dimensions, so all countries have opportunities to progress in those metrics where they are relatively less advanced. Regional comparisons further demonstrate that countries within Asia and Africa with similar transformation scores can differ widely in inclusiveness, and that transformation and inclusion pathways for middle-income countries — particularly in Africa — are highly dispersed, reflecting divergent outcomes even within broadly similar contexts.

Overall, the chapter finds that while countries may share income categories or regional contexts, their SIT outcomes vary substantially, highlighting the decisive role of national policies and institutions in steering transformation towards inclusive outcomes. The next two chapters build on this evidence by examining in greater depth the underlying challenges and opportunities for social inclusion and by identifying policy and institutional approaches that have supported progress towards socially inclusive transformation.

UNDP Cambodia/ Manuth Buth

3 Challenges and Opportunities in Advancing Socially Inclusive Transformation

Despite considerable gains in economic participation, education and skills, health, and voice and representation, persistent barriers continue to limit social inclusion. Women, youth, persons with disabilities, migrants, Indigenous Peoples and other groups in vulnerable situations still face disadvantages in these areas. This chapter examines recent trends and deficits remaining in key dimensions of social inclusion for different social groups. It then asks under what conditions ongoing economic, digital and energy transformations can help overcome barriers, and when they risk worsening exclusions. Based on emerging evidence, it shows that targeted policies for education, training, access to infrastructure and services, technology safeguards, representation, and the dismantling of discriminatory practices are needed to translate emerging opportunities into socially inclusive outcomes.

Key messages

- **Persistent structural barriers limit social inclusion**. Structural barriers, rooted in discrimination, exclusionary institutions, inaccessible infrastructure, and unequal access to resources and services, continue to limit participation in labour markets, education, health and decision-making.
- **Economic, digital and energy transformations can expand opportunities for inclusion and well-being**. These transformations have the potential to strengthen social inclusion through new opportunities for productive employment; improved access to quality education, healthcare, and civic participation; and improved energy access and a healthier living environment.
- **The same transformations may deepen inequalities.** They can worsen exclusions, by causing labour market disruptions, widening gaps, entrenching biases, creating new forms of marginalization, and imposing adjustment costs on the most vulnerable.
- **Inclusive outcomes require coordinated action.** Emerging opportunities will only translate into socially inclusive outcomes if governments and all relevant stakeholders work together to address structural barriers, close capability gaps, and invest in people to ensure equitable access to opportunities, resources and representation.

Introduction

As argued in chapter 1 of this report, the confluence of existing exclusions and new and emerging challenges calls for a New Economics of Social Inclusion that positions social inclusion at the centre of development. Without full and equitable participation of all, ongoing economic, digital and energy transformations risk leaving economies and societies less prosperous, sustainable, resilient and cohesive.

Over recent decades, there has been important progress towards social inclusion. More children attend school, the access to health services has expanded, and new opportunities for participation in economic and civic life have emerged. Yet these gains have not been shared equally. Entrenched barriers continue to restrict meaningful participation for many, including women, youth, persons with disabilities, migrants, Indigenous Peoples and others.

This chapter examines remaining deficits in four key dimensions of social inclusion: *economic participation, education and skills development, health,* and *voice and representation*. Across all four, persistent barriers limit the extent to which disadvantaged groups can participate in and benefit from emerging opportunities. The resulting patterns of exclusion — from uneven labour force participation and persistent wage gaps to inequities in access to quality education, health services, and political representation — weaken societies' adaptive capacity, thereby reducing their ability to harness transformations productively, increase broad-based well-being, and strengthen social cohesion.

The question then becomes whether ongoing transformations can help overcome these barriers or whether they risk further entrenching existing exclusions. This chapter reviews emerging evidence of both opportunities and risks from economic, digital and energy transformations. While exact outcomes are hard to predict, it becomes clear that realizing inclusive outcomes will require deliberate efforts by governments, the private sector, workers' organizations, civil society, international partners and other stakeholders to dismantle barriers, close capability gaps, and strengthen the voice of disadvantaged groups.

Without enabling policies and regulatory guardrails that place social inclusion at the centre, address structural barriers and close capability gaps, ongoing transformations may reinforce rather than reduce disparities. Successfully advancing socially inclusive transformation will require the coordinated mobilization of necessary resources, technology and knowledge: governments bear primary responsibility for policies, regulation and public investment; private-sector actors must ensure compliance and inclusive practices while contributing private investment; workers' organizations and civil society can strengthen accountability, voice and participation; and international partners can support financing, technology transfer and capacity-building.

The persisting deficits across key dimensions of social inclusion

Barriers to economic participation

Access to economic opportunities through decent and productive employment is a key foundation of social inclusion. It empowers people to exercise agency and participate fully in economic, social and civic life, enabling them to contribute to and benefit from broader transformation processes.

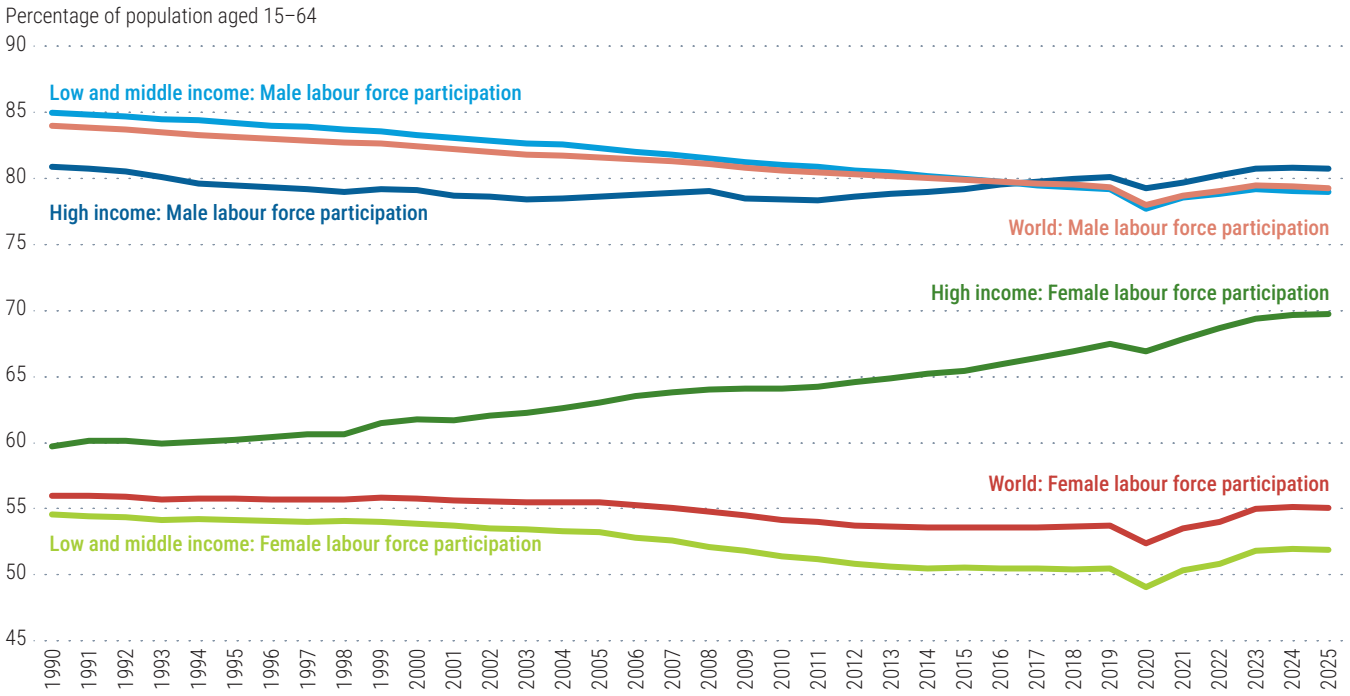
Inequalities and exclusions — including by gender, age, race, ethnicity, work and descent, and disability and migration status — continue to manifest themselves in different levels of labour force participation, wage gaps, and uneven engagement in informal work. Discrimination and social norms also play an important role in sorting workers into different types of occupations and economic activities (i.e., labour market segregation).

Uneven labour force participation

Labour force participation is a key indicator of economic participation, as it provides insights into which population groups face barriers to accessing paid employment and benefiting from emerging economic opportunities.

Figure 3.1

Male and female labour force participation rate, 1990–2025



Source: UN DESA, based on data from World Bank, World Development Indicators database (accessed on 15 July 2026).
Note: Based on modelled estimates from ILO.

Continuing gender gaps

Women's work decisions are closely linked to gender norms and unpaid care responsibilities. For instance, recent time-use estimates show that women and girls shoulder 76% of unpaid care work globally, or 3.2 times more than men. These numbers have changed little over time, indicating the persistent nature of gender norms (ILO, 2025b).

National Time Transfer Accounts (NTTAs) provide a more detailed analysis of women's and men's economic roles over their life course, by showing who produces and receives unpaid care and household work, and how time and value is transferred within and across generations. While NTTAs broadly support International Labour Organization (ILO) findings on unpaid care responsibilities, they can further add to the understanding of how these responsibilities affect paid employment, economic security and gender inequality (UN DESA, Population Division, 2024).

This burden of unpaid activities means that many women find themselves unable to take up paid work, with 45% of women outside the labour force citing care responsibilities as the main impediment (ILO, 2024d). In addition, women continue to face discrimination, gender stereotypes and unequal opportunities that continue to shape labour market outcomes.

At the global level, these barriers translate into a gap in labour force participation of 24 percentage points in 2025. This was four percentage points lower than in 1990 — driven mainly by increased labour force participation of women in high-income countries (figure 3.1).

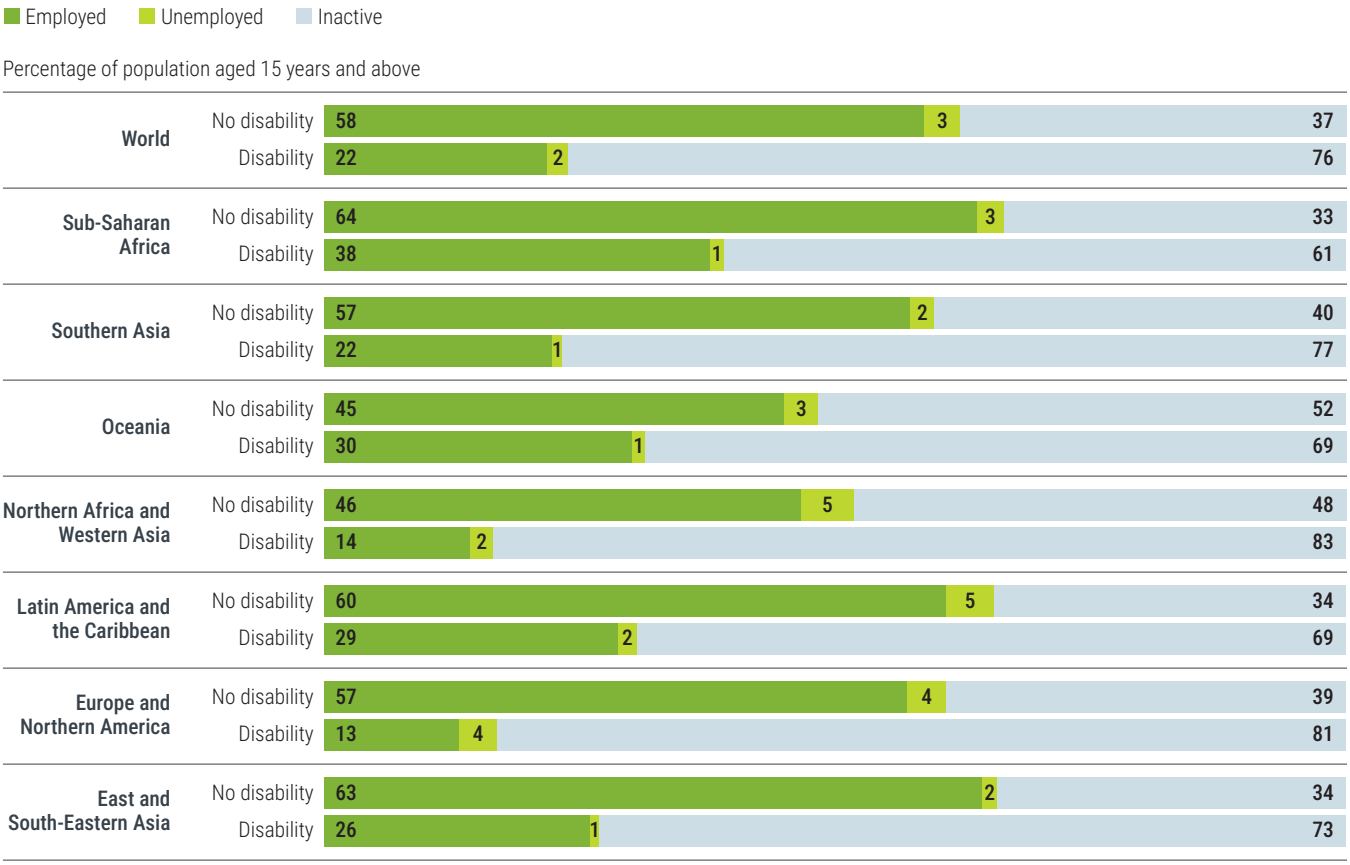
In addition to forgone income, women who remain outside or withdraw from the labour force, even for a limited time, are likely to suffer skill erosion and lower lifetime earnings and retirement savings, leading to compounding inequalities over their lifetimes.

Declining youth labour force participation

Labour force participation among youth aged 15–24 has trended down globally over the past decades, reaching 42.5% in 2025, with the most pronounced decline in middle-income countries (from 60% in

Figure 3.2

Labour force status by disability status and region, 2025 or latest available year



Source: UN DESA, based on ILOSTAT database (accessed on 13 February 2026).
Notes: Persons outside the labour force, also referred to as inactive persons, are persons who are not employed and are not looking for a job. Regional and global estimates are median values of country data. Estimates are based on 77 countries with data from 2018 or after. Data from 2020 and 2021 are excluded to avoid distortions from the COVID-19 pandemic.

1990 to 41% in 2025).[1] While some of this is due to young people staying longer in education, the share of youth not in employment, education or training (NEET) has remained stubbornly high, at 20% globally in 2025.[2] Young women persistently fare worse than young men, with a labour force participation rate of 35.0% and a NEET rate of 27.1% in 2025. High NEET rates bode ill for current and future earnings as well as for other dimensions of social inclusion during the life course. A rapid and widespread adoption of artificial intelligence (AI) could exacerbate this problem, amid emerging evidence of a hiring slowdown for entry-level positions (see section on digital technologies and artificial intelligence).

Exclusion of persons with disabilities

Persons with disabilities face important barriers to labour force participation, due to a lack of workplace accessibility and assistive technology, as well as stigma and negative attitudes among employers (United Nations, 2024a). Across regions, the labour force participation of people with disabilities is lowest in the higher income economies of Europe and Northern America (figure 3.2). While this may be in part explained by greater social protection coverage in these countries, it also suggests that the productive and innovative potential of persons with disabilities is not fully utilized — hampering both their ability to live up to their full potential and their contribution to aggregate economic growth.

1 According to data from the World Bank, World Development Indicators, based on modelled ILO estimates (accessed on 21 August 2026).

2 NEET rates include youth who are out of school and either unemployed (in the labour force) or not looking for work (out of the labour force).

Continuing wage gaps

Wage gaps are driven by a combination of factors, including labour market segregation, where some groups are concentrated in lower paying activities, and wage discrimination, where some groups receive lower pay for equal work.

Women are overrepresented among low-paid workers, globally and across country income groups, suggesting significant labour market segregation.[3] In addition, women tend to earn less than men for equal work, with wage gaps particularly pronounced in high-skill, technology-intensive sectors (ILO, 2023a). Large gaps remain even after accounting for a set of other factors, such as experience and education; while mean raw gender wage gaps range from 8% to 19.5% for different country income groups, adjusting them for factors such as age, education and working time yields even larger gaps, except in low-income countries (ILO, 2024b).

Migrants are overrepresented among low-paid workers in high-income and upper-middle-income countries, but underrepresented in lower-middle and low-income countries (ILO, 2024b). National-level studies find such gaps often persist in second and further generations in high-income countries, even when considering differences in educational attainment and other factors (Longhi, 2020).

Ethnic minorities may also face wage gaps within their home countries, depending on local circumstances. Significant wage gaps have been identified for internal labour migrants in Myanmar (Aung, 2024) or for Indigenous Peoples in Mexico (Canedo, 2019). Similar results have been found for Communities Discriminated on Work and Descent (Kumar and Hashmi, 2020).

Uneven participation in informal work

The informal economy represents a significant part of economic activity, accounting for over half of employment globally, and over 90% in some sub-Saharan African countries. However, informal employment is typically associated with lower earnings, poor working conditions, and a lack of benefits such as health insurance, pensions and paid leave.[4] Members of disadvantaged and marginalized groups are more likely to be informal workers — as employees, own-account workers or contributing family workers — reflecting persistent structural barriers as well as capability gaps.

At the global level, women are less engaged than men in informal employment (at 55% compared to 60%, respectively). However, this result is driven by few large economies, with women's share of informal employment surpassing that of men in 56% of countries, especially in low- and lower-middle income countries (figure 3.3). Among informal workers, women are more likely than men to be contributing family workers (28% of all female informal workers globally, compared to 9% of male informal workers), putting them in a particularly vulnerable position. Women also make up 75% of all informal domestic workers, who can be more exposed to violence and harassment (ILO, 2023b).

Persons with disabilities are more likely to work in the informal sector, both as own-account workers and as informal employees. At the global level, 50% of all employed persons with disabilities were self-employed in 2021, compared to 41% of persons without disabilities (United Nations, 2024a).

Indigenous Peoples are also more likely to work in the informal sector. Across 14 countries with disaggregated data, 86% of the Indigenous population work in informal employment, compared to 66% of the non-Indigenous population.[5] Indigenous informal workers are overrepresented in activities such as street vendors and domestic work, as well as in informal and precarious work in formal

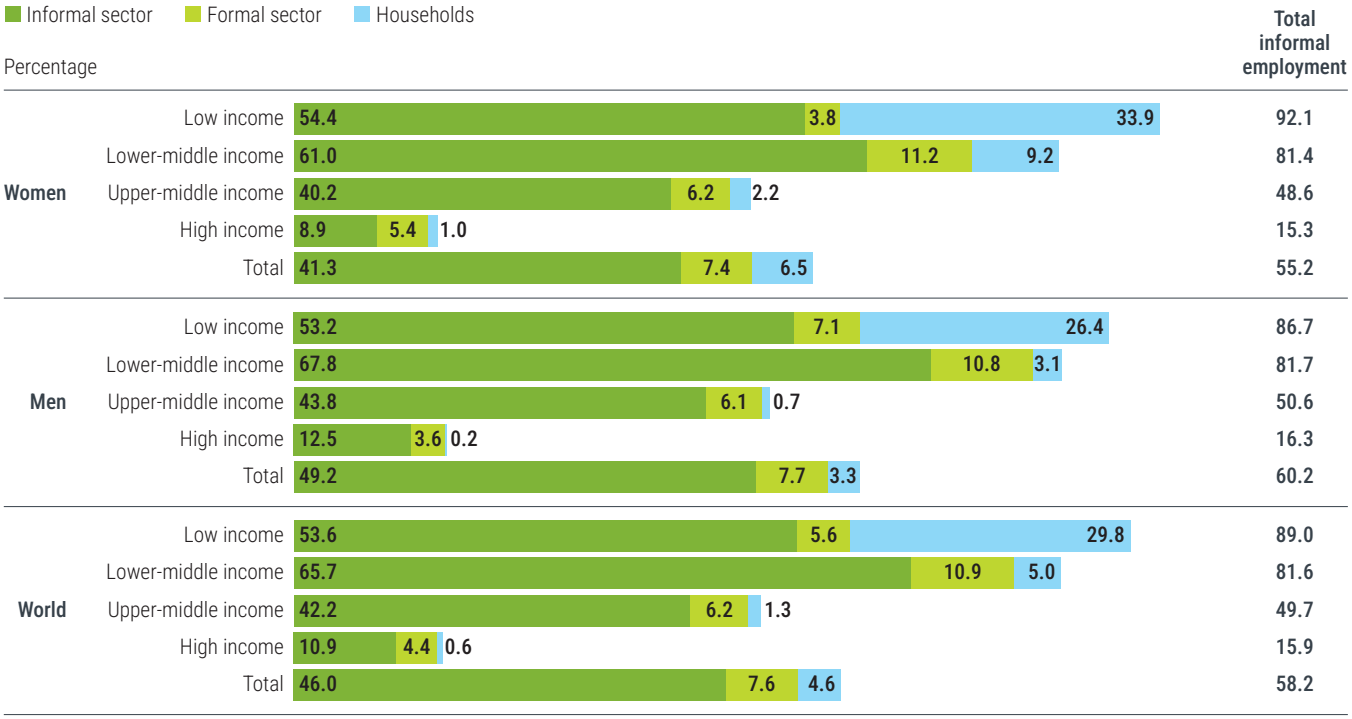
3 Low-wage workers are defined as those with earnings less than 50% of the median hourly wage in a given country.

4 International standards distinguish between employment in the informal sector and informal employment. Employment in the informal sector is an enterprise-based concept that comprises non-incorporated private enterprises without a formal bookkeeping system or not registered with relevant national authorities. Informal employment is a job-based concept that is defined in terms of the employment relationship, which is (de jure or de facto) not subject to national labour legislation, income taxation or entitlement to social protection or certain other employment benefits. Informal employment also includes informal employees and contributing family members in the formal sector, and informal workers in the household sector (private households, producing exclusively for own final use, not for sales or barter) (ILO, 2018).

5 The 14-country sample covers 2 countries in Africa, 5 in Asia and the Pacific and 7 in Latin America and the Caribbean.

Figure 3.3

Percentage and composition of informal employment as a share of total employment, by sex and country income group, 2023



Source: UN DESA, based on data from ILO (2023b).
Notes: Totals include agriculture. The informal sector comprises non-incorporated private enterprises without a formal bookkeeping system or not registered with relevant national authorities. The household sector comprises private households that produce exclusively for own final use, not for sales or barter.

enterprises in construction and mining (Kumar and others, 2019).

Barriers to education and skill development

Access to good quality education has long been recognized as a gateway to opportunity, socioeconomic mobility and social inclusion. It strengthens economic participation by improving employability and fostering entrepreneurial capacity; improves health outcomes by enhancing health literacy and favouring healthier living conditions; and strengthens individuals' ability to exercise voice, representation and agency within their communities and societies.

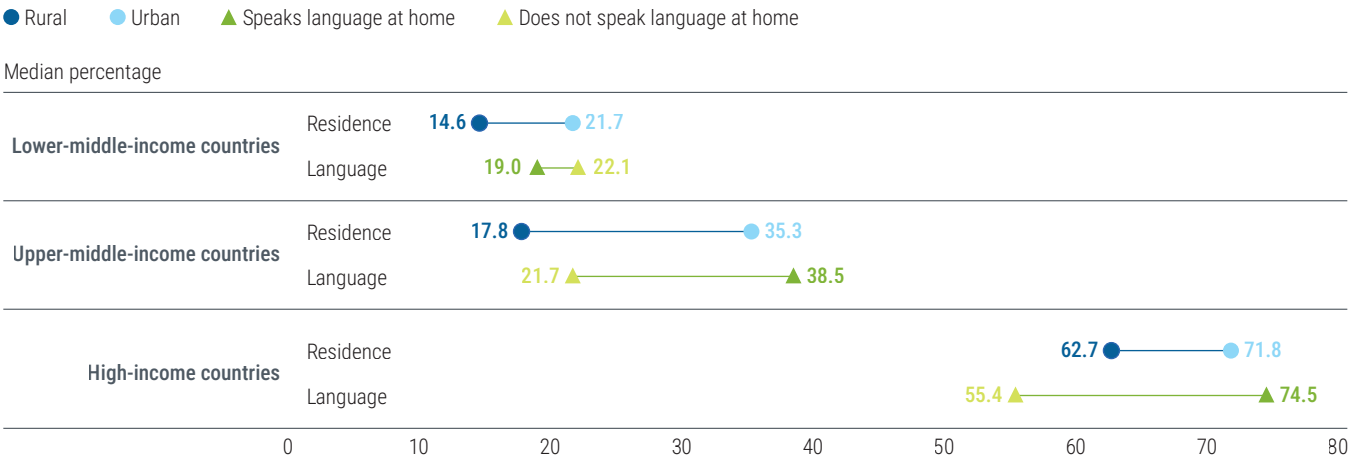
Universal quality education and lifelong learning are also key enablers of inclusive transformation pathways; they achieve this by creating the necessary skill base for economic, digital and energy transformations while allowing all members of society to benefit from aggregate gains. Yet, education systems can also entrench patterns of exclusion and discrimination. Despite overall progress, large gaps remain in access to education between and within countries. Exclusions also continue to operate through uneven quality, disrupted continuity, and limited social and cultural relevance of education.

Gaps in access to education

While school access and completion rates have increased significantly in recent decades, 273 million children, adolescents and youth were estimated to have been out of school worldwide in 2024. This is equivalent to 17% of all individuals in this age range, less than 1 percentage point down from 2015 (United Nations, 2026a). The most affected education level is upper-secondary education, where 130 million upper-secondary school-age youth, or 31% of that age cohort, were out of school (UNESCO Institute for Statistics and the Global Education Monitoring Report, 2025).

Figure 3.4

Minimum proficiency in mathematics at the end of lower-secondary education, 2022 or latest available year



Source: UN DESA, based on UNESCO, World Inequality Database on Education.
Notes: Minimum proficiency in mathematics at the end of lower secondary education (out of 4 proficiency levels: low, minimum, medium, high). Data from Program for International Student Assessment (PISA) Survey 2022 and Trends in International Mathematics and Science Study (TIMSS) Survey 2019. Information from 81 countries for "Language" and 74 countries for "Residence".

Poorer countries are falling behind in terms of education access. In low-income countries, 36% of the overall school-age population was out of school in 2024, compared to 3% in high-income countries. About three quarters of the global out-of-school population was in Central and Southern Asia (35%) and sub-Saharan Africa (40%).[6]

Uneven learning outcomes

Exclusion in education also extends to learning outcomes and the ability to benefit from economic and digital transformations. For example, fewer children and youth from rural households reach minimum levels of achievement in mathematics at the end of lower-secondary education (Sustainable Development Goal (SDG) indicator 4.1.1), compared to their urban peers — reflecting both insufficient access and uneven quality of instruction. While the gap is significant across country income groups, it is widest in upper-middle-income countries (figure 3.4). Children and young people who speak a language at home that is different from the language of the assessment also score lower than their peers who speak the language at home. This gap is particularly large in high-income countries, especially compared to the much smaller gap between rural and urban residence.

Inequities in healthcare access and outcomes

Access to quality, affordable healthcare is fundamental to social inclusion. Good health supports educational attainment, strengthens economic participation and resilience to shocks, and enables individuals to participate fully in community life. It also shapes people's ability to adapt to and actively participate in economic, digital and environmental transformations.

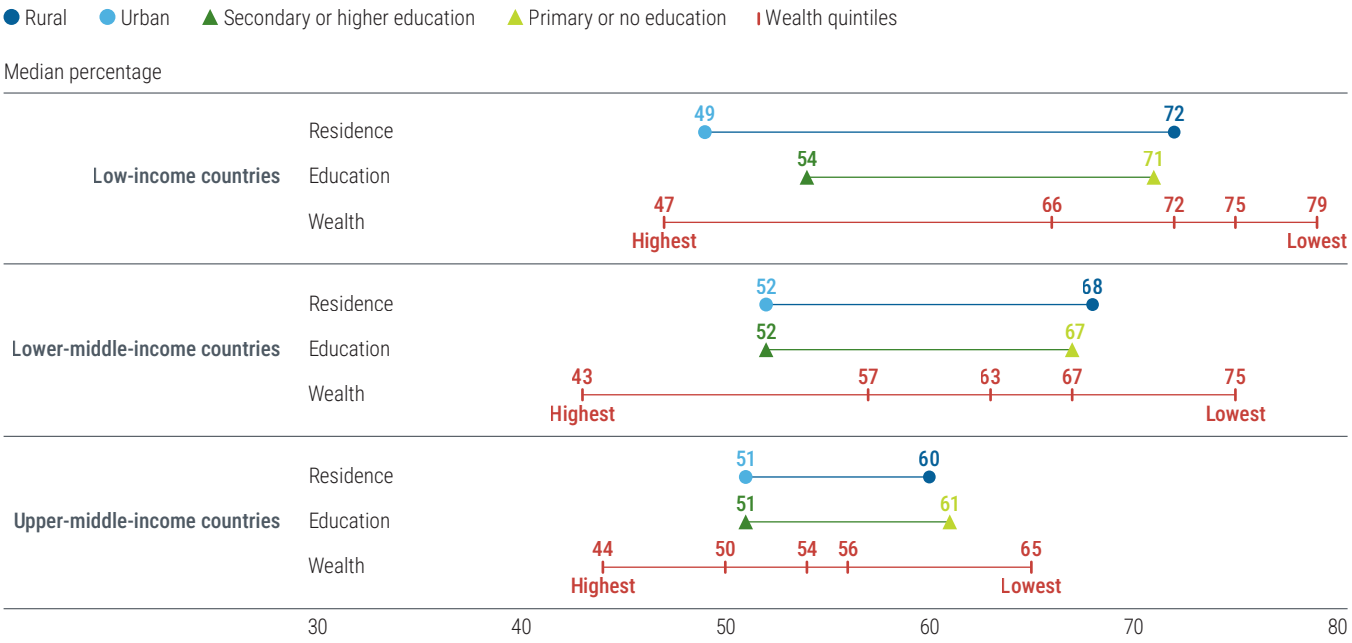
Since 2015, progress towards SDG target 3.8 of universal health coverage (UHC) has been slow, with the global UHC service coverage index increasing by just three points from 2015, to 71 in 2023 (United Nations, 2026a). While between-country gaps have narrowed (World Health Organization and World Bank, 2025), large disparities persist within countries.

After decades of gains, global progress in health outcomes has been slowing in recent years. The recovery from the COVID-19 pandemic has been uneven, and improvements in most health-related SDG targets have not yet returned to pre-pandemic trends

6 Averages by country group are based on UNESCO Institute for Statistics (UIS) and Global Education Monitoring (GEM) Report. VIEW Data Portal: Out-of-School Estimates Database (accessed on 13 July 2026).

Figure 3.5

Proportion of women experiencing problems in accessing healthcare, 2024 or latest available year



Source: UN DESA, based on data from the DHS Program STATcompiler (accessed on 17 February 2026).
Notes: Median proportion of women who report problems in accessing healthcare, across place of residence, education levels, and wealth quintiles, from the most recent Demographic Health Survey from 59 low- and middle-income countries, between 2011 and 2024.

(United Nations, 2025b). In some cases, group-based inequalities have widened.

Uneven access to care

Household surveys reveal large gaps in access to care between groups, by economic status, education and place of residence, among others. One example is the unequal access of women to healthcare, as revealed by Demographic and Health Survey data.

The poorest women in low-income countries face the greatest access barriers, with 78.5% experiencing problems in accessing healthcare (figure 3.5) — over 12 percentage points more than the share of poor women in upper-middle-income countries. In comparison, women in the highest wealth quintiles face lower barriers across all country groups, with medians between 46.9% and 43.0%. Women with secondary or higher education and those who live in urban areas also face lower barriers across country groups, while there is wider dispersion among women with no or primary education and those living in rural areas. Thus, the most disadvantaged groups in the poorest countries are those most left behind.

Inequalities in health outcomes

Childhood stunting (having low height for age) as an indicator for poor childhood health decreased from 26% in 2012 to 23% globally in 2024, but it remained pronounced in low- and lower-middle income countries (United Nations, 2026a).

A disaggregation by socioeconomic characteristics also reveals large and persistent differences between groups. Across 59 countries with comparable data, childhood stunting declined over the last three decades from 21.0% to 13.5% among households in the richest wealth quintile, while it declined from 41% to 31% among the poorest wealth quintiles. Similarly, it fell from 29% to 20% in the best-off ethnic group, while it fell from 39% to 29% in the worst-off group. At the current rate of progress, gaps in childhood stunting will not be closed during this century, leaving the most marginalized groups furthest behind (United Nations, 2025b).

Life expectancy at birth is a comprehensive health indicator that captures several determinants, such as living standards, healthy lifestyles, education levels, and access to quality health services. While

average global life expectancy recovered to 73.3 years in 2023 — above the pre-pandemic level[7] — within-country inequalities in life expectancy seem to have widened, based on available data in a few countries. Indigenous Peoples lag non-Indigenous populations in life expectancy in both rich and poor countries, and gaps between the richest and most deprived population groups have been on the rise (WHO, 2025).

Deficits in voice and representation

Voice and representation matter for social inclusion because they shape whether people can influence the rules, institutions and technologies that affect their livelihoods. In addition to direct political participation, meaningful worker representation is a key channel for shaping inclusive transformations.

Inequality in active political participation

Voter turnout and other forms of political participation are strongly influenced by people's education and income levels, although gaps vary significantly between countries. For instance, an average of 69% of voters with a tertiary degree participates in national elections, compared to 63% of voters with lower or no education. In countries with the largest disparities, this difference reaches up to 40 percentage points. Regarding income levels, average turnout among the highest income quintile is 69%, compared to 65% among the bottom quintile. For countries with the largest income-based disparities, this gap reaches up to 49 percentage points.[8]

Non-electoral political participation provides an alternative means of political engagement, particularly among youth. While activities such as signing petitions, joining boycotts, participating in peaceful demonstrations and contacting public officials are, in principle, accessible to all, they are less institutionalized than voting, which means that they require more time, money, interest and motivation. As a result, non-electoral political participation is substantially more common among higher-educated and higher-income groups than among their less advantaged counterparts, even more so than voting.

Unequal access to political resources: the case of labour unions

Voice and representation also depend on workers' ability to organize and bargain collectively. Labour unions have historically provided low-income groups with a collective voice within and beyond the workplace, but their decline has weakened one channel through which workers can influence wages, labour standards, and adjustment to economic change.

Trade union density has declined markedly in recent decades. In Organisation for Economic Co-operation and Development (OECD) countries, where unionization rates are highest, trade union density declined by half, from 26% of workers in 1990 to 13% in 2019 (Visser, 2024).

The rise of informal and non standard employment has spurred new forms of worker association, including community and professional organizations, associations of self-employed workers, and cooperatives. However, most lack the legal mandate for formal collective bargaining and cannot yet take on the full functions of trade unions—from wage negotiations to upholding labour standards and ensuring voice in the workplace. At the same time, they provide support to workers often overlooked by unions, such as migrants (United Nations, 2025b), who are frequently excluded from social protection systems, making them vulnerable to exploitative practices, including excessive working hours, unpaid wages, unsafe working conditions, and, in extreme cases, forced labour and human trafficking.

New opportunities and challenges that transformation presents

As argued in chapter 1, the speed and scale of changes in the global context risk widening existing gaps and amplifying the economic and social costs

7 Based on World Bank, World Development Indicators (accessed on 10 February 2026).

8 Information on voter turnout and non-electoral political participation is based on World Values Survey, latest available wave (2017–2022). Global averages include data from 58 countries, including 16 developed and 42 developing countries.

of exclusions. In turn, existing patterns of exclusion also reduce the ability of societies to adapt to the changing context and advance socially inclusive transformations.

At the same time, the economic, digital and energy transformations considered in this report also present new opportunities for overcoming barriers and strengthening social inclusion across its different dimensions. Where such transformations are supported by enabling policies and regulatory guardrails, a virtuous cycle of more sustained, sustainable and inclusive social and economic progress is possible.

This section lays out the potential opportunities and risks of these three transformations for social inclusion, laying the groundwork for a review of policies and institutions that have proven effective in different country contexts, presented in chapter 4.

New opportunities from economic transformations

For the economic, digital and energy transformations to be inclusive, the associated reallocations of labour and resources must benefit all members of society, irrespective of age, sex, disability, race, ethnicity, origin, religion, or economic or other status.

Economic transformations can be important enablers of more equitable economic participation. Whether that can be achieved depends in large part on the employment opportunities offered by current and emerging economic activities, and how they match the capabilities and aspirations of all groups of society. Policymakers thus need to prioritize economic activities that can create productive and well-paying jobs at scale, including for low-skilled workers, young people, women, and people from marginalized groups. To achieve equitable and sustained improvements in living standards, such activities should also hold the potential for continued productivity growth, based on continuous learning, technology transfer and contestable markets.

Past examples of inclusive economic transformations relied on a rapid expansion of labour-intensive, export-oriented manufacturing, supported by policies for shared growth, such as land reform and investment in agricultural infrastructure, education, and health (Birdsall and others, 2025; Birdsall and others, 1993). However, skill-biased technological innovations and growing automation have changed the nature of manufacturing, causing highly productive manufacturing to increasingly become an "enclave" activity that employs few high-skilled workers, with few linkages to the rest of the economy (Rodrik and Sandhu, 2025).

Between 2000 and 2024, the share of manufacturing in total value added has declined in most countries, while the share of services has increased. At the same time, many economic activities within the service sector, as well as in agrifood systems, have benefited from rapid technological change, laying the basis for new opportunities to create productive and decent work for all. For example, recent research shows that increased labour force participation by women is closely linked to an increase in service sector activities (Chiplunkar and Kleineberg, 2025; Kuhn, Manovskii and Qiu, 2024; Ngai and Petrongolo, 2017).

New opportunities in services and other productive activities

Rapid technological change — such as the digitalization of communication and productive processes, and evolving patterns in international production — has allowed several economic activities, including many in the service sector, to experience unconditional productivity convergence[9] — something previously considered a unique trait of manufacturing. These activities range from business services, construction and financial services to real estate, trade services and transportation services. Between 1990 and 2018, these activities witnessed faster productivity convergence than manufacturing (Bhorat and others, 2025). While construction often remains a low-wage, low-productivity sector in developing regions, evidence suggests that productivity and job quality can be improved through skills upgrading, technology adoption and formalization (Jacinto, 2025).

9 Unconditional productivity convergence describes productivity growth that narrows the gap between developing countries and the global technology frontier, regardless of initial conditions.

Box 3.1

Youth employment policies shifting South Africa's growth path

Youth unemployment is one of South Africa's clearest labour-market inclusion gaps. In 2024, youth unemployment was 45.5%, compared with a national unemployment rate of 33%. The 15–34 age group accounted for 20.9 million people, about one third of the population. When so many young people are excluded from work, the economy loses current output as well as early work experience that shapes lifetime earnings and productivity.

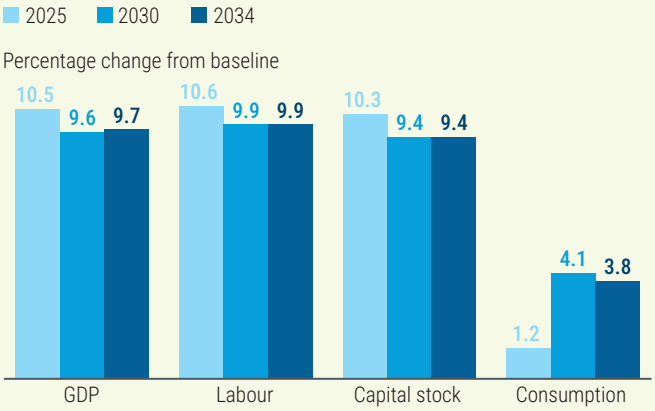
A policy simulation illustrates the scale of what reducing youth exclusion could mean for the economy. The scenario combines lower labour market entry barriers for young people with higher public spending on employment-supporting policies. The scenario is anchored in South Africa's Department of Planning, Monitoring and Evaluation's estimate that reducing youth unemployment would require average annual spending of about R114.7 billion, approximately 7.1% of government expenditure. In the simulation, spending is ramped up over three years, alongside reforms that lower the labour market entry barriers for young adults through expanded access to education, skills development and training.

The macroeconomic effects over the first decade are substantial. The simulation shows gains across the selected variables in 2025, 2030 and 2034. By 2034, gross domestic product (GDP) is about 9.6% above baseline, labour is about 9.9% above baseline, the capital stock is about 9.4% higher, and consumption is about 3.8% higher. Wage rates are slightly lower, by about 0.3%, consistent with a larger effective labour supply.

The result highlights youth exclusion as a macroeconomic bottleneck, not only a labour market problem. When entry barriers fall, the economy gains more workers and more years of productive experience, while investment responds to the larger effective labour base. Youth inclusion policies can therefore shift the level of GDP materially by 2034, rather than generating only marginal gains.

Figure 3.1.1

Simulated economic effects of youth employment policies in South Africa



Source: OG-Core policy simulations produced with government counterparts under the capacity development activities of UN DESA.

For these activities to drive socially inclusive transformation, improvements in productivity growth and tradability must be accompanied by the provision of decent job opportunities for large numbers of workers, including low-skilled workers. While this may not be the case for most business and financial services — which are typically more skill-intensive — others, like construction, trade services and transportation services have greater potential for large-scale employment generation.

Activities without unconditional productivity convergence but with higher relative productivity compared to traditional agriculture can still contribute meaningfully to socially inclusive transformation. Such activities should offer high employment potential, be suited to incorporating and driving technological progress, enable economies of scale and agglomeration, and be tradable.

Based on these criteria, and with a focus on African economies, the following dynamic and inclusive activities have been identified: agroprocessing, construction, export crops and horticulture, finance and business services, information and communications technology (ICT) and digital services, tourism, formal trade, and transportation (Bhorat and others, 2025). The employment potential of these activities varies depending on a country's resource, physical and human capital endowments and its initial economic structure.

These trends highlight both the possibility and the importance of enhancing the productive potential of currently low-productivity activities. This can help promote overall growth as well as better jobs for all, creating a win-win scenario for inclusive transformation (box 3.1). As discussed above, this must be accompanied by universal access to high-quality education and skill development, to enable all people to fully benefit from labour market opportunities, regardless of which population group they belong to.

Opportunities in agrifood systems using new technologies

Despite the global shift towards services, many countries still depend on agriculture and related activities for both economic growth and employment. In low-income countries and least developed countries, agriculture, forestry and fishing account for 25% and 20% of gross domestic product, respectively. Employment shares also remain high, at 57% in low-income countries and 53% in least developed countries. While the shares are smaller in middle-income countries, the sector remains an important employer, especially in lower-middle-income countries.[10]

Beyond agriculture, the broader agrifood system is an important source of employment, particularly in rural areas.[11] While agricultural employment shares have declined across regions over the past decades, employment shares in non-agricultural agrifood systems have remained broadly stable; they have even increased in Africa, indicating a greater diversification of employment within the agrifood system in that region (figure 3.6).

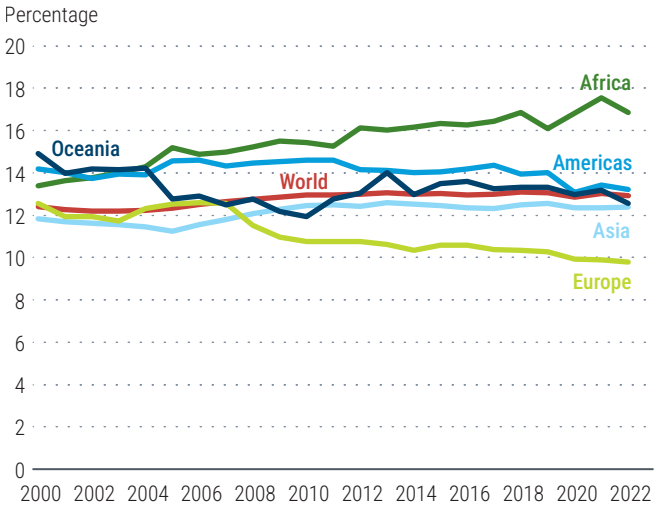
Recent evidence also shows significant productivity increases within agriculture and the broader agrifood system. This could be good news for creating more inclusive transformation pathways, if it leads to the creation of more decent job opportunities.

Technical innovation in agriculture can be labour replacing or labour enhancing, depending on technology, type of crop and local circumstances. One example for labour-enhancing innovation was the introduction in the late 1980s of a second season for harvesting maize in Brazil. Facilitated by the increased use of fertilizer and herbicides, improved timing and greater mechanization, this expansion increased both labour productivity and labour demand (Bustos, Caprettini and Ponticelli, 2016).

Artificial intelligence applications are further enhancing agricultural productivity growth by supporting key processes, such as pest detection and treatment, irrigation planning and livestock management, in addition to service generation and decision-making support in the non-agricultural agrifood system (Aghababaei and others, 2025).

Figure 3.6

Share of non-agricultural agrifood systems employment in total employment



Source: FAOSTAT (accessed on 6 January 2025).

Increased agricultural productivity can also have important indirect effects on rural employment, including through greater backward and forward linkages to supporting non-farm activities. In particular, local forward linkages, such as processing, packaging and distribution, have been recognized for their contribution to rural development, with strong participation of labour-intensive small and medium-sized enterprises (Berdegué, Trivelli and Vos, 2025).

Continued technological progress in these activities, accompanied by targeted upskilling programmes, could further strengthen their potential for quality employment. This could also benefit a growing number of young workers in many African countries, further building on the observed increase in these countries' non-agricultural agrifood system employment. Many of these activities have also been identified as having the potential to contribute to inclusive transformation, including agroprocessing, export crops and horticulture, formal trade, and transportation.

10 Based on World Bank, World Development Indicators (accessed on 2 January 2026).

11 According to FAO, agrifood systems include everything from how food is grown, harvested, processed, packaged, transported, distributed, traded, bought, prepared, eaten and eventually disposed of. They also include non-food agricultural products such as forestry, feedstock, biomass for biofuels, and fibers (FAO, n.d.).

Digital technologies and artificial intelligence

The rapid development and adoption of digital technologies and, more recently, artificial intelligence, are creating new opportunities as well as challenges across all dimensions of social inclusion. While economy-wide productivity effects may be slower to materialize than initially expected by some (Chui and others, 2023; Acemoglu, 2025), AI applications are already reshaping labour market access and outcomes, education and health systems, and civic participation.

Measurable impacts of AI are currently concentrated in a few countries and sectors, but companies, people and communities worldwide are already feeling its effects, albeit not equally. While the full scale and scope of the economic, social and environmental impacts of AI remain uncertain, societies must prepare for both opportunities and challenges, including near-term disruptions, to ensure that digital and AI-driven transformations are socially inclusive (see chapter 4).

Opportunities and challenges of AI for sustainable development

Artificial intelligence has already demonstrated productivity-enhancing applications across all economic activities. Examples include crop yield prediction and optimization of farming schedules in agriculture; generative design and smart building systems for construction; process automation and logistics optimization in manufacturing; route optimization and autonomous vehicles in transportation; personalized recommendations and demand forecasting in wholesale and retail trade; credit scoring and risk assessment in finance and insurance; software development and customer support in ICT; and drug discovery and diagnostics in health and life sciences. AI has also been hailed for its potential to enable the energy transition, although its high energy and resource demands pose important risks (box 3.2).

Despite the potentially large productivity gains, AI adoption has been uneven across economic activities. Recent data for OECD countries show the highest adoption rates in the ICT sector and the lowest in the accommodation and hospitality and construction sectors (OECD, 2025).

Box 3.2

Impacts of artificial intelligence on the energy transition: risks and opportunities

Artificial intelligence (AI) is considered an essential technology for enabling the energy transition, as it improves data analytics and modelling in various sectors (Donti and Kolter, 2021; Rolnick and others, 2022). For example, AI can help balance power systems with high shares of renewables, by generating insights from large unstructured data, producing data-driven forecasts, and allowing for new approaches to system control (Donti and Kolter, 2021; IEA, 2025a). AI also helps with operating wind farms, developing next-generation energy technologies, improving energy efficiency in buildings, and much more.

While these benefits make AI an important enabler of the energy transition, the technology is primarily applied for other purposes, in sectors such as finance, marketing and telecommunications (Maslej and others, 2025). It can also directly support activities that slow the energy transition, including for increasing production and reducing costs in the fossil fuel industry (Alpine and others, 2026). This raises concerns that AI may lock societies into high-emission pathways (Dauvergne, 2022; Greenpeace, 2020).

At the same time, the large-scale buildout of data centres in anticipation of rising computing demands from AI is increasing electricity demand (IEA, 2025a), much of which is being met by conventional power generation (Mandler, 2024; Millard, 2025), leading to higher greenhouse gas (GHG) emissions. Most of this infrastructure buildout is needed for general-purpose and generative AI. The primary benefits from deploying AI for the energy transition, however, come from specialized AI systems that are less resource intensive.

The overall impact of AI on GHG emissions can be disaggregated into two main categories: (i) the direct emissions impacts from AI data centres (computing-related impacts); and (ii) the indirect emissions from the way AI is applied (application-related impacts). The latter also include larger system-level effects of the technology on the economy and society (Kaack and others, 2022).

Attempts to quantify the computing-related energy demand for AI range from 39 to 74 TWh for 2024, and diverge even more for future projections (Kamiya and Coroamă, 2025). Overall data centre demand, including but not limited to AI, can be estimated more reliably. The International Energy Agency assumes total data centre energy use to increase to 1000 TWh in 2030 (IEA, 2025a), equivalent to the total electricity currently generated in Japan.

Box 3.2

Impacts of artificial intelligence on the energy transition: risks and opportunities (*continued*)

Large data centres also cause local challenges, as AI-focused computing infrastructure has a high power density and requires extensive cooling. Data centres tend to cluster, causing issues for the local power grid and electricity customers in some regions. Residents living close to data centres bear the costs of land use, power draw, and water consumption but mostly do not benefit, which has already caused opposition and legal action (Business and Human Rights Centre, 2025; O'Sullivan, 2024).

Given the wide range of applications and the lack of systematic studies, there is currently no reliable estimate of the overall application-related impact of AI on GHG emissions. The larger system-level effects of AI are even harder to quantify, as they include potential increases in consumption due to AI-driven targeted advertising (Dauvergne, 2022), as well as the influence of AI on the longevity of emissions-intensive infrastructure (Greenpeace, 2020; Wadud, MacKenzie and Leiby, 2016), and on politics (Acemoglu, Ozdaglar and Siderius, 2025).

Focused efforts are needed to promote AI strategies that advance the just energy transition and shift away from the current trajectory, which threatens to aggravate environmental challenges and greenhouse gas emissions. However, the large-scale adoption of such systems faces many hurdles, and will require targeted policy support by, for instance, providing regulatory clarity, enabling data sharing, and providing access to infrastructure (Clutton-Brock and others, 2021).

Source: Lynn H. Kaack, Hertie School and Climate Change AI.

While these differences are in large part driven by different degrees of task exposure to AI (for example, coding and data analysis are highly exposed, while masonry and bricklaying are not exposed), they are also shaped by external enablers and barriers. These include the *costs and maturity* of AI solutions (financial expenses and the developmental stage of relevant AI technology); *operational and skills requirements* (knowledge about AI capabilities, workers' skill sets, availability of adequate datasets); and *regulatory and ethical* limitations (laws and regulations, and concerns related to privacy, security and AI bias). For instance, ethical and privacy concerns are restricting overreliance on AI in healthcare and financial and insurance applications, while operational and skill barriers have been found highest in manufacturing activities (Calvino and others, 2024).

Enablers and barriers of AI adoption also vary by country, with developing countries on average facing higher barriers related to *costs and maturity* and *operational and skills requirements*. Persistent digital divides between and within countries pose an additional hurdle for AI adoption. A recent study for Latin America and the Caribbean finds that, while 8%–14% of jobs could benefit from GenAI, existing digital divides mean that nearly half of these jobs cannot realize this potential in the near term (Gmyrek, Winkler and Garganta, 2024).

The effect of digital technologies and AI on barriers to economic participation

The impact of AI on labour markets and therefore economic participation is highly uncertain. Recent studies estimate that between one quarter and two fifths of all jobs globally are exposed to GenAI, with developed countries more exposed than developing countries. However, the former are also better prepared to harness the benefits of AI than the latter (Cazzaniga and others, 2024; Gmyrek and others, 2025).

While there is a real risk of job displacement due to automation, it may be less widespread than some expect, at least in the near term. At the same time, AI offers substantial opportunities through both the augmentation of existing jobs and the creation of entirely new occupations. Employer surveys compiled by the World Economic Forum project that technological change, the green transition, economic uncertainty, geoeconomic fragmentation, and demographic shifts together could displace about 92 million jobs while creating 170 million new ones globally by 2030, yielding a net gain of approximately 78 million jobs (World Economic Forum, 2025). More conservative estimates suggest potential global job losses between 10 and 50 million and job gains between 20 million and 100 million, implying a broadly neutral to modestly positive net employment effect (Cazzaniga and others, 2024; Gmyrek and others, 2025; Gmyrek, Berg and Bescond, 2023).

Research also indicates that AI-related skills command substantial wage premiums. In analyses of relevant online job postings, wage estimates range from about 20%–30% to more than 50% higher in recent global assessments (Lightcast, 2025; PwC, 2025). While these gains are most pronounced in the technology sector, they are rapidly spreading across industries as organizations find new ways to integrate AI.

Realizing these opportunities will depend on supportive policies and regulatory guardrails, including the rapid expansion of AI literacy and skills across the workforce, anticipatory policies to cope with job losses and transitions (see chapter 4), and governance frameworks that support equitable and accountable AI systems that are inclusive by design and free from harmful biases. The development and implementation of such measures will require coordination among governments, technology developers, employers, workers' representatives and other stakeholders.

Uneven exposure and automation risks

The impacts of digital technologies and AI vary across social groups, reflecting differences in occupational exposure, task composition and access to new opportunities.

For instance, persistent labour market segregation means that women are relatively more likely to hold clerical and professional jobs (except in information technology, science and engineering professions) than men — the two broad job categories that are most exposed to AI. In addition to being more exposed, women's job profiles are also on average more susceptible to automation from AI. This reinforces previous trends of women being at higher risk of automation from digital technologies (Gmyrek, Winkler and Garganta, 2024).

Employment prospects for young people also appear to be at greater risk, amid emerging evidence of a hiring slowdown for entry-level white-collar jobs, which include many tasks that can be easily automated by AI. Recent labour market data for the United States of America shows that employment of workers aged 22–25 in the occupations most exposed to AI stands 19% below where it would be had it kept pace with that of their less-exposed peers, with no comparable gap for experienced workers (Brynjolfsson, Chandar and Chen, 2026).

As AI applications master a broader range of tasks, there are growing concerns that entry-level jobs will be more at risk globally. This would affect not only individual career development, but also companies and societies at large, as more young people lack an opportunity to build critical skills on the job (Azpúrua, 2026).

Risk of increased gender wage gaps

Labour market segregation and uneven opportunities to acquire relevant AI skills may also increase existing pay gaps. The overrepresentation of women in tasks that are more exposed to AI means that they are also at higher risk for (relative) declines in wages driven by AI (Gardberg and others, 2025). In addition, salary recommendations generated by AI applications consistently assign lower pay ranges to women than to men (Yaqub, 2026).

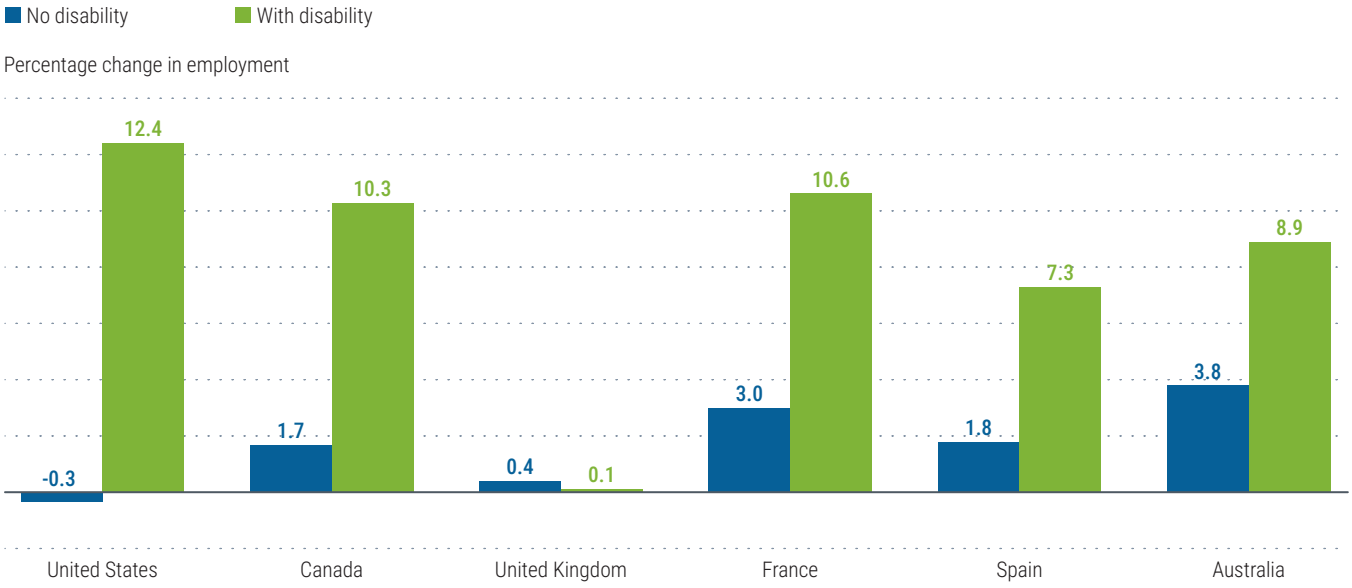
On the flip side, women are less likely to benefit from skill premiums associated with AI, in part due to persistent gender gaps in STEM education. Globally, women and girls are 25% less likely than men to possess basic digital skills and four times less likely to have advanced digital skills, and women comprise only 22%–30% of the global AI workforce, with even lower representation in technical and leadership roles (Barron and Bentil, 2024; UNESCO, 2025a). Even where women have the requisite skills, jobs that offer high skill premiums often require extended working hours, frequent job switching and geographical relocations, demands that are difficult to reconcile with women's care responsibilities (Tambe and Yang, 2025).

Biases in hiring and job placement

The growing use of AI for job placement decisions poses additional risks of economic exclusion due to algorithmic biases, as observed in AI-enabled resumé screening. A recent study found that, in the United States, gender, race and intersectional biases existed in the screening process. Resumés with

Figure 3.7

Changes in employment by disability status, 2019–2022



Source: Bloom, Dahl and Rooth (2026).
Notes: Percentage changes in the employment rate between 2019 and 2022 for those with and without a disability. Calculations using data from the United States Current Population Survey (CPS), the United Kingdom Labour Force Survey, and the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The numbers for Canada, France and Spain are from publicly available statistics from national labour force surveys.

White- or male-sounding names were preferred to those with Black or female names in up to 85.1% of cases. In combination, Black and male names were the least favoured, with other groups preferred in up to 100% of cases (Wilson and Caliskan, 2024).

Migrants and ethnic minorities face additional biases that can stem from language barriers and different cultural backgrounds. AI video recruitment systems are typically trained on a vast body of English-language material that reflects Western values. As a result, such systems may disadvantage otherwise qualified non-native English speakers due to speech-recognition problems. For instance, one popular service that rates answers from video interviews based on transcription technology reports less than 10% transcription errors in the responses from native speakers of US English, but between 12% and 22% in the responses from speakers from other countries of origin (Sheard, 2025).

Opportunities for improved access and inclusion

Despite these risks, digital and AI transformations can hold opportunities for previously marginalized groups. For example, digitally enabled remote work has increased the labour force participation of people with disabilities, as reflected in higher post-pandemic employment growth for persons with disabilities than for persons without, in several high-income countries (figure 3.7).[12] Controlling for other factors, 75% of the post-pandemic increase in full-time employment of people with disabilities can be explained by the increase in remote work, which reduces the burden of commuting and allows individuals to better control their work environment (Bloom, Dahl and Rooth, 2026).

The use of AI could be an even greater catalyst for the labour market insertion of persons with disabilities. AI tools can facilitate participation and enhance productivity, by addressing disabilities and making workplaces more accessible. If used deliberately, AI can also reduce unconscious human bias in hiring by focusing exclusively on skills and qualifications during the initial screening process (ILO, 2025a).

When guided by equity-based, rights-anchored and community-centred principles, digital transforma-

12 The United Kingdom of Great Britain and Northern Ireland represents an exception in this sample, due to its generous furlough scheme that had a distinct pandemic employment impact.

Box 3.3

Harnessing digital transformation and AI for the inclusion of Communities Discriminated on Work and Descent

Targeted investment in inclusive digital skills, community connectivity, and digital public infrastructure can expand economic opportunities for Communities Discriminated on Work and Descent (CDWD) and other groups historically excluded from formal employment pathways (ILO, 2021a; UNESCO, 2020). Learning tools and accessible digital training platforms that use artificial intelligence (AI) can enhance employability; community-owned or cooperative digital marketplaces can enable CDWD artisans, informal workers and small producers to access wider and fairer markets; and digitally enabled financial services can facilitate payments, saving and borrowing (United Nations, 2022).

Self-employment promotion, digital skills development, and support for inclusive digital entrepreneurship have enabled CDWD and other historically excluded groups, including youth and women, to access new income streams and reduce dependence on stigmatized or hazardous occupations (ILO, 2021a; Gordon, 2019). Cooperative and worker-owned digital platforms can strengthen collective bargaining and reduce exploitation (Scholz, 2016).

Evidence from community-based digital hubs, cooperatives and start-up incubators indicates that when training is combined with mentoring, access to finance, market linkages and collective ownership models, excluded groups are better positioned to sustain livelihoods and build economic resilience.

With mainstream entrepreneurship and start-up ecosystems often inaccessible to CDWD due to discrimination, lack of collateral, exclusion from networks, and algorithmic biases in credit and platform systems, there is a need for dedicated schemes and affirmative policies. These can include preferential access to public procurement, targeted financial access and credit guarantees, subsidized digital infrastructure, and safeguards against algorithmic discrimination. Special attention is also needed to support cooperatives led by CDWD and worker-owned digital platforms, which offer promising alternatives to extractive gig economy models and can align technological innovation with dignity, equity and social protection.

Governance frameworks that incorporate descent-based discrimination into AI impact assessments, data protection rules and platform accountability standards can ensure that technological innovation supports rather than undermines inclusion. When embedded in broader institutional reforms, these approaches can help build resilient, equitable and sustainable livelihood ecosystems that enable CDWD and Indigenous Peoples to participate fully and meaningfully in the opportunities emerging from ongoing transformations.

Source: Naveen Gautam and Paul Divakar Namala, Global Forum of Communities Discriminated on Work and Descent.

tion and AI also offer opportunities to strengthen employment and livelihood systems for marginalized populations, including groups facing work- or descent-based discrimination (box 3.3).

New opportunities in education with risks of widening skill gaps

Greater use of technology and AI for education offers opportunities, but can also perpetuate and deepen exclusions through access gaps, entrenched biases, language, cultural and skill barriers, and a lack of inclusive design.

Used well, digital tools and AI can improve learning outcomes — including by helping teachers adapt materials and provide targeted practice in desired areas — but they should complement, not substitute for, effective teaching (Miao and Holmes, 2023).

Opportunities and risks for inclusion

AI and digital tools can broaden access to quality education, including through individualized lesson plans and improved access for learners in remote regions and disadvantaged communities. For example, GenAI applications can provide individualized support to students with disabilities or provide multilingual learners with more opportunities to practice their language skills in a judgement-free environment. Many educators also report that these functions are beneficial for neurodivergent learners (Burns and others, 2026).

Without inclusive design, however, digital infrastructure, platforms and pedagogical applications can deepen exclusions. For example, students with disabilities risk being left further behind if normative and ableist assumptions become embedded in (i) applications driven by biased datasets; (ii) algo-

rithms that use neurotypical standards to classify behaviour and predict success; or (iii) surveillance tools such as e-proctoring that flag behavioural variations as suspicious (Foley and Melese, 2025).

Developmental risks

The overreliance on GenAI in education poses additional risks for all children and young people. When used without proper pedagogical guidance and safeguards, GenAI may negatively impact cognitive, social and emotional development. This could have serious long-term effects on a society's human capital and innovation capacity, as well as on its social cohesion.

Two recent studies on the current use of GenAI in education have sounded the alarm over the risk of cognitive offloading — where students delegate complex thinking to machines — and its threat to cognitive development. One key concern is that the instant gratification provided by GenAI tools will discourage some students from investing the time and effort needed to develop core cognitive skills, including the ability to "learn how to learn". Without appropriate safeguards, this leaves young generations at risk of "cognitive stunting" — the loss or limitation of cognitive capabilities (Burns and others, 2026; OECD, 2026a).

Technology and AI for health

Rapid advances in digital technologies and AI are creating new opportunities to expand access to quality health services, as evidenced by the widespread adoption of telehealth during the COVID-19 pandemic (Ndwabe, Basu and Mohammed, 2024).

A rapidly growing range of AI applications have helped further bridge healthcare gaps. Use cases include medical research, clinical diagnostics, disease surveillance, supply-chain management, and administrative efficiency. These applications can be particularly useful for healthcare providers in developing countries and underserved communities, for example, through diagnostics support for frontline workers in basic healthcare.

Limitations and risks

The unchecked adoption of AI in health can also introduce new risks. For instance, the use of English language AI tools in medical settings may not only exclude non-English speakers but also lead to misdiagnoses and substandard care stemming from misunderstandings or translation errors.

Long-standing biases and underrepresentation in medical research and care may also cause unequal outcomes from AI-supported healthcare. Such applications tend to downplay symptoms in women and ethnic minorities, possibly affecting care prioritization and access to treatment (Rickman, 2025). Similarly, the lack of large quality datasets for African health conditions increases the risk of inaccuracies and misdiagnoses in the region (Apiko and Musoni, 2025).

Many developing countries, particularly in Africa, lack enabling regulatory frameworks for AI that balance opportunities and risks. Regulation for medical devices also remains underdeveloped in many African countries — with AI as a medical device posing particular challenges related to data privacy, biases, interpretability and accountability, among others (Apiko and Musoni, 2025).

Digital participation and e-governance

Digital technologies can strengthen people's voice and representation by expanding access to political information and facilitating participation — potentially enabling individuals with fewer resources to engage, organize and access public services in ways that were previously more difficult or costly (United Nations, 2025b).

E-governance initiatives can provide important channels for social inclusion, by offering information and services for people in vulnerable situations and by providing online channels for participation in public decision-making.

Preliminary findings from the forthcoming *United Nations E-Government Survey 2026* show a growing share of countries offering such services and channels.

Yet, e-governance can also reproduce existing inequalities if access is concentrated among people who are wealthier, more educated, and already politically connected (United Nations, 2025b). This suggests

that online engagement may extend the participation of those who are already active offline — thus widening, rather than narrowing, participation and representation gaps (Dalton, 2017).

The energy transformation

Accelerating the transition to clean and renewable sources of energy is essential to mitigating climate change and achieving the Sustainable Development Goals. Although there has been significant progress in energy transitions, the pace of change remains insufficient to meet climate goals.

As discussed in chapter 1, energy transformations can also support social inclusion, by expanding access to affordable, reliable and clean energy, creating new employment opportunities, reducing air pollution and strengthening resilience. At the same time, there is a risk that vulnerable communities bear the brunt of adjustment costs, for instance, where jobs and livelihoods depend on the fossil fuel industry.

Currently, 730 million people worldwide still lack access to electricity, especially in sub Saharan Africa, and close to 2 billion rely on unsafe or polluting cooking fuels, affecting women in particular. Access is also highly unequal: rural communities face unreliable electricity, frequent outages, high tariffs, and limited connectivity. The communities that remain unelectrified tend to be remote, low income, and often afflicted by conflict or violence (IEA and others, 2025).

Opportunities for economic participation

With the appropriate policies, energy transformations can be a critical enabler of inclusive job creation. Approximately 76 million people globally work in energy, with more than half already working in the low-emissions energy sector. Overall energy employment growth has been outpacing job gains in the wider economy (at 2.2% compared to 1.3% in 2024), with low-emissions energy sources responsible for 90% of the power sector workforce gains (IEA, 2024, 2025b).

Global analyses broadly agree that by 2030 to 2050, more jobs will be created by the shift to a low-carbon economy than lost due to the decommissioning of fossil fuel plants. While some of the new jobs in low-carbon energy may be relatively short-term — during construction, installation, and manufacturing, for example — there remains an overall increase in jobs in the long term, resulting in a net increase in opportunities (Hanna, Heptonstall and Gross, 2024). The magnitude and distribution of these benefits and the nature and quality of the jobs will depend in large part on the policies, programmes and investments undertaken by governments, energy companies, and third-party investors that determine the nature of work and support skills-building among new and existing workers in energy.

Clean energy jobs are generally more inclusive than those in the fossil fuel industry, creating more local job opportunities, including in rural areas. With appropriate place-based support policies, this could benefit local communities and provide economic opportunities across a wider area.

The share of women in the renewable energy sector workforce (32%) is higher than that in fossil fuels (23%), although both sectors remained below the global economy-wide average of 43% in 2024. The share of women in senior leadership roles in renewable energies remains low, at 19%, despite a 3% annual increase since 2015 (IEA, 2025b; IRENA and ILO, 2026).

Need for skills matching

Both the fossil fuel and clean energy sectors are currently afflicted by a shortage of skilled workers, particularly in applied technical roles. The energy transition is likely to further increase this shortage as more jobs are created. Reskilling workers within the energy sector could partially fill the gap through targeted retraining programmes for fossil fuel workers. For example, it is estimated that approximately two thirds of oil and gas supply workers have the basic skills to move into other energy jobs (IEA, 2025b).

The transition would be harder for coal miners, whose skills are not as readily transferrable. In many low- and middle-income countries, this challenge is compounded by high levels of informal-

ity in the coal industry — potentially leaving many low-skilled and informal workers struggling to find work in the new low-carbon economy.

Some of these countries have started to adopt multichannel strategies to combine formal education with short-term training and industry partnerships, as well as formal certifications for informally acquired skills to help enrich talent and match skilled people with good jobs. For example, one programme in Chile helps ex-coal workers reskill in technical training centres to learn how to build transmission lines (IEA, 2025b).

Risks and opportunities for livelihoods

The impacts of the energy transition on livelihoods go beyond direct employment effects. Where fossil fuel industries serve as local economic hubs, entire communities may depend on them for their incomes, public services, or even local identity. One study of India, for example, estimated that Government plans to decommission some coal-fired power plants and increase solar power would benefit six states in western and southern parts of the country, to the detriment of six states heavily involved in coal (Sharma and Banerjee, 2021). Global and national estimates often hide these types of regional inequalities.

Additional energy infrastructure may also compete with existing local priorities and land ownership. New solar farms, wind farms, bioenergy crops, and transmission corridors increase the demand for land. In some cases, projects may displace people, causing the loss of homes and traditional livelihoods. If not governed well, this may lead to land conflict and marginalization of people, particularly if land rights and community participation are weak. The risk is particularly high for communities that face intersecting forms of discrimination.

At the same time, demand for food, water and energy is rising rapidly, with estimates that, by 2050, food demand will rise by 50%, energy by 19%, and water by 30% (Ghosh and Nelson, 2025). While all three may compete for land, the food, water and energy systems can also be complementary. For example, water is essential for energy production in functions including cooling, maintaining solar panels, and hydropower generation. Similarly, energy is essential for water management and food supply chains. Croplands offer some of the highest global solar potential, so leveraging synergies between farming and power production through agrivoltaics presents a possible solution (ibid).

Ghana and Nigeria are currently pioneering projects that place solar panels on working farmlands to transform food and energy systems simultaneously, essentially "harvesting sunlight twice" on the same plot of land (Kwao and Bernell, 2025). Solar panels can also be designed to capture rainwater for irrigation, thus creating strong synergies between all three elements of the food-water-energy nexus.

Carbon pricing (like carbon taxes or emissions trading systems) also affects people's livelihoods, as its ripple effects are felt throughout the economy. In particular, it can raise the cost of carbon-intensive goods and services, disproportionately affecting low-income households who spend a larger proportion of their incomes on energy and food. Compensating policies can help cushion short-term household impacts, although their design involves ¢ between distributional support and broader macroeconomic outcomes.

Improved health outcomes

Energy transformations can also help mitigate negative health impacts from burning fossil fuels or biofuels. This includes reducing exposure to air pollutants, which are major contributors to diseases such as cardiovascular disease, stroke, respiratory illnesses and lung cancer. Together, ambient air pollution and household air pollution — caused, for example, by polluting cooking fuels — are associated with an estimated 6.7 million premature deaths annually (WHO, 2024). The local health benefits of transitioning to cleaner energy sources often materialize rapidly and can be substantial, particularly in countries and regions where fossil fuel use and air pollution remain high (Moutet and others, 2025; National Academies of Sciences, Engineering, and Medicine, 2024).

Poorer and more marginalized households and communities stand to benefit most from energy transformations that reduce both ambient and house-

hold air pollution. This is because they tend to live in areas that suffer from higher ambient pollution (especially in urban contexts), depend to a larger degree on traditional and polluting cooking fuels, and often live in dwellings with insufficient ventilation (Machado, Kumar and Nogueira, 2026).

Energy transformations can further strengthen public health by reducing climate-related risks such as extreme heat, water stress, food insecurity and vector-borne diseases. They can also increase energy access and improve reliability and affordability for households, schools and healthcare facilities, improving public health, while promoting broader sustainable and inclusive development goals (see chapter 4).

Conclusions

Social inclusion is at the centre of inclusive transformation, as both a development goal and a critical enabler. Yet, despite important progress in recent decades, persistent barriers and exclusions still prevent many people from participating in and benefiting equally from social and economic development. Such barriers and exclusions can be rooted in capability gaps, but also in underlying discrimination, exclusionary institutions, inaccessible infrastructure, and unequal access to resources and services.

As a result of such barriers and exclusions, enduring gaps in labour force participation and wages continue to hamper the economic participation of women, youth, migrants, persons with disabilities, Indigenous Peoples, and others. Similar patterns emerge in education and health systems, where uneven access, quality and representation reinforce intergenerational cycles of exclusion. Uneven access to resources for political participation further constrains the ability of marginalized groups to exercise agency and influence the direction of change.

The ongoing economic, digital and energy transformations present both opportunities and risks for social inclusion: The economic transformation is creating new opportunities for productive employment through the growing dynamism of services, agrifood systems and other emerging activities, but needs to be accompanied by targeted training and technological upgrading, and the dismantling of discriminatory hiring practices and other structural barriers. Digital technologies and AI can expand access to well-paid jobs, quality education and healthcare, and civic participation; but they may also cause near-term disruptions, widen gaps, entrench biases, and create new forms of exclusion. Energy transformations can improve energy access, health outcomes and employment prospects, particularly in underserved communities. At the same time, they may impose significant adjustment costs on workers and communities.

The direction and distributional effects of transformative change are not predetermined. Emerging opportunities will only translate into socially inclusive outcomes if governments, employers, workers' organizations, civil society, international partners, and other stakeholders work together to address structural barriers, close capability gaps, and invest in people to ensure equitable access to opportunities, resources, and representation. Ensuring that all individuals and communities can meaningfully participate in and benefit from the economic, digital, and energy transformations is essential for building more resilient and cohesive societies. Realizing these opportunities requires deliberate institutional choices and coherent policy frameworks that place social inclusion at the heart of transformation.

ILO/Aristeo Joseph Valdez

4 Institutions and Policies for Socially Inclusive Transformation

This chapter develops the policy architecture needed to advance socially inclusive transformation. Guided by the New Economics of Social Inclusion principles, this chapter presents a policy compact to ensure that economic, digital and green transformations expand opportunities for all while strengthening societies' capacity to adapt and thrive. Drawing on international experiences, it highlights four areas of policy action: *first*, investing in quality education, health, social protection and skills development to expand people's opportunities and participation in a dynamic perspective; *second*, ensuring universal access to digital connectivity and clean energy as essential enablers of inclusion, productivity and opportunity; *third*, fostering inclusive labour markets through decent work, social protection, active labour market policies and innovation that supports employment creation; *fourth* promoting shared prosperity through stronger labour institutions and progressive fiscal policies that distribute the gains from transformation more equitably. When integrated, these interventions can ensure that ongoing transformations are not only more productive and sustainable, but also more inclusive and equitable.

Key messages

- **Social inclusion must be embedded within transformation policies.** Socially inclusive transformation requires implementing integrated policies that expand equitable access to quality education, healthcare, social protection, digital connectivity and energy services, while strengthening skills development and inclusive labour markets to ensure that the benefits of transformation are widely shared.
- **A dynamic inclusion strategy is needed**. Integrated policies need to respond to both current and future gaps in inclusion by enhancing people's adaptability and resilience throughout economic, digital and energy transformations. Universal access to education, health, social protection, digital connectivity and energy are essential.
- **Progressive fiscal policies are required**. Progressive income and wealth taxation is needed to address growing inequalities, increase fiscal space for investment in people, and ensure that the benefits of economic and technological changes are shared more equitably across society.
- **A people-centred vision of the future of work is necessary**. Labour market institutions must evolve to address platform work, automation and green transformations. There is a need to update labour laws, regulations and institutions amid technological change to facilitate workforce transitions and ensure shared productivity gains and responsible human oversight of AI.

Introduction

Chapter 1 presented *adaptive capacity* and *inclusive institutions* as the guiding principles of a New Economics of Social Inclusion (NESI). Implementing such a two-pronged approach of adaptability and inclusivity requires revisiting economic and social policies to embed social inclusion from the outset — including in investment decisions, innovation strategies, and structural reforms — to achieve socially inclusive transformation. This calls for a policy compact that is organized around four main areas of policy intervention:

1. **Expanding people's capabilities** and access to opportunity to support full participation, and adaptation for all individuals;
2. **Ensuring universal access to digital and green energy services** to enable participation in modern economies, while improving productivity, human development, and resilience;
3. **Fostering inclusive labour markets** to create conditions and economic incentives for productive and decent work opportunities;
4. **Ensuring shared prosperity** by a fair distribution of economic gains from transformations, including through stronger labour market institutions and fiscal policies.

The central aim of this chapter is to identify interventions that can be made at the national level in existing regulations, institutional conditions, and policies that will foster more inclusive economic, digital and green transformations by ensuring that access and participation are extended to all.

This chapter also builds on the empirical examples presented in chapter 2 to identify successful policy experiences that have helped some countries to progress towards socially inclusive transformation (SIT). Drawing on the analysis in chapter 3, this chapter shares policies and strategies that have helped countries to overcome some of the constraints and challenges that limit social inclusion, and have enabled people and societies to participate in and benefit from ongoing transformations. Traditional mechanisms may no longer suffice, especially if labour markets are impacted more quickly than societies can adapt. In such cases, regulatory frameworks must evolve to support faster and more inclusive transformations.

The chapter is organized around the above four main areas of policy intervention. Each section incorporates cross-cutting themes, including technological change, environmental sustainability, and institutional capacity, and considers short-, medium- and long-term horizons for implementation. While some policy tools may be actionable in the near term, others — particularly those involving institutional or paradigm shifts — require a longer-term perspective, but must be considered now to ensure socially inclusive transformative change.

Expanding people's access to education, health, and social protection

Expanding people's access to quality education, health, and social protection not only supports their full participation in societies (World Bank, 2013) by having access to better opportunities and protections, but it also supports their inclusion in a more dynamic perspective as they become more adaptable and resilient to transformations. Public services need to provide equal access to education, health, and social protection, and enable everyone to participate productively in labour markets, adapt to technological shifts, and withstand economic and environmental shocks. Without such inclusive public services, the benefits of economic, digital and green transformations risk being concentrated among a small segment of the population, deepening existing inequalities. This section examines those measures that aim at building human capabilities more equitably, ensuring no one is left behind, and investing in public institutions that work for everyone.

Education: from opportunity to skills for the future

Quality education for all is at the centre of socially inclusive transformations, especially when it supports individuals in learning, participating and

adapting as the economy changes. It expands people's capacity to participate in the economy, adapt to structural and technological change, and benefit from the opportunities created by new development pathways. Well-designed education systems support social mobility and help reduce intergenerational inequalities.

Conversely, unequal access to quality education limits human potential, locks communities into low-productivity occupations, and hampers countries' ability to adopt new technologies. Achieving socially inclusive transformation therefore requires equal opportunity for all, while strengthening education systems across the life cycle, starting in early childhood and continuing throughout professional life.

In addition, the ability to build the skills needed for digital and green transformations will also determine people's ability to adapt to new technological transitions and grow their incomes. As such, ensuring equal opportunity in the education system is key for an inclusive economic system, and it requires robust public policy and institutional reforms across financing, equity measures, and digital inclusion. Vocational education is also crucial in preparing and adjusting the labour force to new demands and opportunities in a growing range of economic activities, including in healthcare, tourism, digital and energy sectors, among others.

Building digital and AI skills

As artificial intelligence (AI) exerts increasing influence on the ways we work and live, it presents numerous risks and opportunities in terms of education and the preparation of youth for the workforce. The ultimate impact of AI on labour markets remains uncertain; it is expected to accelerate the transformation of occupations and the demand for different skills, and create new jobs as well. Evidence is still limited, but negative impacts on entry-level job markets, particularly among college-educated youth, have already been observed in the United States of America, especially in highly exposed occupations (as discussed in chapter 3). In this context, the priority is not only to anticipate specific job losses or gains, but to equip young people and workers with the skills, adaptability and lifelong learning opportunities needed to navigate continuous technological change. Building these capacities will be essential to ensuring that the labour force can benefit from, rather than be displaced by, the opportunities created by AI.

Targeted AI literacy and skills training in schools, particularly in tertiary education, could help young people gain AI-complementary skills and strengthen their "uniquely human" skills to improve their employability in future. Additionally, it can help young people gain a deeper understanding of the ethics, opportunities and risks of AI as they navigate these challenges and ultimately contribute to shaping the future economy.

While preparing future generations for the new technological context is key, digitalization and AI also present both opportunities and risks for education. As argued in chapter 3, without a concerted effort, use of AI in education is more likely to widen inequalities than to reduce them. The inequality problems exacerbated by the digital divide are well documented, leaving students without access to digital information and resources, online learning platforms, remote learning (when needed) or digital literacy (Dean and others, 2025).

Without intentional design and guardrails, AI can also perpetuate bias and exclusion, for example, through the lack of AI content in Indigenous languages, or the amplification of existing biases in the materials on which AI is trained. Ethical and equitable implementation of AI skills and training requires human-centred design with continuous monitoring, data protection efforts, and interventions to override algorithmic biases. In this regard, algorithmic impact assessments and third-party audits are essential for identifying and overcoming systematic biases that develop in AI algorithms (United Nations High-level Advisory Body on Artificial Intelligence, 2024).

Despite these issues, if used appropriately, digital technology and AI still hold the potential to reduce inequalities by broadening access to education. Programmes with strategic approaches to technology-enhanced education have demonstrated benefits, particularly through digital connectivity for remote communities. Digital connectivity enables

access to information, resources, online learning platforms, and remote learning. To leverage these benefits, Rwanda has established smart classrooms that give students access to computers, basic education software and the internet — with more than 692 set up across the country — and aims to equip every school with an internet-connected smart classroom (Mugiraneza, 2021).

China, India and the European Union (EU) are pioneering AI in education, with extensive frameworks and policies on AI literacy in schools. China requires that students from age 6 onward receive at least 6 hours of weekly AI education in the areas of cognition, skills, thinking and values (Fore, 2025). India has mandated AI and computational thinking curriculum from grade three and uses AI for translation of textbooks and learning materials into local languages (Kaur, 2025).

The European Commission's AI Literacy Framework emphasizes the need for holistic AI literacy, and empowers learners to engage with AI while understanding the ethical, social and cognitive implications (OECD and European Union, 2025). The AI literacy framework for primary and secondary education offers 22 competences across four main domains: engage with AI; create AI; manage AI; and design AI. To accelerate the emergence of more advanced skills, the European Commission has decided to fund three new Digital Skills Academies in Quantum, AI, and Virtual Worlds, with the expectation that these academies will leverage strategic partnerships and promote digital careers (European Commission, 2025). These frameworks are still early in their implementation, and monitoring and evaluation will be critical to assess their impacts and identify best practices.

Skills for the green energy sector

As economies decarbonize, demand for new green skills, ranging from renewable energy installation to sustainable agriculture, will expand rapidly (ILO, 2019a). As such, technical and vocational education and training (TVET) are critical to equip future workers for green transformation. However, one main challenge in this area has been the lack of coordinated efforts between the education system and the private sector, to update the curricula and improve quality standards. Thus, the creation of coordinated national mechanisms for the education and TVET systems will be critical for anticipating new occupational needs and facilitating just transitions for vulnerable workers.

One successful policy example is the Philippines Green Jobs Act (GJA) enacted in 2016 which was designed to incentivize green jobs and an environmentally friendly economy. It takes a whole-of-government approach to enable a just transition. The GJA has tasked the Technical Education and Skills Development Authority with developing training and qualifications frameworks to facilitate the certification of skilled green personnel, while the Department of Labour and Employment formulated a plan with other government agencies that included measures on skills development, labour market interventions and social protection.

The private sector is also encouraged through financial incentives to create green jobs and offer training (ILO, 2019a). Tax incentives and duty-free imports of capital equipment are some of the incentives provided to the private sector to promote green jobs. While there have been implementation delays, it is estimated that GJA will create 4 million to 8 million green jobs by 2030 in fast growing, low-carbon, and transitioning sectors if the skills need is met.[1]

Aligning skill development with industrial requirements

In addition to TVET, research in higher education has also been identified as a key support to technology diffusion and innovation, potentially leading to successful technological transformation.

This requires close collaboration and coordination between academia and industries.

The Indian Institutes of Technology promote collaboration between academia and industry through dedicated offices for industrial consultancy and sponsored research, enabling industry priorities to feed directly into research agendas (World Bank, 2019). Firms co-design student projects and internships tied

1 For further details see, Kerr and others, 2025.

to real manufacturing challenges. India's National Education Policy 2020 further institutionalized these ties, enabling universities to appoint industry leaders as professors of practice to co-develop curricula aligned with labour market needs (Kumar, 2023).

Based on a similar concept, India, in partnership with the United Nations Educational, Scientific and Cultural Organization (UNESCO), launched a flagship project to strengthen TVET in South Sudan. The programme institutionalizes structured engagement between public and private institutions, promoting sector-specific training, with capacity-building from India to address critical skill mismatches in South Sudan. This programme exemplifies a public-private partnership for TVET, as well as South-South cooperation, with programme participants learning effective strategies for reducing unemployment, increasing productivity, and promoting inclusive economic growth, particularly in the agriculture and construction industries (UNESCO, 2025b).

Education reforms are most effective when aligned with broader development strategies, including industrial policy, labour market regulations and social protection (United Nations, 2020). National skills councils, interministerial coordination bodies, and public-private partnerships are important institutional mechanisms to ensure that skills development accompanies technological change and is offered to all segments of the population.

Health systems for building resilience and socially inclusive transformations

Resilient and equitable health systems underpin SIT, which enables societies to absorb, adapt to and recover from shocks while protecting people's well-being and opportunities. The COVID-19 pandemic demonstrated that weak and unequal health systems can amplify crises, while strong primary care, universal coverage and robust public health functions mitigate both human and economic damage (WHO, 2022). As countries confront overlapping risks, such as pandemics, climate change, pollution and demographic change, investments in equitable health systems become an essential pillar of inclusive transformation.

Using digital technologies to advance universal health coverage

Universal health coverage (UHC) is a core institutional arrangement that ensures that all people can access quality basic health services without financial hardship. By delinking access to care from ability to pay and employment status, UHC supports social inclusion, protects households against income shocks induced by illness, and facilitates labour mobility and structural transformation (United Nations, 2023; WHO and World Bank, 2023).

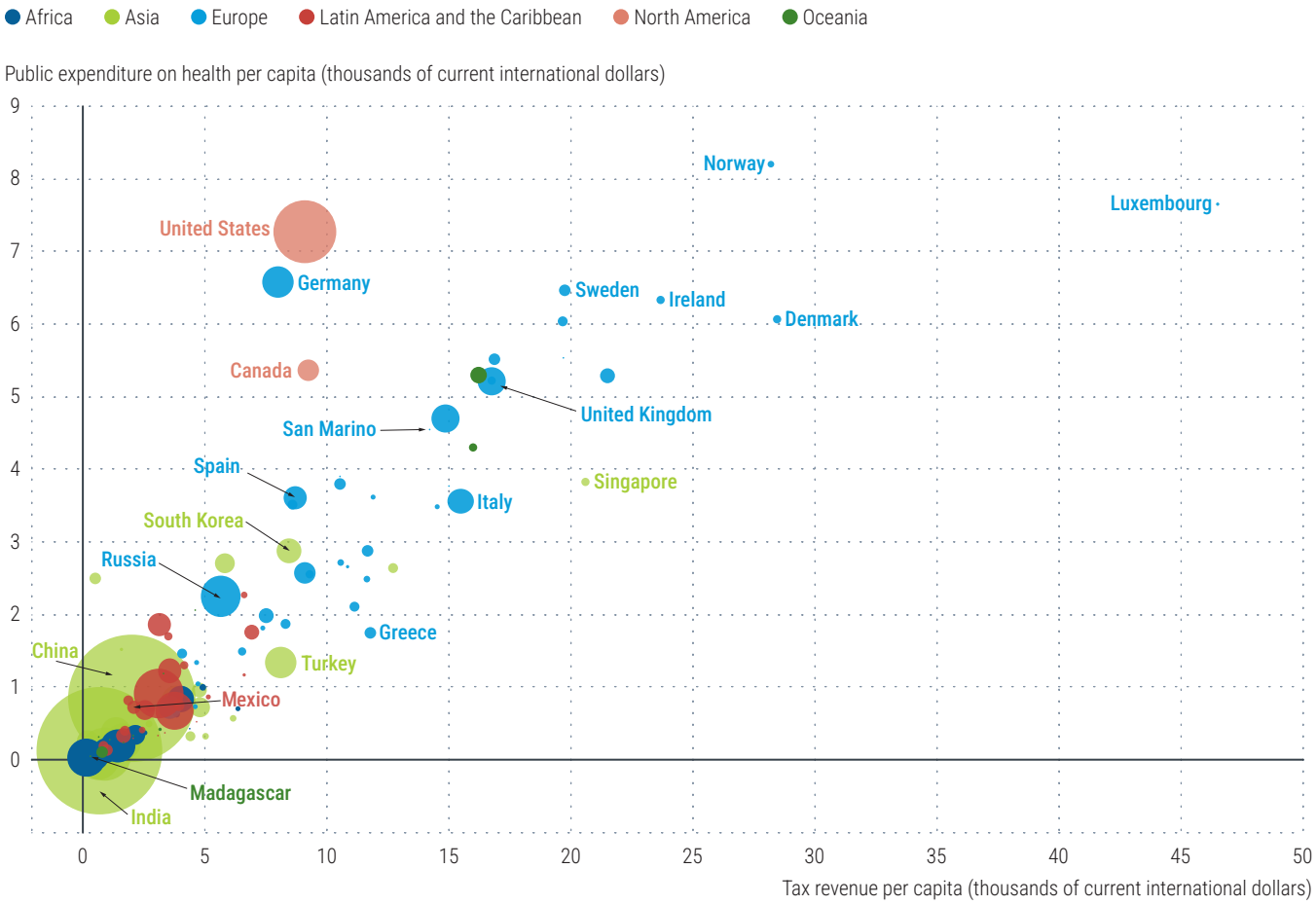
Between 2000 and 2023, countries such as Seychelles and Thailand not only have made notable progress towards UHC but have also reached coverage of 80% or more of the whole population. However, many UHC initiatives face challenges: insufficient public financing, fragmentation across multiple schemes, limited coverage of informal workers, and gaps in service quality. If not carefully designed, UHC reforms may benefit better-off groups first, thus reproducing inequities (United Nations, 2023). Countries aiming to support a healthy, productive and engaged population through UHC can increase and reorient public financing towards pooled, pre-paid mechanisms funded through general taxation and earmarked contributions, prioritizing equity. Evidence shows that progress towards UHC is highly determined by national tax revenues (figure 4.1 on page 76).

Digital technologies offer powerful tools to expand coverage, reduce geographic barriers and strengthen health information systems (see chapter 3). Telemedicine, mobile health applications, electronic health records and AI-assisted diagnostics can connect remote populations with providers, support continuity of care and improve surveillance (WHO, 2020). There are some notable successful examples of using digital technologies to reach remote patients, including in Africa.

In Ethiopia, the Government's electronic Community Health Information System (eCHIS) equips health extension workers with tablet-based tools for household registration, clinical job aids and real-time referral management, supporting community-level service delivery across multiple regions (Bogale and others, 2023; Ethiopia Ministry of Health, n.d.).

Figure 4.1

Tax revenue and public health spending, per capita, 2024



Sources: World Health Organization, Global Health Expenditure Database; UN DESA, Population Division; National Statistical Offices; and Eurostat.
Notes: Tax revenue is defined as compulsory transfers to the central government for public purposes. Public expenditure on healthcare is defined as all the recurrent and capital spending from government, external borrowing and grants, and social health insurance funds. Both variables are measured in US dollars, which adjusts for price differences between countries.Where data for 2024 is unavailable, the value from the closest year between 2019 and 2023 is shown instead (Ortiz-Ospina, Arriagada and Roser, 2017).

Digital and drone technologies are also transforming the delivery of medicines and health information in remote areas. In Ghana, Zipline's drone delivery service, operated through public-private partnerships, delivers blood, vaccines and essential medicines to hard-to-reach health facilities within minutes. An assessment found that aerial logistics reduced missed vaccinations by 42% in Ghana (Kremer and others, 2023).

Artificial intelligence is also beginning to address one of the most persistent barriers to health equity: the shortage of specialist care providers. In many rural communities in low- and middle-income countries, specialists such as ophthalmologists were never present. Thailand's Ministry of Public Health has responded by integrating an AI-powered deep-learning algorithm into its national diabetic retinopathy screening programme, developed over nearly a decade with Google Research and Rajavithi Hospital. A study found that the system detects vision-threatening retinopathy with 94.7% accuracy, comparable to retinal specialists (Ruamviboonsuk and others, 2022).

When integrated into broader UHC and primary healthcare strategies, digital health can become a powerful enabler of socially inclusive service delivery. However, without careful design, digital health may reinforce existing inequalities by benefiting those with connectivity, digital literacy and finan-

cial resources, while reinforcing existing biases and under-representation in medical research (see chapter 3). Digital health must be designed with equity in mind, for instance, by including low-bandwidth solutions, multilingual interfaces, and accessibility standards, and by addressing biases. Targeted subsidies or public provision of devices can help close the digital divide, which can enable inclusive health service delivery.

Providing universal social protection in a digital era

Social protection is both a fundamental human right and an investment in socially inclusive transformation. Well-designed social protection systems — those that provide basic economic and social security to all people, alongside specific support for workers, mothers, children, persons with disabilities, and older persons — can yield high multipliers to the economy, estimated at $2.50 per $1 transferred (World Bank, 2025b).

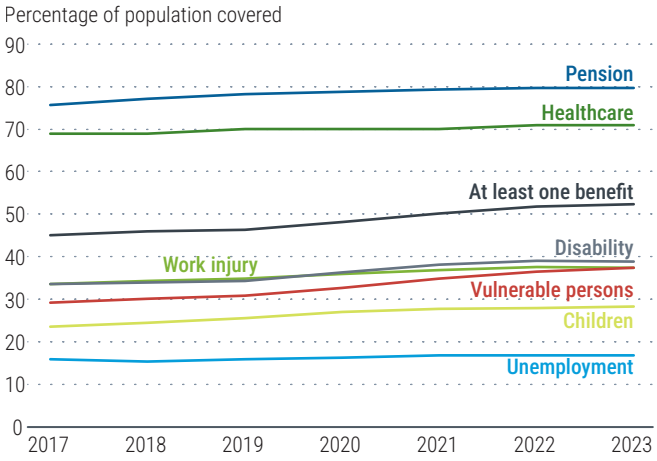
Social protection systems have a positive effect on interpersonal trust and public trust in institutions. In particular, in the context of ongoing transformations and external shocks, social protection systems also act as automatic stabilizers, cushioning societies from the consequences of income loss and crises.[2] There has been great progress in this regard (figure 4.2), but important segments of the population in many countries still do not benefit from any kind of protection and remain vulnerable.

Among the different components of social protection, income support during unemployment remains relatively low compared to other benefits, exposing many workers — especially in the informal sector — to income volatility during economic, digital and energy transformations (figure 4.2).

Social protection schemes can be financed through contributions from wages (social insurance) or through general taxation (social assistance). However, digital platforms are changing the employer-employee contractual arrangements, while high informality and rising non-standard employment pose new challenges. Some countries are adapting contributory programmes with subsidized contributions for low-income workers, simplified enrolment for self-employed workers, and crediting of care-related contribution gaps, particularly for women.

Figure 4.2

Social protection benefits, effective global coverage, 2017–2023



Source: UN DESA, based on data from ILOSTAT and UN DESA, Statistics Division.

Uruguay, for instance, has expanded social protection coverage to informal, low-income and self-employed workers through its *Social Monotax* (Monotributo Social MIDES) programme, launched in 2011. This programme benchmarks payments on presumptive income and offers a subsidized, graduated contribution schedule. For example, a self-employed informal worker can register under the scheme, pay a highly subsidized monthly lumpsum, and gain access to public healthcare, pension and legal recognition as a formal worker. This replaces social security contributions and most national taxes. The approach has encouraged worker formalization while granting vulnerable households access to pensions and healthcare (Aguiar and others, 2023). In 2023, the programme covered 40% of own-account workers and 14% to 23% of the informal self-employed workers who could potentially access the regime, with women comprising 57% of Monotax registrants. Informality in Uruguay fell from 43.0% in 2001 to 21.5% in 2022.

2 During the COVID-19 crisis, 1.7 billion people received emergency transfers in 2020–21, but most programmes were temporary, and coverage gaps for informal workers, women and migrants remained stark (Gentilini and others, 2022). Countries with comprehensive social protection systems were most effective at expanding social protection once the crisis hit (World Bank, 2025b).

Digital technologies may also provide a cost-effective pathway to expand the implementation of social protection programmes. Digital payment systems enabled rapid disbursement of COVID-19 emergency transfers, while digital identification systems and integrated databases have helped reduce administrative costs and improve targeting.

Alongside contributory programmes, tax-financed social protection programmes have historically played a key role in addressing structural vulnerabilities outside of traditional employer-employee relationships. In the face of rising non-standard employment and labour volatility, these programmes are likely to become even more important. For example, as traditional energy sectors decline and the number of workers in the gig economy rises, robust tax-financed programmes will become essential to support affected workers and communities through extended transitions. However, they will only fulfil their protective function if they achieve universal coverage and offer adequate transfer levels (ILO, 2024e).

Financing social protection in the face of transformations

Social protection programmes must demonstrate long-term fiscal sustainability if they are to become and remain viable. Estimates show that, on average, low- and middle-income countries require an additional investment of just 3.3% of their gross domestic product (Cattaneo and others, 2024) to attain a social protection floor that guarantees, at least, income security and access to essential healthcare for all. This can be financed by a combination of more progressive domestic revenue mobilization, more efficient tax collection, expansions of social protection contributions, among other fiscal measures. However, despite such efforts, domestic resources will likely be insufficient to provide universal social protection in most low-income countries. As such, international resources can complement domestic revenue mobilization, as pledged in the Sevilla Commitment, the outcome of the Fourth International Conference on Financing for Development.

Some countries have adopted successful innovative financing policies for social protection. For example, Mongolia has implemented universal benefits for children through domestic resource mobilization using windfall taxation and mining revenues (Peyron-Bista, Amgalan, and Ulzii, 2016). Bolivia's *Renta Dignidad* universal basic pension is funded primarily by a direct tax on hydrocarbons, while South Africa's progressive income tax structure finances its Child Support Grants that reach over 13 million children (Republic of South Africa, 2023). Costa Rica's employer payroll contributions have been expanded to cover domestic workers. As tax revenues may vary depending on the performance of specific sectors, especially commodity sectors, it is important to diversify the sources of tax revenues to finance social protection.

Universal access to digital and green energy services

Universal access to digital and green energy services is a foundational condition for socially inclusive transformation, in line with the paradigm shift from concentrated ownership to distributed participation. Digital connectivity enables participation in modern economies by expanding access to information, markets, public services, and new forms of work, while clean and reliable energy underpins productivity, human development, and resilience. When digital networks and sustainable energy systems are accessible and affordable for all, they act as powerful equalizers, lowering entry barriers, supporting innovation and structural change, and ensuring that the gains from technological progress and decarbonization are broadly shared.

Advancing inclusive digital transformation

The experiences of China and the European Union suggest that inclusive digital transformation requires coordinated action across infrastructure, productive sectors, institutions and human capital.[3]

China's strategy to ensure an inclusive digital transformation followed a comprehensive digital policy, catering to both demand and supply sides of the dig-

3 For the experience in China, see UNCTAD, 2022. For details about the experience of the European Union, see European Commission, 2023.

ital economy. This policy was implemented in three phases, from building infrastructure to enhancing information technology capabilities. China's experience shows that adopting national broadband strategies that explicitly target rural and low-income regions can narrow digital divides and lay the foundation for wider participation in the digital economy.

Beyond infrastructure and sectoral integration, China has also built supportive digital ecosystems and governance frameworks, which supports diffusion and access to digital technologies. This involves fostering homegrown platforms and SMEs through access to finance, digital payments systems, logistics networks and entrepreneurship support, while applying flexible but progressively strengthened regulations to balance innovation and oversight. Finally, it invested in digital skills and capabilities across the population to ensure that digital transformation expands opportunities for all.

In Europe, a case in point is Finland, which ranks among the top 5 in the digital transformation sub-pillar (see chapter 2). Finland's strong performance in this sub-pillar is a reflection of its strategic decision to embed digitalization in its welfare-state model. Digital infrastructure was treated as a public good, ensuring that broadband access was a legal right. Public sector and private operators worked together to ensure nationwide coverage, including in rural areas, avoiding major divides. Data governance focused on system interoperability, so agencies could share data securely and facilitate access to public and private services (World Bank, 2021).

Energy access for all

Without access to affordable, reliable and sustainable energy, vulnerable social groups — especially low-income and rural populations — cannot participate effectively in the economy, access public services, or benefit from technological progress (IEA, 2022).

Reaching remote areas is costly and challenging, as it is difficult to extend existing grid systems far enough to reach them. In recent years, these areas have been best served through decentralized renewable energy solutions such as solar home systems and solar mini grids and micro-hydropower, which offer flexible, clean energy solutions (IEA and others, 2025; ESMAP, 2022).

Targeted subsidies and differential pricing can be crucial to making the energy transition more inclusive. Energy access inequities could be addressed by prioritizing and/or subsidizing energy efficiency upgrades in low-income communities. Often deemed the "low-hanging fruit" of the energy transition, energy efficiency upgrades offer a rapid return on investment, making them an excellent cost-saving measure in the long run. This improves sustainability while lowering energy costs. Some developing countries have successfully used energy subsidies for socially inclusive transformation.

A successful policy experience in this regard is that of Nigeria's Electrification Project that subsidizes rural mini grids, lowering prices for poor communities while leveraging private investment. The project has supported the establishment of 125 mini grids and the sale of over a million Solar Home Systems, through which more than 5 million Nigerians have gained access to electricity (World Bank, 2023). The programme, which was aimed at providing off-grid electricity access across Nigeria, has also created over five thousand green jobs. Targeted subsidies for lower-income households, lifeline tariffs, and pay as you go systems are different options to limit the cost and ensure broader access.

To successfully implement inclusive energy transitions, countries need to strengthen their institutions for planning, regulating, and adequately financing national and local strategies. Integrating energy planning into other development goals is crucial. For instance, the integration of renewable energies into the expansion of public services, such as health centres and schools, can accelerate inclusive energy transitions.

Transparent regulation and financing models are fundamental to balancing equity and financial viability. Often, this requires mobilizing blended finance and combining public and private sector participation, while ensuring safeguards for low-income households. A good example of this is Rwanda's National

Electrification Strategy (NES) which combines grid and off-grid solutions under a unified plan, explicitly targeting universal access through both public and private channels.

Under the NES, Rwanda's urban areas would remain connected to the main grid, while rural communities would be served through off-grid solar systems and mini grids. The Government streamlined regulations, provided tax incentives for renewable energy equipment, and encouraged private sector investment. Long-term contracts were introduced to reduce financial risks for investors. Solar home systems became particularly important in remote areas where extending the grid was prohibitively expensive. The strategy sought not only to expand electricity access but also to improve health outcomes, generate employment, and stimulate economic growth, recognizing electricity as a cornerstone of development.

Within a few years, electricity access in Rwanda expanded much faster than in comparable African countries. By 2019, the access rate was estimated to be about 17 percentage points higher than it would have been without the reform. This translated into hundreds of thousands of households gaining electricity earlier than expected. Schools were able to function more effectively, health clinics could safely store medicines through refrigeration, and small businesses extended their working hours. Rural households also benefited from improved lighting and mobile phone charging, enhancing safety and communication. Rwanda's centralized and well-coordinated governance was a key driver of this progress.

These examples illustrate possibilities for expanding national electrification, while implementing propoor tariff regulation and blending private-public financing.

Fostering inclusive labour markets during technological and green transformations

Without proactive measures, the rapid pace of technological change and the energy transition could exacerbate labour market polarization and social inequities. Inclusive labour markets require policies that guarantee decent work, social protection, and equal opportunities, while enabling workers to adapt to structural shifts. Decent work rights, fair wages, and social protection have to be guaranteed also when the paradigm shifts from one single employer to more diversified individual sources of income and livelihoods. This section examines four critical policy areas where broader systemic changes are needed that go beyond the social protection measures discussed: (i) decent work and portable benefits for gig workers; (ii) equal pay for equal work; (iii) active labour market policies; (iv) steering innovation towards employment creation.

Decent work and portable benefits for gig workers

The rise of digital platforms and algorithmic management has transformed employment relationships, creating an estimated 154 million to 435 million gig and non-standard jobs worldwide (Datta and others, 2023). While these jobs offer flexibility and income opportunities, they often lack traditional labour protections such as health insurance, pensions and paid leave. This exclusion is particularly acute in developing countries, where informality is widespread and social security systems are fragmented. These new labour market realities are additional challenges to guaranteeing decent work opportunities, which are already out of reach to many globally and require new inclusive strategies (ILO, 2021a; United Nations, 2025c).

Portable benefits, linked to individuals rather than employers, are increasingly viewed as an option for guaranteeing inclusive social protection systems in the digital age, where gig workers frequently move between platforms or combine multiple income sources, making employer-based benefits impractical. By attaching benefits to workers rather than firms, portability enables access to healthcare, pensions and unemployment insurance regardless of employment status. This approach aligns with the principles of universality and equity embedded in ILO standards (ILO, 2021c).

Portable benefits are particularly relevant for certain social groups (women, youth, and migrant workers) who are often concentrated in low-paid platform work. Moreover, portability supports adaptive social contracts in the digital economy, reducing vulnerability for workers in contexts of weak labour institutions (Rani and Furrer, 2021). However, financing portable benefits is challenging when platforms resist making contributions and governments face fiscal constraints. And enforcement is particularly difficult when platforms operate across borders, raising questions about jurisdiction and compliance (De Stefano and Aloisi, 2019).

Policy options to strengthen portability include mandating platform contributions to social security funds, creating multi-employer or sectoral schemes, and leveraging technology for real-time contribution tracking. Financing innovations, such as microcontributions and platform levies, can enhance sustainability of portable benefits systems. Nevertheless, these measures require strong governance and institutional capacity to succeed, while ensuring the correct determination of employment status, fundamental principles and rights at work, transparency and human oversight of automated decision-making, among other areas of intervention.

In the face of ongoing changes in the world of work, the International Labour Organization (ILO) has proposed a universal labour guarantee. Under the guarantee, all those who work for pay — whether self-employed or in casual work, including in digital platforms — should be granted a baseline level of protections in an evolving world of work (ILO, 2019b).

Workers also need rights over the data their work generates — including performance metrics — and be entitled to understand how algorithmic systems make decisions that affect their pay, schedules and job security. In this regard, in June 2026, the International Labour Conference adopted the Decent Work in the Platform Economy Convention, 2026 (No. 193), an international labour standard specifically dedicated to the platform economy, providing an internationally agreed normative framework.

Active labour market policies during technological and green transformations

Active labour market policies (ALMPs) — which encompass interventions such as wage subsidies, job placement services, public employment programmes, and targeted training initiatives aimed at improving employability and reducing unemployment — are essential for building inclusive labour markets during period of transformations. By facilitating job matching and supporting skill acquisition, ALMPs mitigate risks of long-term joblessness, for instance, during technological and green transformations.

Empirical evidence suggests that ALMPs can yield significant labour market benefits when well-designed and adequately funded. Meta-analyses of ALMPs implemented in developed and developing countries indicate that programmes combining training with employment incentives tend to have the highest impact on job placement and earnings (Card, Kluve and Weber, 2015).

Argentina's *Programa de Inserción Laboral*, introduced in 2006, illustrates the potential of integrated ALMPs by linking vocational training with wage subsidies to incentivize firms to hire disadvantaged workers — in particular, workers facing deeper employability challenges (Ministerio de Trabajo, Empleo y Seguridad Social, 2006). This dual approach addresses both demand- and supply-side constraints, improving labour market entry while upgrading skills.

Comparative evidence also reveals significant variation in cost-effectiveness. While wage subsidies can generate rapid employment gains, they often entail displacement effects and higher fiscal costs. Public works programmes, although effective in providing short-term income support, rarely lead to durable employment unless complemented by skills upgrading and private sector linkages (McCord, 2018).

Against the backdrop of an accelerating diffusion of artificial intelligence and green transformations, new challenges emerge for labour markets, requiring ALMPs to evolve beyond traditional models. Automation threatens a new class of higher-skills

jobs, while green transformation creates demand for specialized skills in renewable energy, energy efficiency, and circular economy sectors. ALMPs must therefore anticipate skill shifts, for instance through foresight strategies, and design adaptive training pathways (see chapter 3).

In this regard, Singapore's *SkillsFuture* initiative exemplifies forward-looking reskilling strategies, offering modular courses in emerging technologies and green skills, supported by individual learning accounts. This initiative was introduced in 2016, reaching about 1 million individuals, and included a credit that individuals could use towards industry relevant courses such as AI, cybersecurity, digital marketing and green skills. In 2024, the initiative targeted mid-career individuals who, for the most part, acknowledged advancements in their careers, and 54% of previously unemployed trainees found a job within 6 months of completing the course (Skills and Workforce Development Agency, Government of Singapore, 2025).

Not all displacement can be addressed through retraining or job matching, particularly where technological change permanently reduces demand for certain occupations. In such cases, policy responses should also protect income and well-being through adequate social protection and, where appropriate, phased retirement, reduced working time or work-sharing. The objective is to preserve security and agency, not simply to return people to any available job.

In developing countries, in particular, innovative ALMPs must be complemented by investments in digital infrastructure and inclusive access to prevent deepening divides. Moreover, embedding gender-sensitive provisions, such as childcare support and flexible learning schedules, will be essential to prevent widening inequalities in future-oriented sectors. Particularly in resource constrained contexts, pragmatic solutions may require an incremental approach that ensures sustained investment, institutional capacity, and integration with broader development strategies.

While labour market policies and universal social protection systems are crucial to ensuring that ongoing transformations are inclusive, the barriers to decent work and effective social investment lie well beyond their immediate scope.

Care economy investments exemplify the integration of decent work and social protection: public investment in childcare, long-term care for older persons, and healthcare, simultaneously, contributes to employment creation (particularly for women) while enabling broader labour force participation (ILO, 2025a).

Uruguay created *Sistema Nacional Integrado de Cuidados* in 2015 which was established by law. This was conceived as a national, intersectoral, coordinated care system that guarantees quality care for people in dependency and need —including children, older adults, and persons with disabilities — and supports caregivers. Establishing it by law recognizes "care" as a social right with State participation, while addressing care needs and dependency across the life cycle. This builds a rights-based framework that protects access to care services and supports vulnerable populations. The policy resulted in increased female labour market participation, particularly among women of childbearing age (Reyes and Salvador, 2025). Additionally, it created many paid jobs in the care industry, in which many women are already working without pay.

Reducing gender pay gaps

Persistent gender inequalities in labour markets remain a global concern, and technological transformation risk amplifying these disparities (see chapter 3). Thus, gender pay gaps will require additional efforts to ensure that transformations do not amplify them. To achieve real gender equality, action at the institutional and organizational levels needs to go beyond the existing legal and regulatory frameworks. For example, practices in the workplace in relation to flexible work arrangements and support to childcare still often penalize women, jeopardizing their career paths, in both the public and private sectors. Policies aiming to improve women's career opportunities and enabling mothers to remain in, or return to, employment have proven effective in this regard (Rubery, 2016).

One dynamic policy area regarding gender equality in the workplace relates to equal pay for equal work — the notion that people performing similar functions should be paid similar amounts. Countries across the world have adopted different combinations of instruments, making equal pay for equal work an interesting policy area that illustrates the importance of policy approaches that are tailored to the national context.

Some countries emphasize national strategies and reporting mechanisms, while others put more emphasis on the enforcement of equal pay law, and still others prioritize incentives and encouragements. Different policy mixes and institutional settings can create different outcomes.

In order to promote accountability on equal pay for work of equal value, many countries have introduced legal or regulatory instruments mandating companies employing more than a certain number of employees to publish data on wages disaggregated by sex.[4] Accountability for equality of pay can be strengthened in several other ways, including through pay audits and through collective bargaining mechanisms and campaigns (OECD, 2023). Pressure on companies can also come from other stakeholders, for instance, shareholders and regulators (United Nations, 2019).

Steering innovation towards employment creation

Whether automation complements or replaces workers, or whether decarbonization creates or destroys jobs depends on how these transformations are governed and embedded in broader social and economic systems. While governments alone do not shape the outcomes of these transformations, public policy provides the main countervailing force capable of directing them — or redirecting them — towards employment creation.

Support for innovation and research, for example, can steer advances towards technologies that augment human capabilities, rather than replace workers. Through their procurement practices, governments can prioritize firms that adhere to decent work standards. Industrial policies, including corporate tax incentives and direct subsidies, can channel investment towards sectors with strong job creation potential, while supporting workers in declining industries. Tax reforms will be needed to ensure that labour is not taxed at higher rates than equipment and other capital. Governments can also set regulations and incentives that encourage firms to repackage tasks in ways that preserve employment while enhancing productivity, for example, by combining newly automated processes with more workers in quality control.

Germany's energy transition illustrates how industrial policy can generate employment. Through its management of this transition, the Government has helped create over 387,000 jobs by prioritizing domestic manufacturing, skills development, and regional planning, channeling investment towards labour-complementing technologies and local value chains (Kyllman and Wettengel, 2024; Federal Ministry for Economic Affairs and Energy, Germany, 2024). The Commission on Growth, Structural Change and Employment brought together government, industry, unions, and affected communities to help manage the phase-out of coal mining and usage. The Commission developed a consensus roadmap that included investment commitments for affected regions and early retirement provisions for older workers, highlighting the value of negotiated rather than imposed transitions (Federal Ministry for Economic Affairs and Energy, Germany, 2019).

Policies and institutions for ensuring shared prosperity

As energy and digital transformations are reshaping labour markets, there is potential for disruptions in work, while also creating new employment opportunities. If there are no proactive measures, these transformations can exacerbate income inequali-

4 Laws mandating equal pay have existed for a long time. In some jurisdictions, the legal framework is evolving rapidly. For instance, in April 2023, the European Council approved to a new directive seeking to strengthen the principle of equal pay through pay transparency. The directive was then signed into law, triggering a three-year countdown for United Nations Member States to transcribe it into their national contexts (DLA Piper, 2025).

ties and social inequities. This makes a rebalancing of the functional income distribution essential for socially inclusive transformation.

Income redistribution policies have become increasingly important in addressing both traditional and emerging challenges in labour markets. These policies include strengthening collective bargaining and union representation; minimum wage policies with living-wage frameworks; and introducing profit-sharing and co-determination mechanisms. Together, they form a comprehensive list of options for ensuring that technological progress and structural change translate into shared prosperity rather than deepening inequalities.

Progressive income taxation, wealth and inheritance taxes, and digital services taxes (DSTs) are some of the instruments and components of an integrated fiscal architecture that could reduce further deepening of inequalities in transitioning societies.

Improving labour's share of income

The long-term decline in labour's share of national income has contributed to the growing income and wealth inequalities, as an increasing proportion of economic gains accrue to capital rather than workers (ILO, 2024b; Karabarbounis, 2024). While income inequalities are widening (as discussed in chapter 1), without appropriate policies and institutions that can strengthen the labour share, technological transformations, such as the AI transformation, can lead to further concentration of wealth.

This trend is more pronounced in high-income countries, where union density and collective bargaining coverage have eroded significantly since the 1980s, driven by globalization, technological change, and labour market deregulation (OECD, 2019). In developing countries, the picture is more complex, but there is evidence that the labour share of income has also declined both in the long run and in more recent years (ILO, 2024b). The main issue though is that transformations have often been accompanied by persistent informality and weak labour protections, limiting workers' ability to capture productivity gains.

The rise of digital platforms and automation has further exacerbated these dynamics. Platform work, characterized by algorithmic management,[5] and task-based pay, often classifies workers as independent contractors, excluding them from traditional labour protections and collective bargaining frameworks (ILO, 2021b). As economies transition towards capital intensive and green sectors, capital owners and technology firms may capture disproportionate gains, further increasing workers' vulnerability to income stagnation and job insecurity (OECD, 2019; UNCTAD, 2023).

This section explores a set of policies and institutional reforms aimed at regulating labour markets and strengthening labour's position in the economy, through collective bargaining, living-wage frameworks, and profit-sharing mechanisms.

Strengthening collective bargaining and union representation

While there are several factors contributing to the decline of labour's share of income, the erosion of collective bargaining plays an important role, especially in developed economies where unions had a longer tradition (see also chapter 3).

As such, reinforcing collective bargaining would be critical to ensuring a fairer distribution of income, especially in this new economic context, as generative AI and automation could accelerate job displacement globally. However, as non-standard employment (temporary, part-time, informal, and platform work) accounts for a growing share of jobs globally, extending collective bargaining to non-standard workers will be essential to ensuring inclusive labour markets.

One important step towards the extension of collective bargaining rights to all workers will be updating labour laws. Legal frameworks should be simplified, to allow collective representation in specific sectors, such as the service sectors, and expand legal

5 Algorithmic management refers to algorithmic systems that use tracked data and other information to organize, assign, monitor and evaluate work. Under algorithmic management, workers interact with a system rather than a human manager, thus reducing contact between workers and their managers as well as among co-workers. While the delegation of managerial functions to algorithms is growing across industries, particularly in customer service, transport, logistics, banking and healthcare, it is the defining feature of digital labour platforms (ILO, 2021b).

recognition to non-standard workers through informal associations. Improving migrants' access to decent work requires a rights based and integrated policy approach across migration and employment systems (ILO, 2026).

Some countries are in the process of updating their rules and regulations. A case in point is Senegal, where the recognition of the right to collective bargaining for workers in the informal sector led to the creation of unions in companies that employ guards. This led to the successful formalization of workers in the security sector (ILO, 2022b).

With the rise in employment on digital platforms, there is a need to strengthen and extend collective bargaining and labour rights to gig workers. A good example of reforms linking platform workers with collective bargaining and labour rights is Spain's Rider Law, which officially recognized platform delivery workers as employees and not independent contractors, enabling union representation (Government of Spain, 2021). This law automatically extends full labour rights to these workers. It also brings AI-enabled management practices under collective bargaining scrutiny, as it requires companies to inform worker representatives, for example, unions, about how algorithms assign work and how ratings, pay and performance decisions are made. This enables unions to negotiate working conditions in the platform economy, linking digital labour regulation to collective bargaining rights. The EU Directive 2024/2831 is now adopting similar principles of algorithm transparency (European Union, 2024).

Minimum wage policies in the context of technological change

Minimum wage policies have long been a cornerstone of labour market regulation, aimed at protecting workers from exploitative pay and reducing wage gaps. Today, at least 90% of ILO member countries have a national minimum wage, affecting an estimated 20% to 30% of the labour force directly or indirectly through spillover effects.

With the rise of digital platforms and gig work, traditional approaches to minimum wages have become more challenging. Platform workers are frequently classified as independent contractors rather than employees, placing them outside the scope of statutory minimum wages and other labour protections, often earning below statutory minimums. Moreover, algorithmic management and task-based remuneration complicate the definition of "working time," making income less predictable and enforcement of labour laws more difficult, leading to wage suppression and precarious conditions (ILO, 2021a).

Considering the realities of digital and gig work, governments need to find innovative approaches to implementing minimum wage frameworks, taking into consideration their specific context. Some countries have begun to extend wage protections to platform workers through their legal reclassification. For example, the ruling of the Supreme Court of the United Kingdom of Great Britain and Northern Ireland on Uber drivers recognized them as "workers" entitled to minimum wage and paid leave (Supreme Court of the United Kingdom, 2021). India's Code on Wages Act of 2019 introduced a national floor wage and opened discussions on its applicability to gig workers, while Kenya is exploring regulatory models for platform work in transport and delivery services (Ministry of Labour and Employment, Government of India, 2019; Republic of Kenya, 2022).

The implementation of standards for minimum wage and decent work in gig work also requires greater monitoring, advocacy, inspection, and enforcement of labour laws. To do so, South Africa has embraced technology-enabled enforcement mechanisms to address the needs of vulnerable workers, including gig economy workers. Inspection activities have intensified, with over 308,000 inspections conducted in the 2023/24 financial year, well above the planned target, and a record of 89% referral rate for non-compliant employers, ensuring that employers adhere to employment laws (South African Government News Agency, 2025).

Ensuring a fair share of productivity gains throughout transformations

In many countries, statutory minimum wages are set at levels that do not guarantee a decent standard of living, particularly in urban areas where costs of

housing, health and education have risen sharply. While minimum wage policies are essential to providing a basic income floor, living-wage frameworks — defined as wages sufficient to meet basic needs — offer a more inclusive approach, as they reduce poverty and inequality while improving social cohesion and participation (ILO, 2024c, 2024d).

Employers tend to resist rigid wage settings, citing concerns of flexibility and international competitiveness. However, if wage-setting mechanisms are linked to productivity gains, wage adjustments can reduce inequality without harming competitiveness, when implemented through social dialogue and sectoral agreements (OECD, 2021). Adjusting living wages to sectoral productivity gains is particularly suitable for economies in transformation.

Costa Rica provides a notable example. With the support of ILO, the wage-setting mechanism in Costa Rica contributed to raising awareness on living wages, provided technical assistance to national constituents in this regard, and engaged with existing living-wage initiatives in the country to promote alignment with ILO living-wage principles (ILO, n.d.). The initiative led to concrete institutional outputs, most notably the adoption of a public minimum wage dashboard and the initiation of a national review of the wage-setting methodology. While it may take time before changes are more broadly observable, these efforts have created a strong foundation for future wage policy negotiations by governments and social actors (ILO, 2024a).

The successful design of living-wage frameworks linked to productivity gains depends on countries' institutional and data capacity, and economic structure. In contexts where wage-setting systems are weak and informality is high, a first step could be to strengthen minimum-wage enforcement and establish basic cost-of-living benchmarks through participatory processes. In a second step, sectoral pilots could help test productivity-linked adjustments while building trust among employers and workers.

In advanced economies with robust data systems, living-wage frameworks can be embedded in environmental, social and corporate governance reporting, ensuring transparency and accountability. When these steps are sequenced carefully, wage-setting can be a dynamic instrument for inclusive growth (United Nations Global Compact, n.d.).

In addition to wage-setting mechanisms, profit-sharing and co-determination[6] offer institutional frameworks that allow workers to share enterprise gains and participate in decision-making. These mechanisms are particularly relevant in the context of technological and energy transition, where productivity gains and restructuring can otherwise exacerbate inequality.

Profit-sharing and co-determination strengthen trust and resilience during periods of disruption, such as automation and climate-related restructuring. Evidence from developed economies also shows that these mechanisms can improve productivity and reduce wage inequality. For example, Germany's co-determination model and the profit-sharing practices in Latin American cooperatives offer valuable lessons for adapting these mechanisms to different contexts (Addison, Schnabel and Wagner, 2001; UNGA, 2024).

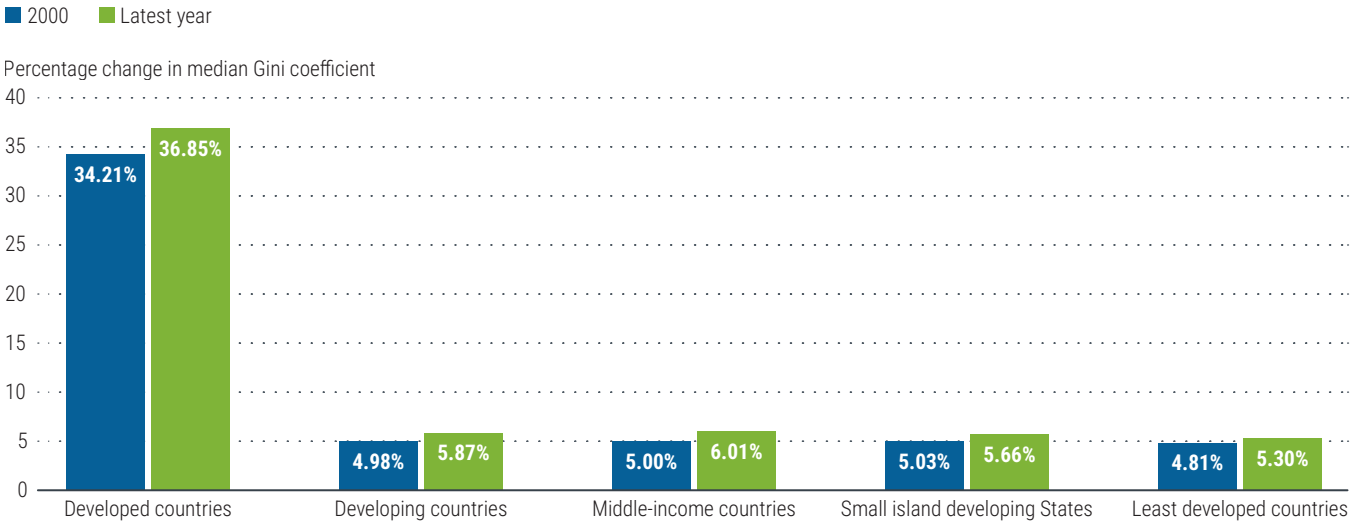
Cooperatives provide another model for profit-sharing and co-determination. Evidence synthesized by the ILO shows that cooperative enterprises tend to distribute surpluses through a combination of patronage refunds, reinvestment in productive capacity, and social funds, thereby aligning profits with income stability and long-term resilience (ILO, 2020, 2022a).

Co-determination and profit-sharing can play a critical role in smoothing the distributional impacts of technological change by ensuring that workers benefit from productivity gains in AI-driven sectors. While these mechanisms can support just transition strategies, challenges remain, as legal and institutional barriers often limit implementation, especially in developing countries. Overcoming these obstacles would require mixed policies, such as enabling legislation for profit-sharing and worker representation; providing tax incentives for firms adopting inclusive ownership models;

6 Profit-sharing schemes typically involve distributing a portion of company profits to employees, while co-determination refers to institutionalized worker participation in corporate governance, often through representation on boards or works councils.

Figure 4.3

Relative redistribution through taxes and transfers, median, by country group, 2000 and latest year available



Source: United Nations, Inter-agency Task Force on Financing for Development (2026), based on the Standardized World Income Inequality Database (SWIID), December 2025.
Note: The latest year refers to the most recent year with available data for each country (2005–2025), with over 65% of observations clustered in 2021–2024.

and promoting tripartite dialogue to adapt co-determination to digital and green sectors. Pilot programmes could be initiated in State-owned enterprises and larger firms to demonstrate feasibility before broader adoption.

Fiscal policies: taxation for socially inclusive transformation

Progressive income taxation, taxes on wealth (including inheritance taxes and gift taxes), and measures to effectively tax cross-border services with limited physical presence (including DSTs)[7] are some of the instruments and components of an integrated fiscal architecture for promoting equitable distribution of transformation gains. Each addresses different dimensions of inequality and structural change: income and wealth taxes tackle disparities in earnings and assets, while taxes on cross-border services, including DSTs, respond to digitalization. Implementation of each involves trade-offs between equity, efficiency, and feasibility, which must be assessed based on countries' administrative capacity and the opportunity to implement phased approaches.

Progressive income taxation

While all economies achieve some degree of redistribution through taxes and transfers, in higher income countries, tax and transfer systems are stronger than in most developing countries. Latest available data suggests that they can reduce the Gini coefficient by 36.8% in 2025 in developed economies (figure 4.3). In contrast, in developing countries the impact of transfers and taxes is much smaller, lowering Gini coefficients by 5.8% (figure 4.3).

While all groups of countries have shown increases in progressivity in their fiscal systems since 2000, they remain relatively low in developing countries. Many developing countries rely more on consumption taxes, which disproportionately burden low-income households (ESMAP, 2022) and have a mixed redistributive impact. Even when formal progressivity is part of tax codes, the redistributive effect of income taxation in developing countries remains limited due to narrow tax bases and high evasion. In Brazil, for instance, personal income tax accounts for only 10% of total tax revenue, compared to over

7 There is other taxation of cross-border services beyond digital services, which requires multilateral solutions and should also be considered as complementing DSTs. Negotiations on the United Nations Framework Convention on International Tax Cooperation are ongoing, regarding Protocol 1, in particular.

25% in Organisation for Economic Co-operation and Development (OECD) countries (OECD, 2022a).

Administrative capacity is often limited, making taxation enforcement difficult. Political economy constraints, including resistance from vested interests, frequently block reforms, as observed in several Latin American countries (ECLAC, 2021). Moreover, higher marginal rates may incentivize tax avoidance or capital outflows if not accompanied by strong enforcement and international cooperation (IMF, 2021) .

Thus, enhancing the effectiveness of progressive taxation requires building fiscal capacity while gradually increasing progressivity to avoid economic distortions and political backlash. In addition, digitalization of tax administration,[8] such as e-filing and data analytics, can improve compliance.

Broadening the income tax base by reducing exemptions and integrating informal workers through simplified regimes, as piloted in Mexico's *Régimen Simplificado de Confianza*, is another promising approach. However, taxing informal sectors should be targeted to higher income operators in that sector to avoid potential negative equity impacts and high administrative costs (Institute of Development Studies, 2025). Finally, participation in global tax transparency initiatives, such as bilateral treaties; the Mutual Administration Convention and the OECD Common Reporting Standard; and the standards of the Global Forum on Transparency and Exchange of Information for Tax Purposes helps to curb evasion and avoidance.

Taxes on wealth

The concentration of wealth perpetuates intergenerational inequality and undermines social cohesion, requiring a specific set of instruments to address it. Wealth taxes[9] — which include inheritance taxes and capital gains reforms — are among the policy instruments designed to address these disparities by taxing accumulated assets rather than labour income, especially in the digital era. These options each offer distinct advantages but also entail implementation challenges, particularly in developing countries with weaker institutional capacity.

Historically, net wealth taxes were more common in advanced economies, but their prevalence has declined sharply since the 1990s. Many OECD countries abolished net wealth taxes due to administrative complexity and concerns over capital flight. Nevertheless, international organizations, such as the International Monetary Fund and OECD, have renewed calls for broader wealth taxes — to complement capital income taxes on the very wealthy — as a means to reduce inequality and mobilize revenue for social investment (Hebous, Klemm and Michielse, 2024).

In times of crisis, temporary solidarity wealth taxes,[10] such as Argentina's COVID-19 measure, demonstrate that exceptional levies can mobilize significant resources, while being politically easier to justify (ECLAC, 2021). These taxes can signal fairness and solidarity and enhance social legitimacy. However, their temporary nature limits long-term redistributive impact, and they often face strong resistance from vested interests, leading to legal disputes and enforcement difficulties.

Progressive inheritance taxation is often regarded as more feasible than annual net wealth taxes because it targets intergenerational transfers rather than ongoing asset holdings. This approach reduces administrative complexity and is politically more acceptable in many contexts. Its primary advantage lies in curbing the perpetuation of wealth inequality across generations, thereby promoting long-term equity. However, its effectiveness depends on accurate asset valuation and enforcement, which remains difficult in countries with limited registries and high informality (Hebous, Klemm and Michielse, 2024).

If tax rates on capital gains were aligned with those on labour income, this would reduce distortions and income inequalities, as the highest income earners tend to benefit from low taxes on their high

8 The United Nations Committee of Experts on International Tax Cooperation has produced recent guidance on digitalization of tax administrations in developing countries (UN Tax Committee, 2025a) and is currently also preparing a practical guide on the usage of AI by Tax Administrations (UN Tax Committee, 2025b).

9 See UN Tax Committee (2025c).

10 Ibid.

capital gains. This measure is technically easier to implement than net wealth taxes because it applies to realized gains rather than requiring a comprehensive asset valuation. Nevertheless, valuation challenges and weak compliance systems often undermine effectiveness, and higher rates may incentivize avoidance through offshore transfers to jurisdictions without robust international cooperation (OECD, 2018).

Collectively, these policy options offer significant redistributive potential by targeting accumulated wealth rather than income, addressing structural inequality and reducing intergenerational concentration of assets. They also enhance fiscal space for social investment, particularly in middle- and high-income countries with concentrated wealth. However, the implementation of these instruments faces substantial challenges, especially in developing countries. These include administrative complexity, political resistance, and risks of capital flight. In countries with robust institutions and significant wealth concentration, these instruments are indispensable for long-term equity but require strong enforcement and global coordination to ensure effectiveness.

Cross-border and digital services tax

The rapid expansion of the digital economy has exposed significant gaps in traditional tax systems. Digital platforms often generate substantial revenues in jurisdictions where they lack physical presence, making it difficult for governments to apply conventional corporate income tax rules and capture fiscal revenue. The share of global corporate profits reported in low-tax jurisdictions increased from 20% in 2000 to nearly 40% in 2020, largely driven by digital business models (OECD, 2022a).

The World Trade Organization Work Programme on Electronic Commerce Moratorium on customs duties on electronic transmissions, which was put in place in 1998 and extended every two years since then, had further allowed digital platforms to avoid customs duties on their online exports.[11]

Developing countries are particularly affected because they often serve as large consumer markets for digital services but capture minimal tax revenue from these activities. For example, in Africa, digital platforms, such as ride-hailing and e-commerce, generate billions in transactions, yet tax collection remains negligible due to the absence of effective frameworks (UNCTAD, 2021).

In response, several countries, such as Kenya and Nigeria, have introduced DSTs to ensure that digital firms contribute fairly to domestic revenues. More recently, DSTs were repealed in both countries due to negotiations between the United States and OECD in 2024. However, in 2025 they introduced a new tax framework, the Significant Economic Presence Tax, allowing tax revenues from non-resident digital firms (Quiñones and others, 2025). In addition, there have been international efforts, including at the United Nations, to effectively tax cross-border services in a coordinated manner (see chapter 5) and beyond DSTs (Hebous and others, 2026).

Given the rapid advances in technologies, it becomes vital for developing countries to find new ways of taxing digital service providers that have no physical presence in their countries. This will not just address the growing concentration of wealth globally but can also provide a growing source of revenue for the governments. However, their current scope and coverage are generally limited to particular categories of digital services, often subject to revenue thresholds (Quiñones and others, 2025). In addition, DSTs can be passed through to consumers with distributional implications.

Building the infrastructure and capacity needed to implement and monitor digital taxation often presents a challenge. To that end, developing countries can implement digital taxation incrementally, beginning with VAT on cross-border digital services, simplified registration and platform collection, while strengthening digital tax administration, international information exchange and cooperation. Over time, countries can leverage international tax rules and build the institutional and technological capacity needed to tax digital services and electronic transmissions. Thus, multilateral solu-

11 Since WTO members were unable to reach consensus on a decision at the 14th Ministerial Conference (MC14), the moratorium lapsed on 30 March 2026.

tions with coordinated rules can have better long-term outcomes than fragmented national measures (see chapter 5).

Policy coherence, sequencing and coordination

With multiple intersecting priorities, policymakers inevitably face trade-offs and synergies between competing goals in pursuing socially inclusive transformation.

There is no single pathway to socially inclusive transformation. Countries need context-specific roadmaps reflecting their most urgent needs, political and financial feasibility, and public priorities. The framework in the Global Sustainable Development Report 2023 offers a useful approach by combining six interconnected entry points for transformation with levers such as governance, finance, technology, collective action and capacity-building (Independent Group of Scientists appointed by the Secretary-General, 2023).

Effective transformation depends not only on existing implementation capacity, but also on sustained efforts to build and strengthen that capacity over time, while embracing several paradigm shifts in development thinking, including from reactive to anticipatory governance to be able to shape future transitions. Governments need to continuously develop the institutional, administrative, technical and financial capabilities required to translate policy commitments into results. This includes strengthening public institutions and coordination mechanisms at national and subnational levels, while ensuring that policies across industry, trade, employment, education, digital development, energy and social protection reinforce one another.

Finally, structural and sectoral measures must be supported by macroeconomic coherence, policy consistency and careful sequencing according to national priorities. Governments should prioritize policies based on their most pressing needs, expected impact, and available institutional and fiscal capacities, while ensuring sufficient continuity to shape investment, support learning and build implementation capacities.

Sequencing should therefore not merely accommodate existing constraints but deliberately begin with interventions that address priority needs and progressively expand implementation capacity, enabling more ambitious and socially inclusive transformation over time.

Conclusions

With societies transforming, this chapter underscores the need for more inclusive policies and institutions.

Following the guiding principles of NESI, the chapter develops the policy architecture for socially inclusive transformation. It sets out a policy compact, centred on widening adaptive capacity and strengthening inclusive institutions, and organized around four policy areas: building people's capabilities; access to digital and energy infrastructures; inclusive labour markets; and shared prosperity. These can be further broken down into eight areas for action (table 4.1).

Each area for action is linked to concrete objectives it seeks to address for strengthening equity, adaptive capacity, resilience and inclusion. These will build the ability of individuals, workers and households to adapt to change, and to participate in and benefit from economic, digital, and energy transformations. Taken together, these action areas form complementary policy packages for socially inclusive transformations.

This chapter supports NESI by arguing that it is no longer sufficient to have social policies complement transformation policies, but that social inclusion must be at the very core of all transformation policies. The chapter identifies and shares many successful policy experiences in these areas that have helped countries make their economic, digital and green transformations more inclusive and equitable, but it also acknowledges the lack of capacities in many countries, especially developing countries, to successfully implement these policies.

The chapter argues that effectively promoting inclusive labour markets requires a change in

mindsets. Portable benefits and decent work for gig workers must be broadly implemented, along with equal pay for equal work. Active labour market policies — such as wage subsidies, job placement services, public employment programmes, and targeted training initiatives — are required, as are policies that steer innovations to create employment for people rather than displacing them with AI.

Beyond specific policies, steering transitions towards employment creation and shared prosperity requires a shift in dominant narratives about progress, productivity and the purpose of innovation. A people-centred vision of the future of work can reinforce policy efforts by countering models narrowly centred on profits. Removing barriers, and providing equal opportunities and enabling conditions for participation by traditionally disadvantaged social groups, such as women, older persons and persons with disabilities and their representative organizations — as well as pressure from civil society, trade unions and other types of workers' organizations (for example, cooperatives) — will be key for this new narrative to take hold. Table 4.1 (on page 92) presents a snapshot of policies.

Socially inclusive transformation also calls for policy coherence, to ensure that economic, fiscal, labour market, and social policies work together rather than at cross-purposes. Macroeconomic policy frameworks must put the creation of decent work as a central objective, rather than treating it as a secondary concern to be addressed after growth is achieved. Tax policy and social protection goals must also be aligned, recognizing that the structure of taxation (not just its level) shapes both the resources available for social spending and the distribution of incomes.

Policy coherence also demands that governments consider the impacts of trade and investment on labour markets and working conditions, particularly as global value chains affect employment relationships. Finally, industrial and technology policies should be designed with attention to their effects on job quality and the viability of social protection financing. Without such coherence, gains in one policy area may be offset by contradictory effects elsewhere.

However, national policies alone cannot guarantee that global transformations generate decent work across borders and are socially inclusive. Beyond policy, steering transformations towards employment creation and shared prosperity requires a shift in dominant narratives about progress, productivity and the purpose of innovation.

There is a need for international cooperation and support for designing policies and institutions fit for the green digital era. Chapter 5 focuses on how international cooperation and multilateralism can support countries during their transformations.

Table 4.1

Policy interventions by area and objectives for equity, adaptation and resilience

Policy areas	Objectives	
	Social inclusion: equity, adaptive capacity and resilience	Policy package[a]
Building people's capabilities		
Education and skills for the future	Enable workers and households to adjust to technological, labour market and environmental changes; support equal opportunities to participate in structural transformations; provide lifelong learning and skills development; and strengthen digital, AI and green skills	Universal access to quality education; supply technical and vocational education and training ; green, digital, and AI literacy and skills strategies; stronger school-to-work and industry-training linkages
Health systems	Strengthen health status, overall well-being, and improve resilience to economic, health and climate-related shocks	Universal health coverage; strengthen primary healthcare systems, public health capacity, digital health, telemedicine and AI tools; preventive and community-based care
Building resilience with social protection	Support human development and well-being through income security across the life cycle, and strengthen resilience to job displacement, illness, old age and shocks with automatic stabilizers	Social protection floors; expansion of coverage to informal and self-employed workers; child and family programmes; unemployment protection; pensions; disability benefits; maternity support; digital delivery and inclusive registration systems
Universal access to digital and energy infrastructures		
Digital and AI services	Expand equitable access to information, digital platforms for business opportunities and digital public goods; facilitate adaptation to technological change, support access to labour market opportunities and strengthen continuity of services during disruptions	Universal and affordable broadband strategies; digital and AI inclusion policies; support for SME digitalization; digital and AI literacy programmes; inclusive digital public infrastructure
Green energy services	Improve household well-being and productive capacity through access to reliable, affordable and sustainable energy for homes, workers and firms; increase resilience to energy price volatility, supply disruptions and climate-related risks; support adaptation and sustainable livelihoods	Universal energy access strategies; renewable energy deployment; decentralized and off-grid solutions; clean cooking; targeted subsidies or lifeline tariffs; energy access for productive uses
Inclusive labour markets		
Employment	Enhance employability, access to productive employment and decent jobs; support workers during transitions across jobs, sectors and technologies; reduce vulnerability and strengthen inclusion in changing labour markets	Active labour market policies (ALMPs); employment services; job search and matching; wage subsidies where appropriate; formalization measures; portable benefits for gig workers; targeted employment programmes; innovation, research and tax incentives towards technologies that create jobs
Shared prosperity		
Strengthening labour's share of income	Strengthen worker agencies, labour rights and fairer participation in productivity gains; support more equitable labour market outcomes; improve income security and employment stability, help workers absorb shocks and manage transitions	Freedom of association and social dialogue; collective bargaining measures; equal pay for equal work; adequate minimum wages, living wage-setting and profit-sharing frameworks
Fiscal policies	Create fiscal space to respond to crises and manage transitions while supporting macroeconomic stability and just transitions with shared prosperity	Progressive taxation; strengthened tax administration; taxation of income, wealth, inheritance, and capital gains where appropriate; and strengthen taxation of the digital economy and cross-border services

Source: UN DESA.

a Policy package examples are illustrative and not exhaustive.

UN DESA/Predrag Vasić

5 International Cooperation for a Socially Inclusive Transformation

This chapter argues that socially inclusive transformation requires a fundamental rethinking of development planning. Building on the New Economics of Social Inclusion (NESI), it proposes a paradigm shift in development strategy that places social inclusion, resilience and sustainability at the centre of transformations. This shift from structural transformation to socially inclusive transformation requires moving from lifelong dependence on a single qualification to continuous learning; from wage-only employment to diversified livelihoods; from extractive to regenerative digital economic systems; from concentrated ownership to broader participation; and from reactive governance to anticipatory governance. The chapter also highlights the indispensable role of international cooperation in expanding fiscal space, diffusing technology, addressing debt and strengthening inclusive global governance. National reforms and renewed multilateralism must work together to make transformations work for all.

Key messages

- **National development planning must be redesigned to advance socially inclusive transformation.** Such a shift can be achieved only if there is political will, financial resources and in many cases, international support.
- **Multilateralism and international cooperation have delivered significant gains that support national policies.** International cooperation has helped mobilize financial resources, political commitments and strengthen accountability.
- **Fragmenting geopolitics is considerably raising global risks.** This fragmentation is weakening delivery on commitments while raising costs of exclusion.
- **Stronger international cooperation is essential in a highly interdependent world.** It is necessary for addressing debt, financing, and technology divides, as well as deep-rooted structural deficiencies and emerging transformation challenges.

Introduction

Climate pressures, technological change and geopolitical disruptions are reshaping societies and economies. These forces are not temporary; therefore, the development policy architecture should focus not only on short-term objectives, but also — and more critically — on achieving longer-term goals through periods of rapid transition and increasing interdependence.

This calls for a paradigm shift in national development planning towards more coherent, evidence-based and coordinated policies — policies that enable all individuals to work, learn, adapt to technology, and contribute to and benefit from change, and allow all individuals to be supported by life-long skill development, inclusive healthcare, representation, and social protection systems. Social inclusion must be built into the social, economic and political systems that govern investment, learning, technology diffusion, protection and representation.

This cannot be achieved through isolated interventions at the national level. It requires a policy architecture that connects people to opportunities; equips firms with the resources to adapt and compete; provides protection; and incentivizes coordinated action across all stakeholders.

Collective actions through multilateral processes have demonstrated huge successes in the past in supporting countries on inclusive pathways. Countries can greatly benefit from strengthened multilateralism and international cooperation in addressing the emerging challenges. Global competition needs to give way to global cooperation for a sustained and inclusive transition of the global economy.

A paradigm shift in national development planning

In the transitioning world, the existing parameters for designing national development plans are not sufficient and need to be redefined to focus on whether prosperity is broad-based, people are empowered to adapt to digital and green transformations, and institutions are inclusive and ready to support the transformations. For successfully implementing the New Economics of Social Inclusion (NESI) guiding principles and policy compact in the long run, a paradigm shift in the principles of national development planning is needed. This will require the following changes.

From structural transformation to socially inclusive transformation

Long-term development planning has aimed at growth and structural transformation. While structural transformation is of course necessary, it may not be sufficient, as it may not automatically lead to equitable, inclusive and sustainable growth. What is needed is socially inclusive transformation — that is, economic, digital and green transformations with embedded economic and social equity.

Development planning needs a shift away from the purely economic objective of raising productivity towards embedding well-being, inclusion, resilience and sustainability into planning, budgeting, and investment appraisals. Public and private decisions should be guided not only by the pace of progress, but by its quality and durability. Progress on both transformation and inclusion matters equally.

There is a growing consensus that gross domestic product (GDP) as a measure of global and national progress is a useful but not sufficient guide when the binding constraints include human capability formation, resilience, and environmental limits. Efforts to identify development measures that capture these vital dimensions are progressing, such as the Multidimensional Vulnerability Index (MVI) and, more recently, the recommendations put forward by the United Nations High-Level Expert Group on Beyond GDP in their final report, *Counting What Counts: A Compass of Progress for People and Planet* (United Nations High-Level Expert Group on Beyond GDP, 2026). This shift embeds both guiding principles of NESI into the definition of development success itself: widening *adaptive capacity* and strengthening *inclusive institutions*.

Successful implementation of socially inclusive transformation requires these changes in develop-

ment planning: For building adaptive capacities, it is essential to recognize and value diversified livelihoods, empower people, and build regenerative digital and economic systems. For building inclusive institutions, it is necessary to rethink participation, governance and ownership structures of existing institutions.

From wage-only employment to diversified livelihoods and compensation for non-market value generation

Stable wage employment will remain central, but technology and demographic pressures may change both its form and its share in overall work. Development planning should recognize and support multiple forms of work, including formal jobs, self-employment, platform mediated work, care and community work, and hybrid careers across the life course, while providing portable social protection across different work arrangements. Such a strategy shifts the focus towards protections and benefits that are portable and not tied to a single employer, alongside recognition and support for forms of value creation that are not part of standard market transactions but are essential to building capability and resilience.

There is a need to adapt social protection systems to address new sources of vulnerability through measures such as unemployment insurance; wage insurance schemes for workers displaced by technological and structural changes; dynamic pension arrangements that respond to demographic shifts; and integrated employment support programmes that facilitate reskilling and labour market transitions. Portable protection and compensation of non-market work widen people's adaptive capacity across changing forms of work.

From one-degree-for-lifetime to lifelong learning

Participation depends on whether individuals can learn, participate, and adapt as the economy changes. Development planning therefore needs to shift its focus from one-degree-for-lifetime to lifelong learning, reskilling, and capability-building, so that people can adapt to economic, digital and green transformations. This will require a shift from an exclusive focus on formal education towards a broader approach to expanding capabilities that are usable in real time, including lifelong learning and reskilling, and active labour market support that helps workers transition. The objective is to make adaptation feasible, not heroic, so that more people can reeducate and reskill themselves to enter job markets and shift into higher productivity activities without falling into insecurity, especially during digital and energy transformations. This is adaptive capacity in its most direct form: the ability to learn, reskill and move as the economy changes.

From extractive to regenerative digital economic systems

The green transformation is not only about replacing fuels. It is about redesigning production and consumption so that economic growth does not depend on degrading natural systems. It is also about aligning climate goals with digital advancements and economic development. Over time, this means a shift towards circular, resource efficient, nature-based approaches, and urban and digital infrastructure systems that reduce risk and raise productivity. Regenerative systems build resilience on which the adaptive capacity of people, firms and places ultimately depends.

From concentrated ownership to distributed participation, including in digital and green assets

When value is created through data, platforms, networks, and publicly enabled green infrastructure, ownership and access shape who benefits and who can invest. Over the long term, reducing structural exclusions will require wider participation in the returns from digital and green assets, not only redistribution after the fact. Models that broaden participation can include community energy, coop-

erative or shared ownership structures, and governance arrangements that prevent the benefits of new infrastructures from being captured by a narrow set of actors. Broader ownership and governance arrangements are inclusive institutions applied to the new assets of the digital and green economy.

From reactive to anticipatory governance for shaping future transformations

Fast transitions reward societies that can learn and adjust quickly. Over the long run, governments need to build state capacity for foresight, coordination and public innovation — that is, enable institutions to scan risks, test policies, scale what works, and engage citizens in choices that involve trade-offs. This is not a call for planning in the abstract; it is an argument that sustained social inclusion in the next era depends on the ability to steer transformations before exclusions harden. Foresight and coordination capacity make institutions inclusive by design, preventing exclusions from hardening or even beginning.

From global competition to global cooperation on shared infrastructures

Geopolitical fragmentation is raising the cost of exclusion and narrowing pathways for late movers. A long-term inclusion agenda therefore has a global dimension: cooperation on standards, finance, technology diffusion, and shared infrastructures that lower entry barriers. This includes areas where international arrangements can expand participation and reduce the volatility of market access — for example, through open and interoperable digital systems, and the promotion of a more equitable distribution of gains from technological advancements. This extends inclusive institutions to the global level, lowering entry barriers for late movers.

There is also a need to strengthen cooperation in developing international statistical standards. Statistics relevant to social inclusion are organized primarily in silos. They are becoming increasingly insufficient for understanding the multidimensional nature of social progress and the interconnections among economies, the environment and societies. While these domain-specific systems remain essential, assessing socially inclusive transformation requires an integrated statistical system that can show how economic, digital and green transformations affect different population groups across multiple dimensions of well-being and provide the evidence needed to assess which interventions are effective and whether progress is broadly shared.[1]

Strengthening international cooperation and multilateralism in an increasingly fragmenting world

Several of these paradigm shifts cannot be achieved by national action alone. Financing them requires fiscal space that depends on international tax cooperation and comprehensive and systematic support for developing countries to reduce the cost of capital and debt-service burden, and reforming the international financial architecture. Broadening participation in digital and green transformations requires cooperation on technology diffusion, standards and shared infrastructures. Redefining success beyond GDP requires internationally agreed measurement frameworks. International cooperation, global governance and strong multilateralism are therefore not a separate agenda but the enabling conditions for the shifts outlined above. Countries have greatly benefited from such collective action in the past.

The gains of multilateralism despite persisting challenges

Collective actions through multilateral processes have delivered major successes in the past in terms of steering countries on inclusive pathways. These collective actions helped mobilize financial resources, support political commitments, and strengthen accountability to social progress.

1 Recognizing this need, the United Nations Committee of Experts on Population and Social Statistics (CEPSS) is developing the System of Integrated Population and Social Statistics (SIPSS) as a framework for greater integration across population and social statistics, while promoting interoperability with other statistical systems, such as the System of National Accounts and the System of Environmental-Economic Accounting.

These actions include United Nations development frameworks (the Millenium Development Goals and the Sustainable Development Goals (SDGs)), which were universally adopted by 193 countries and integrated into national development plans. More recently, the Second World Social Summit and its Doha Political Declaration recognized the importance of equitable access, productive capacities, structural transformation, digital transformation, innovation, and macroeconomic support as part of sustained, inclusive and sustainable growth and development. The Sevilla Commitment — the outcome of the Fourth International Conference on Financing for Development — pledges to strengthen international cooperation and enhance financial support for developing countries to finance their economic, social and environmental needs.

Multilateral financing institutions have long promoted social inclusion programmes, such as the African Development Bank's social inclusion programmes. Global health partnerships — from the World Health Organization to initiatives like the Global Fund to fight AIDS, TB and Malaria (GAVI), the Vaccine Alliance — have helped millions to live longer, healthier lives.

Labour standards and social protection frameworks promoted by ILO include minimum wages, workplace safety laws and the ban on child labour. Multilateral treaties have further strengthened human rights, for example, through the Convention on the Elimination of Discrimination Against Women (CEDAW) and Convention on the Rights of the Child (CRC). Further, the Convention on the Rights of Persons with Disabilities (CRPD) affirms that persons with disabilities are entitled to full equality, inclusion, accessibility, and participation in all aspects of society.

Multilateral agreements have also fostered an enabling environment through multilateral trading rules, such as the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS) under the World Trade Organization; and through initiatives and coordinated data monitoring, such as the SDG Indicators, the United Nations Development Programme Human Development Index, and the child welfare indicators of the United Nations Children Fund (UNICEF).

Debt relief has become an increasingly recognized means for increasing social spending. For instance, the Heavily Indebted Poor Countries (HIPC) Initiative provided comprehensive debt relief for 37 countries, which contributed to social progress and development (box 5.1). More recently, there has been a significant increase in the deal size of debt-for-development swaps through the World Bank and the International Monetary Fund (IMF) (United Nations, Inter-agency Task Force on Financing for Development, 2026). These swaps provide debt-service savings, and in some cases debt-stock reduction, during periods of fiscal pressure; they also channel resources into critical sectors such as education, health, nature conservation, and nutrition by conditioning that the savings resulting from poor countries' debt-burden reduction must be spent on health, education or poverty reduction programmes. International cooperation has played an important role in the past in debt relief. The HIPC Initiative provided comprehensive multilateral debt relief for 37 countries, which contributed to social progress and development (box 5.1).

As growing external debt-service burdens in developing countries are intensifying pressures on fiscal space for social spending, there are mounting calls for expanding such initiatives. Between 2021 and 2023, 45 developing countries spent more on debt interest payments than on health, up from 34 a decade ago (United Nations, Inter-agency Task Force on Financing for Development, 2026).

International cooperation in taxing the digital economy

As discussed in chapter 4, digital services tax (DST) should be integrated into the fiscal policies in the digital era. However, unilateral DSTs risk trade disputes and retaliatory tariffs, as seen in recent high-profile disputes between trading partners. They can also lead to double taxation if not coordinated internationally and pose administrative challenges in tracking revenues for cross-border services, particularly in low-capacity tax administrations (OECD, 2022a).

To address this challenge, multilateral coordination is urgently needed. It can reduce risks of trade tensions and double taxation, while providing a stable

Box 5.1

Debt relief and social development: evidence from the Heavily Indebted Poor Countries Initiative

High debt-service burdens and their detrimental impact on social spending have led to calls for a comprehensive and coordinated debt relief initiative, similar to the Heavily Indebted Poor Countries (HIPC) Initiative.[a] This initiative was launched in 1996, and in 2006 was complemented by the Multilateral Debt Relief Initiative.[b] Together, the two initiatives provided the most comprehensive multilateral debt relief effort in history, designed to turn debt reduction into development gains by delivering over $100 billion in relief to 37 low-income countries (World Bank, 2024). Evidence on its impact suggests that debt relief can deliver significant positive social spending and development outcomes; however, this depends on complementary actions and is not automatic.

The evidence regarding the Initiative's impact on social spending is mixed. While different studies found a negative correlation between debt burdens and social spending, the estimated additional spending was not enough to meet development objectives (Ferry and Raffinot, 2019). From a longer-term perspective, median education spending initially rose but then declined to pre-HIPC levels, while median health spending remained largely flat from 2000 to 2022, partly reflecting significant constraints on countries' capacity to manage additional spending (Clements, Gupta and Ward, 2025). The evidence on development outcomes is more encouraging. The infant mortality rate declined after countries passed the Decision Point when it received interim, provisional debt relief on the condition of meeting certain criteria on macroeconomic stability, poverty reduction strategy, and outstanding arrears. The decline was attributable to increases in aid flows, lower risk of armed conflict and, possibly, the amount of debt relief (Schmid, 2009). Primary school dropout rates fell by 5–9 percentage points after a country reached its Completion Point when it received full, irrevocable debt relief (Crespo-Cuaresma and Vincelette, 2008).

The HIPC experience underscores that translating fiscal space generated by debt relief into higher social spending requires policy reforms and institutional mechanisms to direct and track freed resources towards social priorities. Also, any future HIPC-style initiative would operate in a far more complex creditor landscape, with private creditors now holding a substantially larger share of developing-country debt than in the 1990s, making their participation in any comprehensive debt relief crucial.

Source: UN DESA, Financing for Sustainable Development Office.

a For example, the 2025 Jubilee Report commissioned by the late Pope Francis called for an "HIPC II".

b The Multilateral Debt Relief Initiative provided for 100% relief on eligible debt from four multilateral institutions — initially, the International Money Fund, the World Bank's International Development Association, and the African Development Bank, joined later by the Inter-American Development Bank — to a group of low-income countries.

and predictable framework for taxing digital profits globally. Regional initiatives, such as the African Tax Administration Forum (ATAF), have sought to promote greater consistency in the design of DSTs through the publication of model legislative guidance (ATAF, 2020). Ultimately, the success of digital taxation will depend on international and regional cooperation, ensuring that countries implement coherent reforms in line with an evolving international tax architecture (box 5.2).

Multilateralism weakened by geopolitical fragmentation

Growing geopolitical fragmentation, intensifying conflicts and wars, and rising military spending are eroding both the political will and fiscal capacity to invest in social development and welfare, while further deepening existing inequalities and exclusions. The number of conflicts has doubled in the last 15 years, with 61 active state-based conflicts in 2024 — the highest number since the end of World War II (Institute for Economics & Peace, 2025).

Many advanced countries have slashed their development cooperation, with official development assistance (ODA) falling by 7% in 2024 and further declining by 23% in 2025 (OECD, 2026b). ODA is now at the levels of 2015, with all top five donors (Germany, the United States of America, United Kingdom of Great Britain and Northern Ireland, Japan and France) reducing their ODA, accounting for about 96% of the total decline in ODA. The largest cuts were by the United States (57%). These cuts are disproportionately impacting the least developed countries, who received 25.8% less bilateral ODA in 2025 than in 2024.

People all over the world are being deprived of crucial social welfare benefits as fiscal resources are diverted from human welfare towards defence

Box 5.2

Strengthening international tax cooperation for social inclusion

International tax cooperation plays a critical role in promoting social inclusion because it affects countries' ability to mobilize domestic resources in an increasingly interconnected global economy. The revenues raised through taxation finance education, healthcare, social protection, infrastructure and other public services that reduce inequality and expand opportunity. The purpose of cooperation is therefore broader than preventing double taxation or facilitating cross-border investment; it must also ensure a fair allocation of taxing rights so that countries can collect revenue from economic activity connected to their markets and pursue sustainable development.

Without coordinated international tax rules, multinational enterprises and high-income individuals can shift profits and assets across jurisdictions, undermining governments' redistributive capacity and weakening the effectiveness of progressive taxation. Over the past century, international tax cooperation has largely been pursued through a network of more than 3,000 bilateral tax treaties, primarily focused on reducing the adverse effects of national tax policies on cross-border trade and investment. However, this architecture has important weaknesses, both substantive and procedural, that limit its ability to support social inclusion. One major substantive concern is that such tax treaties restrict countries' ability to tax income generated within their own economies. As a result, countries may be unable to tax services delivered remotely, even when significant economic activity takes place within their markets.

With rising digitalization and advancing artificial intelligence, companies can now engage extensively in overseas markets without establishing physical presence. At the same time, digitally deliverable service imports have grown significantly and have become a major driver of cross-border services trade, highlighting the growing mismatch between existing rules and economic realities. Another concern is the persistence of base erosion and profit shifting (BEPS), whereby taxable profits are artificially separated from the activities that generate them and transferred to low-tax jurisdictions. Existing treaty provisions, including restrictions on withholding taxes, can facilitate such practices. While profit shifting is difficult to measure, the Organisation for Economic Cooperation and Development estimated global revenue losses of $100–$240 billion annually, equivalent to 4–10% of corporate income tax revenues (OECD, 2015), with evidence suggesting these losses are increasing over time (Beer, De Mooij and Liu, 2020). Procedurally, international tax cooperation has also lacked inclusiveness, as challenges related to agenda-setting, negotiating capacity and participation have limited developing countries' ability to influence rules that do not reflect their needs and capacities (Cadzow and others, 2023).

Since 2025, United Nations Member States have been negotiating a United Nations Framework Convention on International Tax Cooperation under the auspices of the United Nations. The Convention seeks to create a more inclusive, fair, transparent, and effective international tax system that strengthens domestic resource mobilization and supports sustainable development. All Member States participate on an equal footing. A dedicated protocol on the taxation of cross-border services addresses the imbalance described above. More broadly, the Convention will strengthen cooperation in areas such as the taxation of high-net-worth individuals, illicit financial flows, tax avoidance and evasion, and harmful tax practices, while improving administrative cooperation.

Not all issues will be resolved immediately. The Convention's most important contribution may be the governance structure it establishes—a durable and inclusive forum through which countries can address emerging challenges over time. This includes issues increasingly relevant for social inclusion, such as environmental taxation and the links between taxation, inequality, and gender.

Source: UN DESA, Financing for Sustainable Development Office.

spending and debt servicing. According to the *Global Peace Index 2026*, 97 of 163 countries increased military expenditure as a share of GDP over the latest reporting period (Institute for Economics & Peace, 2026), while a total of 3.4 billion people live in countries that spend more on interest payments than on either health or education. Furthermore, climate commitments have become another geopolitical casualty, with a renewed rush for energy security and fossil fuel expansion in some advanced countries.

The fragmented geopolitics has considerably raised global risks, with multiple centres of power competing for economic, military and political dominance. There are now 34 countries who have substantial influence in another country, up from 6 in the 1970s. The rise in geopolitical fragmentation is also evident from the neighbouring countries relations indicator, which has substantially deteriorated since 2008, with 59 countries recording poorer ties with neighbours in 2024–25, while only 19 improved (Institute for Economics & Peace, 2025).

Socially inclusive transformations can only proceed if there are sufficient financial resources and political will to work together for global good. This requires addressing the growing global frag-

mentation and controlling the rise of armed conflicts and preventing wars. Post World War II, the United Nations Charter was established to prevent war, safeguard human rights, and resolve disputes through peaceful means. However, ongoing wars show how fragile these principles can be in practice.

One of the reasons why multilateral processes set up in the United Nations have been unable to prevent or stop the growing number of state-based conflicts is the veto power of the five permanent Members of the United Nations Security Council. This has significantly weakened decision-making processes, prompting the United Nations Secretary-General to call for the reform of the Security Council by expanding its membership to ensure representation and fairness, especially for Africa, Latin America and the Caribbean, and the Asia-Pacific region — all of whose voices are underrepresented, despite bearing much of the burden of peacemaking in a multipolar world (United Nations, 2025a).

The evolving global order demonstrates a change from two competing countries (like the bipolar world during the Cold War) to a multipolar economic, military and political power structure. In theory, a more multipolar world could strengthen multilateralism, compared to a world order dominated by two competing countries or one superpower. However, the current geopolitical fragmentation and pursuit of strategic dominance risk undermining multilateral processes and global collective actions, giving rise to "minilateralism" or "coalitions of the willing".

The way forward

Accelerating climate change, rapid technological advancements and geopolitical fragmentation demand a new generation of development planning that places social inclusion at the centre of economic, digital and energy transformations. Guided by the principles of NESI, governments should build adaptive capacities through lifelong learning, universal social protection, and anticipatory institutions. They must also strengthen inclusive institutions that allow all individuals, firms and places to contribute to and benefit from change.

At the same time, national actions alone will be insufficient in a deeply interdependent world. The experience of multilateral cooperation demonstrates that collective action can mobilize resources, strengthen accountability, support social progress, and expand opportunities for development. Renewed international cooperation is therefore essential to addressing structural constraints that exceed national capacities, including debt burdens, financing gaps, digital taxation challenges, technological divides and climate-related vulnerabilities. Strengthening multilateral institutions and global governance mechanisms can help ensure a more stable, predictable and equitable sustainable development.

A renewed multilateral agenda should focus on three priorities: first, expanding fiscal space for social investment through stronger international tax cooperation, improved domestic resource mobilization, and comprehensive and systematic support for developing countries to reduce the cost of capital and debt service burden; second, promoting wider access to technology, innovation and digital infrastructure so that developing countries can participate more effectively in the global economy; third, reforming global governance arrangements to make them more representative, inclusive and responsive to contemporary challenges, thereby restoring confidence in collective action and strengthening accountability to development outcomes.

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Appendix

Socially inclusive transformation (SIT) scores by country

Countries are grouped by region and income group. Scores are shown to two decimal places.

Income group	Country	Transformation pillar score	Inclusiveness pillar score	SIT score
AFRICA				
Upper-middle-income	Mauritius	49.41	63.62	113.03
	Algeria	34.80	65.98	100.78
	Botswana	41.14	51.25	92.39
	South Africa	45.02	47.27	92.29
	Libya	31.85	60.08	91.94
	Cabo Verde	37.61	53.68	91.29
	Gabon	37.37	49.78	87.15
	Equatorial Guinea	24.39	34.66	59.04
Lower-middle-income	Tunisia	45.21	58.20	103.41
	Egypt	47.84	54.51	102.35
	Nigeria	44.30	56.36	100.67
	Morocco	43.73	54.90	98.63
	Ghana	43.67	53.36	97.03
	Kenya	44.22	51.48	95.70
	Namibia	41.18	51.48	92.66
	United Republic of Tanzania	38.93	51.17	90.10
	Zimbabwe	41.03	48.04	89.08
	Benin	35.71	51.61	87.32
	Eswatini	44.05	42.30	86.36
	Côte d'Ivoire	38.93	46.99	85.92
	Zambia	40.94	43.07	84.01
	Cameroon	38.05	44.79	82.84
	Angola	31.67	46.36	78.02
	Senegal	39.51	38.31	77.83
	Sao Tome and Principe	26.69	46.47	73.16
	Lesotho	31.07	39.58	70.65

Income group	Country	Transformation pillar score	Inclusiveness pillar score	SIT score
AFRICA (*continued*)				
Lower-middle-income (*continued*)	Congo	25.79	42.34	68.13
	Comoros	23.96	43.82	67.79
	Guinea	28.62	37.65	66.27
	Mauritania	27.99	35.65	63.64
Low-income	Rwanda	48.79	44.32	93.10
	Ethiopia	44.72	47.70	92.42
	Uganda	36.08	52.14	88.22
	Togo	37.37	50.63	88.00
	Mozambique	33.91	43.08	76.99
	Mali	30.25	46.69	76.94
	Niger	34.52	41.74	76.26
	Liberia	27.81	48.17	75.98
	Malawi	29.75	45.79	75.54
	Gambia	31.38	43.35	74.73
	Guinea-Bissau	31.35	43.14	74.49
	Burundi	24.70	49.01	73.72
	Burkina Faso	33.87	38.69	72.56
	Sierra Leone	30.03	42.38	72.41
	Democratic Republic of the Congo	33.64	38.50	72.13
	Madagascar	33.03	36.83	69.87
	Chad	26.75	32.56	59.31
	Sudan	29.94	28.01	57.95
	South Sudan	23.02	32.33	55.35
	Somalia	31.32	23.76	55.08
	Central African Republic	22.94	29.30	52.24
AMERICAS				
High-income	United States of America	69.68	75.99	145.67
	Canada	60.00	83.15	143.15
	Uruguay	54.77	78.56	133.33
	Chile	50.30	72.06	122.36
	Costa Rica	51.28	69.45	120.73
	Panama	45.41	64.13	109.54
	Guyana	47.80	54.43	102.23
Upper-middle-income	Argentina	49.84	70.29	120.13
	Peru	47.63	67.59	115.22
	Colombia	53.44	60.43	113.87
	Dominican Republic	50.65	62.78	113.43
	Brazil	49.60	63.73	113.33
	Ecuador	44.10	65.97	110.07
	Jamaica	42.24	66.51	108.75
	Mexico	46.19	61.26	107.45
	Paraguay	42.17	64.05	106.22

Income group	Country	Transformation pillar score	Inclusiveness pillar score	SIT score
AMERICAS (*continued*)				
Upper-middle-income (*continued*)	El Salvador	39.43	56.83	96.26
	Saint Lucia	33.88	60.34	94.22
	Suriname	37.29	56.79	94.08
	Guatemala	41.99	42.44	84.42
Lower-middle-income	Venezuela (Bolivarian Republic of)	40.38	64.15	104.53
	Bolivia (Plurinational State of)	37.74	65.71	103.45
	Nicaragua	40.11	54.45	94.56
	Honduras	38.58	43.95	82.52
	Haiti	30.08	48.68	78.76
ASIA				
High-income	Republic of Korea	67.34	79.90	147.24
	Singapore	68.98	74.72	143.70
	Israel	63.14	76.86	140.00
	Japan	61.20	77.08	138.28
	Cyprus	57.06	79.59	136.65
	Qatar	54.13	76.17	130.31
	United Arab Emirates	58.59	71.70	130.28
	Brunei Darussalam	44.47	74.15	118.62
	Kuwait	46.60	65.87	112.48
	Saudi Arabia	52.66	56.62	109.28
	Oman	44.48	59.98	104.45
	Bahrain	47.50	54.40	101.90
Upper-middle-income	China	68.91	76.34	145.26
	Azerbaijan	55.78	82.33	138.10
	Kazakhstan	54.34	83.58	137.92
	Thailand	54.30	78.69	132.99
	Malaysia	55.54	71.19	126.73
	Armenia	56.97	69.17	126.14
	Türkiye	55.34	65.64	120.98
	Georgia	49.77	69.46	119.23
	Mongolia	47.20	69.21	116.41
	Indonesia	50.76	64.17	114.93
	Iran (Islamic Republic of)	46.88	46.68	93.56
	Maldives	31.46	59.43	90.89
	Iraq	45.52	43.53	89.05
Lower-middle-income	Uzbekistan	58.21	69.69	127.90
	Viet Nam	49.68	76.72	126.40
	Kyrgyzstan	44.71	70.05	114.76
	Philippines	50.94	62.95	113.89
	Cambodia	43.70	62.14	105.83
	India	55.62	49.80	105.42
	Tajikistan	44.22	60.88	105.10

Income group	Country	Transformation pillar score	Inclusiveness pillar score	SIT score
ASIA (*continued*)				
Lower-middle-income (*continued*)	Sri Lanka	48.52	56.16	104.67
	Myanmar	46.51	57.25	103.76
	Bhutan	38.67	64.93	103.60
	Jordan	48.28	55.14	103.42
	Lebanon	45.78	56.77	102.55
	Lao People's Democratic Republic	32.94	61.52	94.46
	Bangladesh	44.63	49.81	94.44
	Nepal	36.40	49.34	85.74
	Timor-Leste	27.02	57.75	84.77
	Pakistan	41.29	38.72	80.01
Low-income	Yemen	34.68	30.94	65.62
	Syrian Arab Republic	22.58	42.38	64.96
	Afghanistan	23.18	27.38	50.56
EUROPE				
High-income	Malta	78.68	81.10	159.77
	Ireland	69.71	87.27	156.98
	Denmark	67.01	88.57	155.58
	Finland	63.65	90.91	154.56
	Netherlands (Kingdom of the)	64.73	89.40	154.13
	Sweden	63.67	88.89	152.55
	Belgium	60.24	91.12	151.36
	Iceland	60.05	89.92	149.98
	United Kingdom of Great Britain and Northern Ireland	66.54	82.85	149.39
	Luxembourg	65.43	82.37	147.80
	Germany	63.32	83.52	146.84
	Estonia	65.71	80.45	146.16
	Czechia	60.80	84.85	145.65
	Norway	55.00	88.85	143.84
	Portugal	58.96	84.73	143.70
	France	62.01	81.64	143.65
	Switzerland	59.69	82.76	142.45
	Slovakia	58.57	83.37	141.93
	Slovenia	55.53	86.35	141.89
	Spain	59.68	81.43	141.11
	Austria	59.19	81.89	141.08
	Lithuania	63.77	76.32	140.09
	Poland	58.60	81.33	139.92
	Hungary	57.82	81.80	139.62
	Russian Federation	59.82	76.57	136.39
	Bulgaria	63.58	72.20	135.78
	Croatia	54.83	80.10	134.93
	Italy	58.36	74.83	133.19

Income group	Country	Transformation pillar score	Inclusiveness pillar score	SIT score
EUROPE (*continued*)				
High-income (*continued*)	Greece	55.81	77.37	133.18
	Latvia	56.25	76.88	133.13
	Romania	58.97	70.58	129.55
Upper-middle-income	Belarus	53.37	84.03	137.40
	Republic of Moldova	56.38	76.86	133.24
	Ukraine	55.42	77.22	132.64
	Serbia	54.76	74.66	129.41
	North Macedonia	52.83	68.51	121.34
	Montenegro	50.18	69.43	119.60
	Albania	49.90	66.72	116.63
	Bosnia and Herzegovina	46.08	67.04	113.12
OCEANIA				
High-income	Australia	60.35	85.91	146.27
	New Zealand	57.03	82.70	139.73
Upper-middle-income	Fiji	36.35	60.43	96.78
	Tonga	34.82	61.08	95.90
	Samoa	37.69	55.75	93.45
Lower-middle-income	Solomon Islands	29.85	63.70	93.55
	Vanuatu	29.45	58.35	87.80
	Papua New Guinea	35.19	48.90	84.09

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