

Towards peace, decent work, and greater equality:

Research evidence for transforming economies, states, and societies



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Foreword

At UNU-WIDER, we made the decision to produce a single report that provides our stakeholders with a concise distillation of some of the most salient research findings our institute made during the 2019–23 work programme on *Transforming economies, states, and societies*. This synthesis report consolidates our work in a single place.

The work that led to this report was a monumental undertaking. The research that informs this report took place in 30 different research projects managed by our institute since 2019, when I began my role as Director. At the time, despite how highly regarded UNU-WIDER is in the field of development, I did not anticipate the depth and breadth of the work that would be published under this work programme.

The projects collectively have produced over 760 WIDER Working Papers so far, with more still on the way. A significant portion of these studies are already in the journals or comprise the chapters of several edited volumes. They address, in line with UNU-WIDER's mandate, some of the most pressing concerns facing humanity today.

It would be difficult to acknowledge everyone who has contributed to this work in this limited space, but I can do my best to try. Not all, or even most, of the knowledge advancements and accomplishments made during my tenure as Director are able to fit into this report, but I owe a small debt of gratitude to every contribution made to the work programme and to everyone who has worked with and continues to work with UNU-WIDER. The WIDER Network has played a critical enabling role in facilitating our research.

We gratefully acknowledge the support of our partners, from government agencies and departments across several countries to the NGOs, research institutes, and universities and their countless acts that make it possible for us to conduct and share our research. More than 1,800 researchers were involved, representing 85 of the world's nations. I count many of you as friends. To each of you, thank you for your important and often under-recognized work.

I would like to give special thanks to the UNU-WIDER staff, too, for keeping the wheels on. I am perpetually amazed by their dedication and day-to-day professionalism, often under tight constraints and in difficult circumstances. I continue to be proud of our team and what we have accomplished.

Thanks, as well, to our donors, whose resources continue to sustain our work, in particular the governments of Finland, Norway, Sweden, and the United Kingdom. I want to give special mention to the country of Finland, not only for funding our institute, but also for hosting it in Helsinki, its spirit of international cooperation, and its admirable commitment to the economic development and wellbeing of the world's marginalized populations.

Finally, a thank you to our stakeholders, the intended readers of this report, and your support for making the world a better place for everyone. I genuinely hope that you find this report to be a useful instrument in your toolbox.

Sincerely,

Kunal Sen

Executive Summary

As we cross the mid-point of the *2030 Agenda for Sustainable Development*, UNU-WIDER also culminates a 5-year research programme on *transforming economies, states, and societies*. A synthesis of the most salient research contributions made are organized in this report by their ability to achieve three universal aspirations shared by humans everywhere. These critical outcomes — **peace, greater equality, and decent work** — can be achieved in our lifetimes and are instrumental to accelerating progress on the *Sustainable Development Goals (SDGs)*.

Progress on the SDGs is now stalled following the emergence of a global threat no one could have predicted, COVID-19, and the crisis it precipitated. That, combined with the several endemic crises related to violent conflict, poverty, and political injustice and the aftershocks of the Russian invasion of Ukraine have reversed much of what has been achieved. Our findings provide clear opportunities for action, which can be a springboard for Southern governments and the international community hoping to recover and accelerate progress towards the SDGs.

Peace

Peace is a foundational condition. The countries and contested territories that are the terrain of conflict —designated as fragile and conflict-affected situations (FCS) by a World Bank classification — are some of the most difficult places in the world to advance global goals. Violent conflict makes it harder to prevent humanitarian crises, develop sustainable economies, plan for the future, and provision basic needs — let alone provide for political justice, strengthen institutions, and reinstate the social contract.

Our research highlights three critical elements for building peace in conflict-affected areas: rebuilding the state, strengthening the social contract and social cohesion, and encouraging non-violent political participation. A key message of this work is that these ingredients can work to achieve a lasting peace only when they are combined with a deep understanding of the post-conflict environment.

- Our work focuses on the continuation of structures, perceptions, and identities that emerged or were strengthened during wartime—the legacies of violent conflict. Violent conflict generates new forms of social, political, and economic organization. One particularly important factor is the structures and forms of wartime governance exercised by armed groups. The persistence of non-state governance structures post-conflict, even after disarmament, becomes exceptionally relevant to efforts to build peace.
- The ability of a state to effectively control territory depends on if it can legitimately provide for basic rights and economic needs. For example, communities require viable economic alternatives to wartime economies, broader socioeconomic inclusion, and protection from powerful criminal organizations. Statebuilding efforts that put the needs of local populations at the centre are more likely to succeed.
- Provision of political representation and support for grassroots democracy can re-establish trust in the state and encourage non-violent redress of grievances, but rushing to hold elections may not be the surest way to meet local needs or establish state legitimacy. A statebuilding policy framework should have twin objectives of strengthening state capacity and civil society actors in tandem and centre the idea that it is worthwhile to support autonomous institution-building efforts at both central and local levels.

Decent work

Fair and sustainable economies require high-functioning and inclusive labour markets that provide workers with decent work. That is, jobs which are secure, safe, and fairly remunerated. UNU-WIDER research on decent work covers three primary areas — **informality, social protection, and gender gaps** — with detailed studies on these issues in more than thirty countries across the Global South.

The majority of the world's workforce is employed in the informal sector and rates of informal employment in Global South countries tend to be much higher than in the Global North and as high as 90% in the case of India. Informality is a major barrier to decent work as the informally employed are often poorly paid, with jobs that are transitory and insecure and lack formal legal protections for workers' rights. The informally employed worker is also more susceptible to economic shocks, as their employment status prevents their participation in social insurance programmes.

- As the ILO reported in April 2020, [1.6 billion people](#) employed in the informal economy—80 per cent of the global informal workforce and nearly half of the total global workforce—were estimated to see their livelihoods destroyed by the decline in work, working hours, and earnings brought on by COVID-19 lockdowns or other restrictions. Our subsequent research on how COVID-19 impacted the working poor supports these estimates.
- An important lesson from our work on the impacts of COVID-19 is that social protection programmes across the Global South do not [provide broad enough coverage to protect a substantial portion of the working poor](#) during the recurrent crises these countries face.
- Women often occupy the worst-paid jobs with the least protection, while gender-related social norms often hinder women's access to better opportunities. This is true everywhere, but the problem tends to be of a different degree across Global South countries.
- In the Middle East and North Africa, the female labour force participation rate is shockingly low at around 20%, and in South Asia, it is not much better at 24%. The quality of employment for women is also significantly worse than for men. Conditional on individual and household characteristics, [women are 7 percentage points more likely to be in vulnerable employment than men](#).
- [The experiences of marriage and parenthood are also important drivers of gender gaps](#), as these are experienced differently by women than by men in ways that often disadvantage women's work opportunities and lifetime earnings. At the same time, social protection policies, such as extended maternity leave [can reduce women's share of vulnerable employment](#) and narrow gender gaps.
- In an analysis of workers' transitions between informal and formal sector jobs covering 22 countries, we find that there are [four types of informal sector employment](#). For workers in lower-tier informal sector employment, there is little chance of upward mobility. Across the countries studied, these are dead-end jobs that do not provide decent work. On the other hand, upper-tier informal wage employment is the least persistent work status, meaning workers often transition out of this sector, though they are as likely to fall down the jobs ladder than to climb up it.
- This work offers two lessons for policymakers. First, efforts to encourage formalization of jobs should focus on upper-tier informal employment, on encouraging transitions out of the sector and into formal sector work, and on formalizing more dynamic firms in the sector. Second, workers in lower-tier informal sector jobs should not be forgotten. A range of social policy can improve conditions for the working poor in this sector. Now, more than ever, there is a case for [a new social contract that includes informal workers as key stakeholders](#).

Greater equality

Our research on inequalities is far-reaching, consistent with UNU-WIDER's history of work in this area. We find that high levels of [inequality are strongly correlated with lower human development index \(HDI\) scores](#). This means inequality is associated with lower society-wide levels of education, public health and life expectancy, and economic performance. Economic growth — shown to be critical to poverty reduction — [lifts less people out of poverty](#) in highly unequal societies. And, [inequality undermines political participation](#) and support for democracy in democratic societies, potentially [prevents the formation of stable democracy](#) in non-democratic societies, erodes institutional quality, trust, and social cohesion, and may promote corruption.

- The World Income Inequality Database (WIID) that we host and maintain as a public good has been expanded, and provides the most comprehensive collection of income inequality statistics in the world. Using the WIID, we find that global income inequality, as measured by the Gini Index, has been on a downward trajectory since 1990 but remains incredibly high at Gini 60.6.
- This downward trend is also driven entirely by the convergence of mean incomes between lower- and higher-income countries over the period, especially the substantial increase of GDP per capita in the world's most populous countries, China and India.
- The within-country component of global inequality increased. [At least 58% of the world's population witnessed inequality increase](#) in their country compared to 26% who witnessed a decline.
- Significant inequalities between higher- and lower-income countries are still pervasive. Even more concerning, if the mean incomes of either or both India and China pass the global mean income, the between-country component of inequality may begin a journey back to pre-2000 levels, an effect known as [the global inequality boomerang](#). To tackle the threat of rising global inequality, it is now more critical than ever to support the economic development of the lowest-income economies. The battle for *SDG 10 – Reduced Inequalities* needs to be largely fought within countries. At a global level, efforts to increase international tax fairness and prevent much-needed revenues from fleeing countries for tax havens can help. The volume of corporate profits shifted to tax havens globally increased from 2% of the global total in 1970 to 37% of the global total by 2019, resulting in [an annual tax loss of EUR 250 billion](#) globally. Ensuring continued balance of payments support and multilateral efforts to minimize debt distress are also important.
- Global efforts to reduce the burden of climate change on the lowest-income economies should be commended. Our research on harnessing the potential of natural resource development suggests more can be done to reduce emissions and ensure that economic gains from development stay in-country.
- Within countries, and in addition to efforts to reduce gender gaps and provide decent work, efficient and fair tax and transfer systems are critical. A challenge for lower-income countries is their relatively weaker tax and transfer systems to address concerns around fairness and fund redistributive social transfers.
- We document several successful actions by sub-Saharan African countries to increase revenue, providing clear evidence that enhanced domestic revenue mobilization in sub-Saharan Africa is possible.
- An important implication of our research using tax and benefit micro-simulation models is that tax and social protection systems in low-income countries barely react when large parts of the population suffer income losses, such as during the COVID-19 pandemic. More social spending is clearly required, but fiscal space has not expanded over the past decade.
- A focus on income inequality (defined as vertical inequality) alone is not enough. Horizontal inequalities—those between ethnic or culturally defined groups—are critical to explaining national inequalities. Affirmative action [policy can improve the representation and wellbeing of marginalized groups](#).

The lesson of the first years of this decade is that it is critically important to increase our resilience to crises, to address the legacies of past crises, to recognize the strengths of people everywhere facing them, and to stand prepared for future shocks. To do this, the world's nation-states need to work together to build more peaceful and effective states and more fair and sustainable economies. We also need to accelerate progress towards global goals and get back on track to achieve the *Sustainable Development Goals (SDGs)* by 2030.

In 2023, UNU-WIDER's most recent 5-year research programme culminates. What follows in this report is an ambitious synthesis of many of the most salient research contributions UNU-WIDER has made, organized by their ability to achieve three universal aspirations shared by humans everywhere. These critical outcomes — **of peace, greater equality, and decent work** — can be achieved in our lifetimes. The second section of this report outlines the major findings that support fulfilment of these aspirations. The final section identifies opportunities for action, points of leverage for policy that can help humanity end this decade stronger than we began it, accelerate our achievement towards the SDGs, and stand ready for the future.





1 | State of the world – a legacy of crises

Human societies are often transformed in the forge of heightened concern around a critical threat, whether it be a global pandemic, economic or financial crisis, or wars and violent conflict. Crises can lead to stagnant growth for prolonged periods and increased household vulnerability, especially in a Global South context of fiscally-constrained states and weak social safety nets. If inadequately addressed, crises can lead to lost decades for development and backsliding on global goals.

Wars and violent conflict

While poverty has been broadly reduced across the globe since 1990, it increased in conflict-affected countries. The gap between peaceful and conflict-affected countries in their progress on poverty

reduction [is predicted to widen further](#).¹ By 2030, [two-thirds of the world's extreme poor](#) will live in fragile and conflict-affected countries.² Almost [70% of the 193 million people suffering from acute hunger](#) live in countries with violent conflict and instability.³

Wars and violent conflicts, in particular, shape state-building and economic development processes far into the future and require an ongoing response. In fact, [most of the armed conflicts](#) we observe today are a reflection, or extension, of inadequately addressed conflicts experienced decades ago.⁴ War is a defining historical experience. It brings about fundamental change and restructures social, political, and economic order and can set the stage for cycles of exclusion and violence.

Violence also drives another horrifying figure: [more than 100 million people](#) are forcibly displaced worldwide, according to the United Nations High Commissioner for Refugees (UNHCR).⁵ Russia's war against Ukraine [exacerbates these trends](#) further.⁶

These are important dynamics that are likely to affect post-conflict recovery and political development — and, consequently, the prospect of a future without poverty, hunger, and violence and with peace, equality, and decent work. Yet, we know very little about the legacies of violent conflict and what policies would best serve countries that emerge from conflict to secure peace.

UNU-WIDER's work includes a major effort to shed light on how and why violent conflicts persist, how and why their legacies endure across time, and what can be done to support peaceful and effective states



The legacy of these recent crises is still unwritten. It depends critically on if the world continues to address the shockwaves, such as inflationary shocks driven by the supply-chain disruptions of quarantines, lockdowns, and wars, or the debt burdens, both public and private, accumulated to finance the emergency response.

in societies emerging from war. It also includes major findings on aid effectiveness that support both donor and recipient states hoping to build peace. UNU-WIDER seeks to generate actionable insights for those interested in pursuing peace and achieving [SDG 16: Peace, justice, and strong institutions](#).

Global pandemics and economic crises

The policies needed to address a global pandemic also increased the risk of economic contraction. This demonstrates that the need for a committed and coordinated crisis response is greatly increased. The COVID-19 pandemic put healthcare systems around the world under strain and the response itself caused significant declines in incomes, most especially for the most vulnerable.

It is estimated that the pandemic increased the number of people living in extreme poverty to [1.12 billion people worldwide](#) — up from 727 million in 2018,⁷ with [around 14 million excess mortality deaths as of 31 December 2022](#).⁸ Income losses have been particularly severe for the working poor. In late April 2020, the ILO [estimated that 1.6 billion people employed in the informal economy](#) — 80 per cent of the global informal workforce and nearly half of the total global workforce — would see their livelihoods destroyed due to the decline in work, working hours, and earnings brought on by lockdowns or other restrictions to curb the spread of COVID-19.⁹ It will take years for countries to rebuild and, without help, the working poor may never recover from the shock to their incomes.

Several UNU-WIDER studies document the effects of the pandemic, particularly for people in Global South countries. These effects are made worse in contexts with overlapping endemic crises of low or low-quality employment, high inequality, and political injustice — a suite of problems UNU-WIDER works on extensively to produce better evidence for action. Several more studies recognize the crucial role that states play in addressing the needs of citizens and others within their borders, especially during public emergencies. They analyse the relationship between the outcomes we care about and the state's constraints and capabilities, while documenting several important lessons.


The global financial crisis of 2007–09 was a severe worldwide economic crisis — the worst since the Great Depression of the 1930s. It had permanent negative effects on labour markets in Global South

countries, and on the [financial systems of Global North countries](#). The world entered a [new crisis](#) after Russia's invasion of Ukraine caused major disruptions to international markets for food, fertilizer, and energy.

Before the war, both Russia and Ukraine were major exporters of traded cereals, edible oils, fertilizer, and energy inputs. The war closed off Black Sea trade routes for Ukrainian exports, and international sanctions shut Russia out of export markets. This combination led to a global food crisis — sharp increases in the price of food, fertilizer, and energy that are causing major concerns about [food security in low- and middle-income countries](#).¹⁰

The legacy of these recent crises is still unwritten. It depends critically on if the world continues to address the shockwaves, such as inflationary shocks driven by the supply-chain disruptions of quarantines, lockdowns, and wars, or the debt burdens, both public and private, accumulated to finance the emergency response. If we are not careful, crises tend to spawn new crises.

To increase our ability to respond effectively to crises, address the legacies of past crises, and contribute to human resiliency, our work programme has built a strong evidence base to support actions that contribute to more peaceful and effective states and more fair and sustainable societies. Our major findings on how to achieve the outcomes of **peace, greater equality, and decent work**, particularly in Global South countries, are useful to accelerate progress towards the achievement of SDGs by 2030.



2 | What have we learned?

UNU-WIDER was founded to undertake research and policy analysis on the most pressing concerns affecting the living conditions of the world's poorest people; to provide a forum for knowledge sharing, discussion, and debate; and to offer capacity development and training to researchers and decision makers.

The 2019-23 UNU-WIDER work programme on Transforming economies, states, and societies maps each project against the key SDGs it supports. The 30 diverse projects are designed to holistically support *SDG 5 – Gender equality*, *SDG 8 – Decent work and inclusive growth*, *SDG 10 – Reduced inequalities*, *SDG 16 – Peace, justice and strong institutions*, and *SDG 17 – Partnerships for the goals*. Together, these projects and the knowledge they have produced in hundreds of published studies contributes to global resilience with major findings in the three focus areas of **peace, greater equality, and decent work**.

Photo: PieTer Uys/UNU-WIDER

The aspiration for peace

The lasting peace dreamed of by generation after generation of humanity has not yet been achieved. And, not for lack of effort. The countries and contested territories that are the terrain of conflict, designated as fragile and conflict-affected situations (FCS) by a World Bank classification, are some of the most difficult places in the world to advance global goals.

Violent conflict makes it harder to do almost everything. It is harder to prevent humanitarian crises, develop sustainable economies, plan for the future, and provision basic needs — let alone to provide for political justice, strengthen institutions, and reinstate the social contract — in conflict-affected areas. Conflict also makes it difficult for donors and recipients to provide aid and implement effective development cooperation.

The severe reduction or absence of violence, usually measured in number of battle deaths, tends to be taken as the sign that armed conflict has come to an end. But the establishment of peace requires more than silencing the guns. While military victories or the signing of peace agreements (at least temporarily) achieve stability, peace is a process that needs to be consolidated over time.

A key reason that achieving peace is not straightforward is that the post-conflict period is characterized by the continuation of structures,

perceptions, and identities that emerged or were strengthened during wartime. Our work studies these legacies of violent conflict. Our projects on [The institutional legacies of violent conflict](#), on [How do effective states emerge?](#), and on [The state and statebuilding in the Global South: national and local interactions](#) give insight on how these dynamics emerge and to what extent they stand in the way of establishing peace, or how they can be harnessed to consolidate peace. More than 50 of our research studies are from leading experts in conflict analysis, peacebuilding, and related fields on the topic of how to achieve a lasting peace.

Three critical elements for peace emerge from this work:

- Rebuilding the state
- Strengthening the social contract and social cohesion
- Encouraging non-violent political participation

At a fundamental level, lasting peace requires the [reinstatement of a social contract](#) between state and society.¹¹ This entails, among other things, strengthening the legitimacy of the state authority. Similarly, it is essential to not only rebuild trust in the state, but also trust between and within communities wrought by violence and to encourage resolution of grievances and non-violent participation in political processes. These efforts

can pave the way for the economic and political development within which peace can prosper and the non-violent resolution of conflict can be established as the only game in town.

Rebuilding the state

Violent conflicts bring about profound institutional changes, as some forms of socio-political order prevail over others. Pockets of resistance emerge, power hierarchies are re-imagined, and identities take on new meanings. Conflicts destroy, but they also generate or strengthen other forms of social, political, and economic organization and breed new forms of governance, identities, and social organization that may be overlooked in the rush of the international community to build new states and institutions. One important factor shaping post-conflict statebuilding is the structures and forms of wartime governance exercised by armed groups. During conflict, both state and non-state armed groups do not solely rely on violence to exert control, and rather establish parallel forms of governance that may or may not replace pre-war governance structures.

We observe this in the case of Syria, where civil society groups emerged early in the conflict to provide public services in rebel-held urban areas. Also, the Islamic State — in line with the behaviour of many non-state armed groups across the world — provides substantial public service provision and infrastructure.

Non-state armed actors often impose their rule in marginalized areas where the presence of central governments is weak. At other times, wartime rebel institutions run in parallel to existing state institutions, or rebels find a way to appropriate local governance structures and exploit political processes, such as elections, in their favour.

Existing local power structures can be a strong determinant of whether rebels co-opt or replace local elites.¹² For example, in the eastern part of the Democratic Republic of the Congo (DRC), armed groups who face powerful local customary chiefs are more likely to implement indirect rule by establishing relationships with these local elites, rather than attempt to replace them. In other settings, where local elites do not

have a strong grip on power, armed groups tend to replace them and implement direct rule.

Understanding the nature and functioning of wartime governance is crucial to post-conflict peacebuilding processes. It has important ramifications for statebuilding after war because the structures and

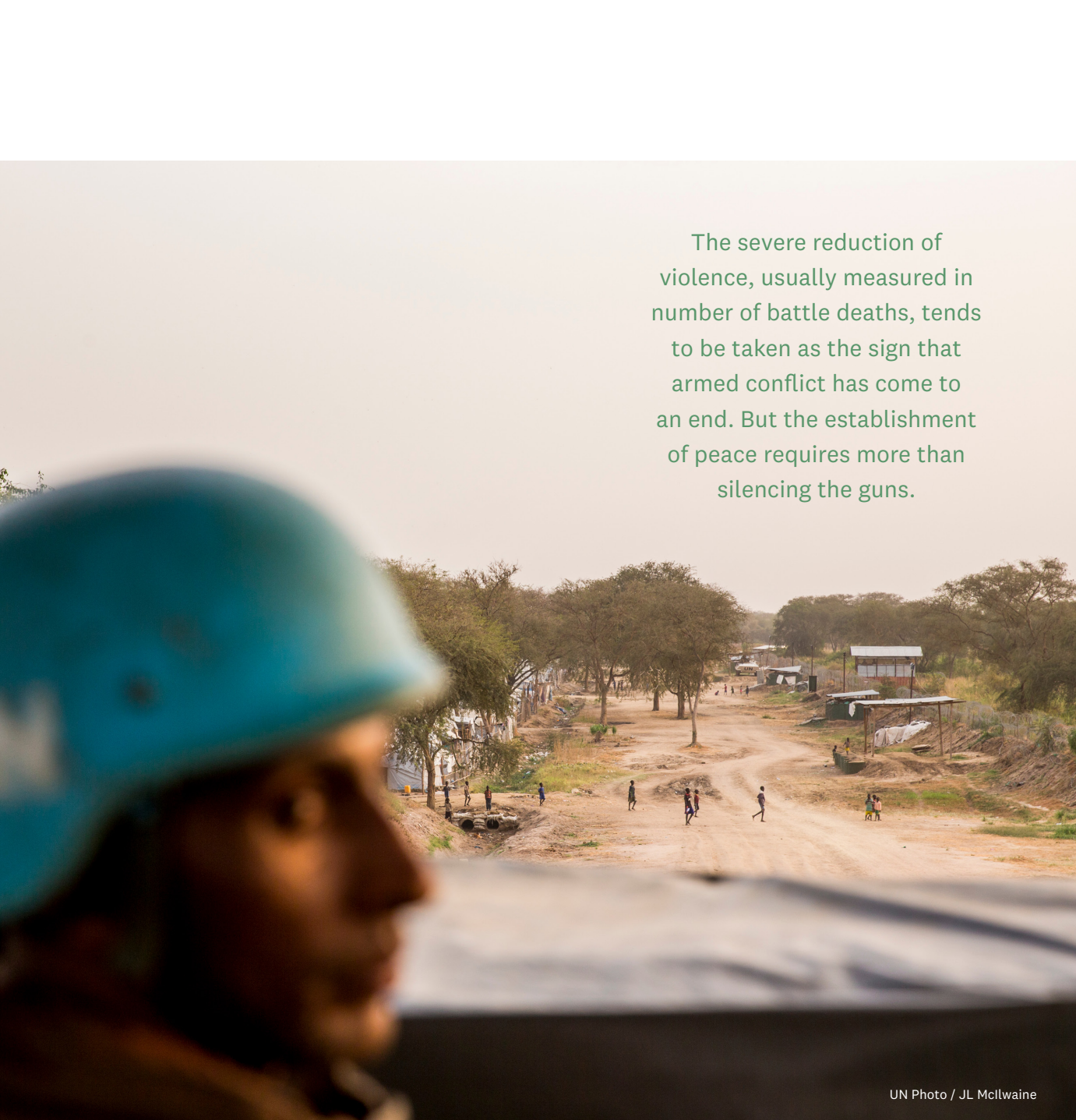
relationships created during wartime tend to remain intact. Even if violent interaction ends, non-state armed groups continue to retain control over certain populations.

The state's ability to regain the monopoly on violence depends on [whether local elites were co-opted or replaced by rebel leaders](#) during the conflict.¹³ If rebels sought a strategy of co-optation, this probably reinforces the status and bargaining power of local faction leaders and power brokers. In the event of a rebel victory, this makes it more difficult for a rebel-led government to enforce its rule after war, specifically if the interests and priorities of local elites diverge from those of the post-war rebel government.

Conversely, when armed groups displace local power structures during war and replace them with their own strong organizations, post-war rebel governments are better positioned to mitigate the risks of fragmentation and re-armament that can reignite the violence. The opposite dynamics are true in the case of a rebel defeat.

Even in the absence of diverging interests, wartime networks prove to be an obstacle to the consolidation of peace, as these governance systems are often made to sustain warfare and benefit those involved. This is illustrated in the case of South Sudan, where networks stretch across the rebel army, traditional leaders, and power brokers, and are extremely resilient but also prone to corruption and patronage. Even after rebel victory, these networks are [not easily replaced through external efforts](#) to create 'good governance'.¹⁴

The countries and contested territories that are the terrain of conflict ... are some of the most difficult places in the world to advance global goals.

A photograph showing a soldier in a blue helmet in the foreground, looking towards a dusty, unpaved road in a conflict-affected area. The road is lined with trees and some makeshift structures. In the distance, several people are walking along the road. The sky is overcast.

The severe reduction of violence, usually measured in number of battle deaths, tends to be taken as the sign that armed conflict has come to an end. But the establishment of peace requires more than silencing the guns.

UN Photo / JL McIlwaine

In cases where the incumbent government wins the war, the state is inclined to focus efforts on increasing state capacity [in previously insurgent-controlled territory or areas where state authority remains contested](#).¹⁵ While such efforts can be fruitful, wartime networks are surprisingly resilient and may allow non-state armed groups to remain active post-conflict.

In particular, wartime economic networks with established ties to the civilian population help rebels sustain the capacity to conduct attacks against the state, even as state capacity increases and economic development improves.¹⁶ During peacetime, these wartime networks often remain an important driver of economic activity and secure local livelihoods. This generates the necessary civilian support for the respective insurgent group to successfully contest the state's claim on the monopoly on violence and potentially re-arm.

The persistence of non-state governance structures becomes exceptionally relevant in times of crisis because [armed groups can harness external shocks](#), such as the COVID-19 pandemic or climatic shocks, to retake or consolidate control.¹⁷ But their ability to respond successfully to an emerging crisis is shaped by [their capacity to deliver assistance or enforce certain rules](#), a capacity mediated by the strength of their existing governance structures, as well as their current political goals and financial means.¹⁸

The state also establishes new forms of wartime governance during conflicts. Some forms of state repression, in particular, have lasting consequences for statebuilding and for political and economic

development. While experiences of state repression can [increase political participation](#) in the long run once democratic rule is established,¹⁹ most structures of repression, once created, often survive the end of a conflict — regardless of whether countries make a partial or full transition to democracy. Governments have been shown to rely on these structures and [employ state-affiliated irregular militias](#) or [co-opted local elites](#) to repress protest.^{20 21 22} These trends hamper the path to peace and sustainable development, as they prevent the emergence or consolidation of legitimate state authority.

Taken together, the research evidence cited here provides a narrative about the critical importance to peacemakers of [understanding the nature and form of wartime governance](#), as this is a key determinant of political and development trajectories post-conflict.²³ Statebuilding and development interventions need to be guided by an understanding of the viability and continued presence of wartime governance structures after war, as well as their long-term legacies.

Development cooperation plays an important role in addressing the needs of those in fragile and conflict-affected states, as well as in the building and rebuilding of these states. By 2030, the vast majority of the world's most poverty-affected people (86%) will live in fragile and conflict-affected states. But providing effective development cooperation in these contexts is not straightforward.

Indeed, [the record of aid in fragile contexts](#) is mixed at best.²⁴ This stands in contrast to findings from

the broader literature on aid effectiveness, including [previous UNU-WIDER work](#), which points to an overall positive impact on development outcomes.²⁵ In one study of aid in highly fragile states, which draws on systematic reviews of evaluations of aid in Afghanistan, Mali, and South Sudan, researchers [found little evidence](#) of any positive impact. The paper concludes that aid is not an effective tool for encouraging stability and good governance in fragile contexts.²⁶ Another study, which draws lessons from more than two decades of research on aid effectiveness in fragile contexts, however, finds that [aid does have a positive impact overall](#), although several of the most fragile contexts remain exceptions.²⁷

The lesson of these findings is not that development cooperation should be abandoned in extremely fragile contexts — as the wrong strategy or as a waste of resources — but that meeting critical objectives is more difficult in more challenging settings. The aid effectiveness principles — country ownership, focus on results, inclusive partnerships, and transparency and mutual accountability — represent a globally agreed framework for maximizing the impact of aid. Yet delivering aid in accordance with [the effectiveness principles](#) is challenging, and [especially so in fragile contexts](#) with weak or illegitimate national state institutions.²⁸

There are no easy solutions, but our work points to some ways forward. For instance, in some fragile countries, [Somalia and Afghanistan for example](#), legitimacy may be higher at the local level than at the national level.²⁹ In such contexts, a bottom-up approach, [in which ownership is understood](#)

[as something to achieve more broadly than at the level of national state ownership](#), may be more successful.³⁰

When ownership encompasses local communities and their demands, it can have broader benefits, such as greater empowerment of civil society and marginalized communities, which can be helpful to improving outcomes overall. In a similar vein, [a study of country ownership in six recipient countries](#) — Bangladesh, El Salvador, Rwanda, Senegal, Tanzania, and Uganda — explores what refocusing attention from country ownership to ‘inclusive ownership’ would entail and suggests that the broader conceptualization may improve development cooperation.³¹

Strengthening the social contract and social cohesion

Statebuilding requires the establishment of a functioning relationship between the state and society. The legitimacy of the state and its ability to establish a monopoly on violence are only one end of the spectrum. Governance is an interactive process that requires the participation and engagement of communities and civil society with the state. Yet, conflicts alter how communities operate, restructure social relations, and affect how civilians view the state, perceive political actors, and contribute to social organization.

TEXT BOX 2.1

Legacies of violent conflict in Colombia¹

Colombia has been wrought in a furnace of internal conflict for over 50 years, leaving more than 220,000 people dead. In 2016, the main rebel group, FARC (*Fuerzas Armadas Revolucionarias de Colombia*), signed a peace agreement that initiated their demobilization and transition to a political party. To date, the peace agreement is largely considered a success, even though peace has yet to be achieved.

Dissident factions and other armed actors, such as the ELN (*Ejército de Liberación Nacional*), control a vast territory in the countryside. Illicit actors primarily fight over areas associated with illicit markets — for example, in drug production, the drug trade, illegal mining, or human trafficking — but also for the opportunity to extract rents from everyday people. Governance structures established during the conflict continue to pose a significant hurdle to the state re-establishing its monopoly on violence across the country, even after FARC demobilized.

There is a continued lack of trust in the state, as the government's response to local needs is seen as insufficient. This feeds into the persistence of wartime structures, especially those of the wartime economy, which are retained or newly captured by violent non-state actors, which allows pockets of instability to persist. In contrast to many other violent settings, Colombia maintained democratic structures throughout its history. Nonetheless, the legitimacy of Colombia's democracy remains disputed in peacetime.

Violence also affects local organizational capacity, reinforcing or invigorating it. For example, more than 1,900 peace initiatives have been developed at the local and community level in response to war, most of them in the most violent areas. Communities use these as a collective strategy to protect themselves from violence, for example, by negotiating truces with armed actors. Local organizational capability may also be an important determinant of whether communities recover economically from war.

¹Saavedra-Lux, 2023. Forthcoming WIDER Working Paper, 'Rebounding after Conflict: Patterns of Civilian Victimization and Trajectories of Development'.



UN Photo / Stuart Price

Strengthening the social contract between states and citizens and improving social cohesion between social groups are central to positive development outcomes. There are several complex ways in which conflicts affect these social outcomes.

First, displacement of populations can hinder social cohesion within communities. On returning, those who were internally [displaced display lower levels of trust, reconciliation, and community engagement](#) than community members who were not displaced.³²

Second, the presence of non-state actors during conflicts [affects post-conflict civic engagement](#) and the relation between citizens and authorities. Surprisingly, if community institutions were weak prior to the conflict, the presence of rebels appears to strengthen participation in community

organizations. If communities displayed strong institutions on arrival, rebels tend to co-opt these in ways that lead to a deterioration of levels of community organization.³³

The implementation of strong governance structures by rebel groups during conflict also affects the capacity of communities to [cope with negative income shocks post-conflict](#). This is because strong rebel governance often depends on rebels' ability to provide communities with public goods during conflict.³⁴

Third, communities that have engaged in armed resistance during conflict are more likely to [display pro-democratic grassroots mobilization generations later](#), just as they are more likely to sustain social networks that facilitate mobilization.³⁵

Armed conflict also reconfigures political identities, which matter for political behaviour, specifically constituents' views on violence. Violence can be a catalyser of extremist identities, which can foment future violence, particularly against other identity groups.

For example, research on political mobilization following Italy's experience with fascist violence during the early 20th century shows that the experience reinforced both radical left- and right-wing identities and that this [can explain patterns of political violence and socio-political attitudes decades later](#).³⁶ War strengthens group identities and, in the absence of legitimate political recognition of the group's interests by the state, it can shape patterns of post-conflict violence [when violent struggle becomes part of the respective group's identity](#).³⁷

Encouraging non-violent political participation

These are just some of the ways in which violent conflicts can shape social cohesion. Once social cohesion is weakened, a return to non-violent political participation is a critical element of a renewed social contract. It offers a means to engage with the government, make demands, and hold rulers accountable without resorting to violence.

How does conflict affect the choice of individuals and communities to engage in politics, trust the government, or support political actors? Surprisingly, after rebel victory, civilians who supported the rebel group and, as a result, experienced a high level of victimization perpetrated by the wartime government, are [more likely to shift](#)

[their mistrust onto the now rebel-led government](#).³⁸ This translates to less formal and informal political participation than we might expect and is explained by a heightened sense of disappointment as rebel-led governments tend to promise more than they can fully deliver post-victory.

But exposure to wartime governance from any armed groups can also lead to [higher political participation](#) in both formal and informal channels (for example, elections, strikes, and protests).³⁹ In a similar vein, war veterans that were involved in delivering rebel governance are [also more likely to participate](#) post-conflict.⁴⁰ In the case of [conflicts that involved female combatants](#), this can mean increased political participation of women.⁴¹

Experiences of violence are also often reflected directly at the ballot box. For example, ethnically-motivated victimization can drive [victimized individuals to support nationalist parties](#) (of their own ethnicity) after violence.⁴² Even if communities were not directly exposed to violence and instead observed violence targeting their local leaders, [such as religious representatives](#), this can encourage increased electoral support for political parties linked to elites that were repressed.⁴³ In turn, political parties tied to the losing side are likely to see [fewer ballots cast in their favour](#).⁴⁴

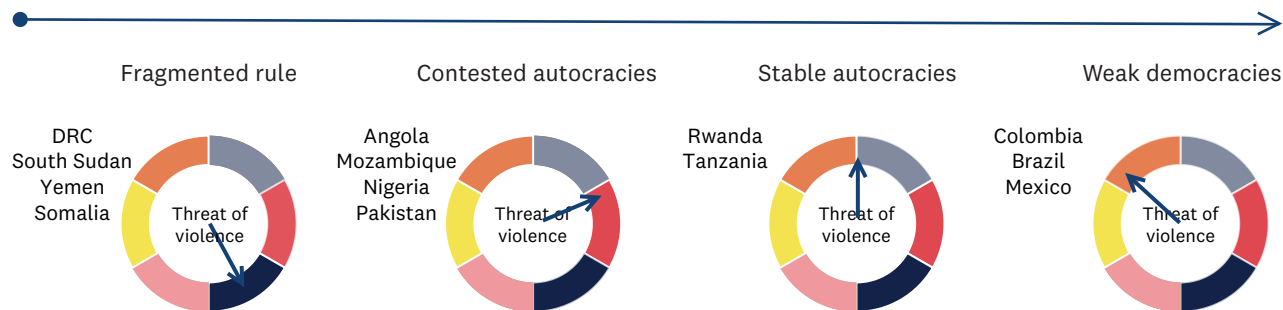
These findings demonstrate that efforts to build peace need to consider how armed conflict affects local governance structures, relationships, and perceptions given the central role played by social and political participation in rebuilding societies and states.

There are four primary considerations for would-be peacemakers that emerge from our research. First, development cooperation and aid in conflict-affected countries is often criticised for its disconnection from the local political setting and institutional frameworks. The research outlined above clearly shows that in conflict-affected settings, historical violence is an intrinsic component of how governance is exercised well beyond the silencing of the guns. Development cooperation and aid must necessarily consider and interact with this complex legacy.

Second, the evidence indicates [a large variation in institutional arrangements](#) in post-conflict governments (see Figure 2.1).⁴⁵ These arrangements range from places with a geography of fragmented rule and a durable disorder characterized by weak state capacity and cycles of violence (for examples, DRC, South Sudan, Yemen, and Somalia) to contested autocracies with strong state capacity but a high threat of violence at the margins (such as Angola, Mozambique, Nigeria, and Pakistan) and from stable autocracies with strong state capacity and stable governance but low political inclusion (such as Rwanda or Tanzania) to weak democracies with functioning democratic institutions but strong pockets of fragility (such as Colombia, Brazil, and Mexico). One-size-fits-all interventions are unlikely to work across such diversity, so political and institutional diagnostics are needed prior to interventions to better assess what will be effective.

Third, most development interventions in post-conflict settings are driven by the desire to rapidly establish democracies, normally indicated by

FIGURE 2.1
Typologies of post-conflict and post-war governments



the presence of fair elections. However, research evidence shows that local demand for electoral democracy is not a given in post-conflict countries. One reason is that the preference for democracy among citizens may be low when the legitimacy of a new state is still under question. Another reason is that local needs may simply take priority.

Development interventions should consider how to sequence priorities to align with both the preferences of new states, their need to increase capacity to maintain order and deliver public goods, and also the preferences of citizens — themselves profoundly altered by their exposure to the conflict. An important factor that ensures citizen buy-in is the space available for civil society organizations to operate and exercise demands.

Finally, development interventions should engage with myriad actors involved in the post-conflict

political landscape and their interests, from politicians and citizens to former rebel groups, local authorities, and the military — as many of these groups offer legitimate governance in the eyes of citizens not necessarily aligned to the interests of incumbent elites and their external supporters. We examine these opportunities for action more concretely in the final chapter of this report.

The aspiration for decent work

Fair and sustainable economies require high-functioning and inclusive labour markets that provide workers with decent work. That is, jobs which are secure, safe, and fairly remunerated. Labour markets in Global South countries are, however, characterized by high levels of informal work. In lower-income countries especially, most jobs are self-employment or unpaid family work in agriculture or services. These jobs are often poorly

paid, transitory and insecure, and lack formal legal protections for workers' rights.

They also suffer from dualism — that is, labour markets are segmented or divided into separate spheres. Dualism can refer to segmentation of the labour market by low and high value-added, or other factors, but commonly references the division between formal and informal employment.

Recent empirical work⁴⁶ suggests that labour markets in lower-income countries are even more multi-layered than early research in development studies assumed.⁴⁷ People can work in either wage employment or self-employment, both of which can be either formal or informal. The informal employment sector is itself characterized by dualism, with upper- and lower-tiers. In other words, there are highly skilled and high-earning positions in the informal sector just as there are poorly paid and insecure positions in the formal sector.

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

TEXT BOX 2.2

What are the prospects of upward mobility for informal workers in India?²

India has the largest number of informal workers across Global South countries and more than 80% of its total workforce is employed informally. A UNU-WIDER study examines the patterns, correlates, and consequences of worker transitions, both from informal to formal jobs and from lower-tier to upper-tier informal jobs, using a unique longitudinal dataset for over 37,000 workers drawn from the India Human Development Survey of 2004–2005 and 2011–2012.

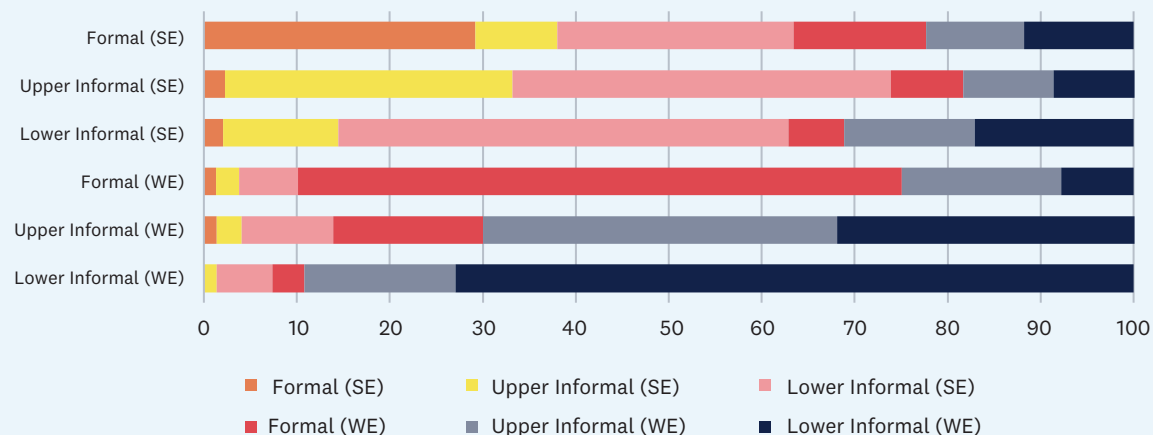
There are substantial income gains for workers who experience an upward transition. Self-employed workers are more likely to transition between types of employment than wage workers. Among wage workers, we

find high persistence rates for those employed in the lower-tier informal sector. Only a quarter of these workers made a transition to higher quality jobs, meaning a huge swath of the workforce is stuck in dead-end jobs.

The study also finds that the degree of mobility is substantially lower among female workers than male workers, and much higher for rural workers than for urban ones, possibly due to rural-urban migration. That a large part of India’s working poor remain in poorly paid jobs, even over a period of rapid economic growth, may be related to the wider phenomenon of ‘jobless growth’ in India. The lack of skills and education provision for many of India’s lower-tier informal workers may also contribute.

FIGURE 2.2

Transition rates across work status groups



Note: The figure displays the transition rates across work status groups between the initial and the final survey year, by initial status in employment. SE stands for self-employment and WE stands for wage employment. Each bar sums to 100%.

Source: Raj, Schotte and Sen (2020)

² Natarajan, R.R., Schotte, S., Sen, K. (2020) Transitions between informal and formal jobs in India: Patterns, correlates, and consequences. WIDER Working Paper 2020/101. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2020/858-0>



Photo: Paula Bronstein/Getty Images/Images of Empowerment

Unfortunately, a UNU-WIDER volume on contemporary economic transformations across the Global South reveals different varieties of structural transformation — economic development that follows unconventional pathways with less hope for creating good jobs in line with *SDG 8 – Decent Work and Inclusive Growth*.⁴⁸ For example, many lower-income economies are transitioning directly from mostly agriculture to non-business services, which as a sector does not have the same wage and productivity gains observed in manufacturing. This indicates a role for public policy and other interventions across Global South countries that goes beyond ensuring strong economic growth and stability.

Countries which undergo structural transformation often witness increased inequality, as some workers benefit more than others. Therefore, many countries face the ‘Developer’s Dilemma’ — while policymakers are interested in raising economic growth through rapid structural transformation, they must also be concerned about managing increases in inequality.

Our book, [The Developer’s Dilemma](#), provides a critical examination of the experiences of nine countries in Asia, Africa, and Latin America in addressing the tension between structural transformation and inequality.⁴⁹ A primary lesson is that rising inequality is not inevitable — public policy can and does support broad-based economic development. We discuss these public policies in the last section of this report.

With some countries facing ‘premature deindustrialization’, it seems likely that trajectories

of informalization in low- and middle-income countries may intensify. The challenge for policymakers is to encourage the movement of workers from informal to formal employment while concurrently allowing more dynamic informal firms to grow and provide remunerative work. In this effort, policymakers are constrained by the lack of available evidence on what causes informality and how to both encourage formalization and increase the quality of informal jobs for workers. Our extensive work on informality provides new evidence on both the challenges and opportunities for creating decent work in the Global South.

Creating decent work for informal workers

Scholars hoping to improve earnings and working conditions for people in the Global South have long advocated increased formalization of labour markets. Yet, steps to formalize jobs must be taken alongside steps to address poor working conditions and low earnings in the informal sector. Importantly, fair and sustainable economies require changes that facilitate increased worker mobility, especially out of dead-end jobs, meaning the ease with which workers can move from lower-paying and less secure positions to higher-paying positions with greater protections.

We think of worker transitions from worse to better jobs as workers climbing a job ladder. A [UNU-WIDER volume](#) examines worker transitions in several countries in the Global South, using panel data from each country and applying a common conceptual framework and empirical methodology.⁵⁰ We find that in almost all countries analysed, jobs fall into the following ranked categories: high-wage formal

work, formal work, upper-tier informal work, and lower-tier informal work.

The data on how often workers transition between these categories demonstrate that lower-tier informal work (both wage or self-employment) is a dead-end. Once workers enter this sector, there is little hope they will ever move up the job ladder. The highest persistence rates in lower-tier informal self-employment are observed in China (86 per cent), Indonesia (81 per cent), Niger (79 per cent), Nigeria (61 per cent), Ghana (67 per cent), Tanzania (65 per cent), and Uganda (73 per cent). The lowest are in Costa Rica (34 per cent) and Nicaragua (34 per cent).

In lower-tier informal wage-employment, the highest persistence rates are observed in Mexico (49–57 per cent) and Paraguay (53 per cent) and the lowest in Costa Rica (28 per cent). On the other hand, we observe upper-tier informal employment — especially upper-tier informal wage employment — to be the least persistent work status. This finding demonstrates that upper-tier informal employment is a stepping-stone towards formal wage employment and therefore an important sector for creating decent work and upward mobility. But our research also shows that downward slides from formal wage employment to informal employment occur with more or less equal probabilities.

The implication of these empirical findings is that across Global South countries, policymakers can improve their efforts by focusing their attention on the interfaces between employment categories. What kinds of interventions can reduce downward

slides for formally employed workers? What kinds of interventions increase upper-tier informal employment while decreasing lower-tier informal employment? And, what can policymakers do to enhance the livelihoods of those lower-tier informal workers who are caught in dead-end jobs?

Several findings emerge from this work on the effects that workers' demographic characteristics have on their positions in the labour market. These findings shed light on some non-economic factors that are constraints on upward mobility and spotlight more areas for policymakers to target.

First, education is positively associated with employment stability in higher-wage work status groups and reduces the risk a worker will slide down the job ladder.

Second, men have more chances than women to climb up the ladder. Particularly married men are more likely to climb the job ladder; while the opposite is true for married women. Moreover, male workers are more likely to move into wage employment, while female workers are more likely to stay in self-employment. These findings add to a large body of research which suggests that addressing the root causes of gender disparities play an important role in transforming labour markets.

Third, workers in prime working age (15 to 64 years old) often hold the most favourable positions in most contexts. In some countries, lower-tier wage employment appears to serve as an entry point to the labour market for young workers, while transitions into self-employment tend to increase

with age. A greater understanding of what causes some workers to move into good positions and others to get stuck at certain critical junctures (such as during transitions from school to work, or from rural to urban employment) is needed. Finally, household wealth in terms of assets is positively associated with transitions out of lower-tier informality.

Lessons of the COVID-19 pandemic

It was predicted early on that the COVID-19 pandemic would have a devastating and disproportionate impact on informal workers. In late April 2020, the ILO estimated [that 1.6 billion people](#) employed in the informal economy — 80 per cent of the global informal workforce and nearly half of the total global workforce — would see their livelihoods destroyed due to the decline in work, working hours, and earnings brought on by lockdowns or other restrictions.⁵¹ Since then, a growing body of studies on the impact of the COVID-19 crisis on informal workers has confirmed the ILO prediction.

Two UNU-WIDER studies provide especially granular evidence on the effects of the pandemic on vulnerable populations. The first study uses innovative and rich data from [The Hrishipara Daily Diaries Project \(HDDP\)](#), which tracks the daily financial transactions of 60 poverty-stricken households in rural Bangladesh to reveal important insights about [how vulnerable households in rural Bangladesh fared](#) during COVID-19.⁵² The second examines the effect of a stringent COVID-19 lockdown on the [employment and earnings of workers in Ghana's capitol city of Accra](#).⁵³

TEXT BOX 2.3

Effects of the COVID-19 pandemic on the poor: insights from the Hrishipara diaries³

How did the most vulnerable households cope with the pandemic? [The Hrishipara Daily Diaries Project \(HDDP\)](#), which has been tracking the daily financial transactions of 60 low-income households in rural Bangladesh for the last six years, provides a valuable source of data.

Analysis of the HDDP data, especially changes to spending patterns that occurred throughout the pandemic, reveals two important insights about the lives of the most vulnerable during this period.

First, households were agile and resourceful in their response to COVID-19 and [showed impressive money-management skills](#). Sometimes this took an entrepreneurial form. For example, Samarth, a farmer who grows crops and rears dairy cows on a tiny parcel of land, quickly recognized that barriers to road transport were driving up prices of goods from the capital and driving down prices of local produce. So, Samarth bought produce from desperate local farmers at very low prices to sell at a temporary street market he set up inside Hrishipara. Local people, confined to their neighbourhoods, provided the demand, and Samarth boosted his daily income during lockdown (Figure 2.3).

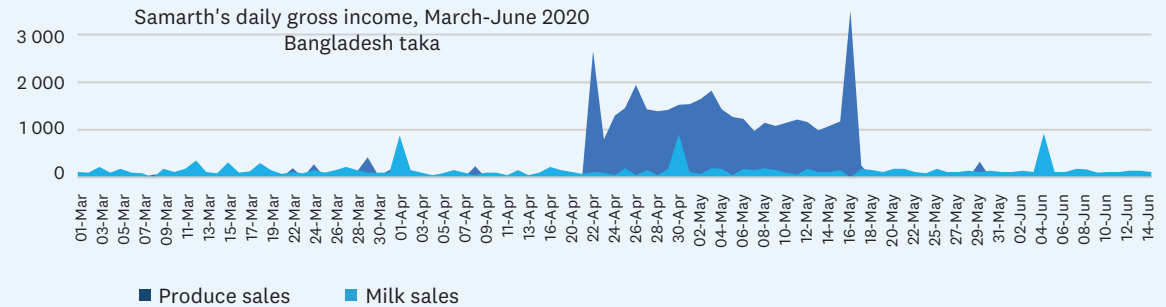
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³Rönkkö, R., Rutherford, S., Sen, K. (2021) The impact of the COVID-19 pandemic on the poor: Insights from the Hrishipara diaries. WIDER Working Paper 2021/46. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2021/984-6>

FIGURE 2.3

Samarth's income before, during, and after lockdown

Second, even under the most difficult of circumstances, the HDDP households found ways to put food on the table. They often did so at the cost of drastic cuts in other expenditures. The HDDP analysis shows a sharp reduction in recurrent household expenditures other than food in April 2020, the first month of lockdown. Moreover, it was only in October 2020, several months after lockdown ended, that those expenditures returned to pre-pandemic levels (Figure 2.4).

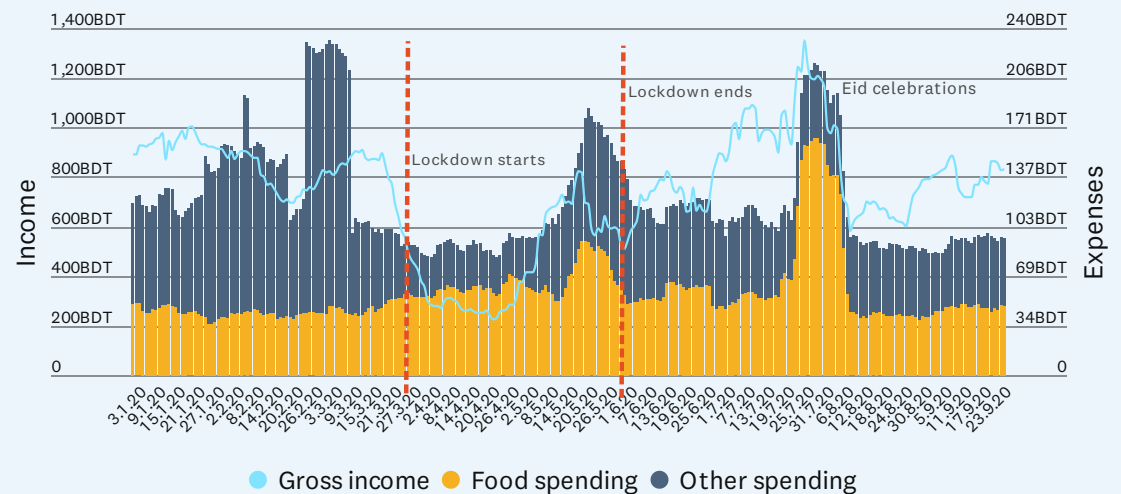


Source: Rönkkö et al. (2022).

FIGURE 2.4

Household expenditures during and after lockdown

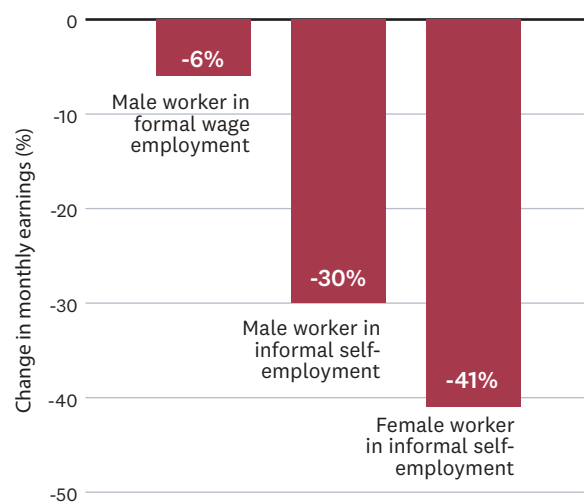
The Hrishipara diaries show that during COVID-19 lockdowns, the most vulnerable were left to fend mostly for themselves. Thanks to their ingenuity, money-management skills, personal networks, and past crisis planning, they managed to survive. But they also had to make great sacrifices. As governments devise strategies to support the poor, not only during lockdowns but also in future crises, they must consider the urgent need for large-scale unconditional cash transfers from the state, disbursed directly to the poor with minimal paperwork, along with emergency food aid so that, next time, such sacrifices will not be needed.



Source: Rönkkö et al. (2022).

In Bangladesh, households' earnings collapsed for several months in 2020 as a result of the pandemic and public policy to curb the infection rate. Those affected survived because of their own ingenuity and social networks. Government policy could have helped, but the social protection system was ineffective at cushioning the shock. In Ghana, lockdown policies [induced a 34.3 percentage point decline in employment](#). The negative impact of the lockdown on employment and earnings was most pronounced for workers in informal self-employment, while workers in formal wage work did not face a higher risk of unemployment.

FIGURE 2.5
Lockdown-induced drop in Ghanaian workers' earnings



TEXT BOX 2.4

The COVID-19 lockdown and its effect on workers in Ghana⁴

A stringent COVID-19 lockdown policy in Ghana [induced a 34.3 percentage point decline in employment](#). The geographically contained three-week lockdown in the country's Greater Accra and Greater Kumasi Metropolitan Areas and contiguous districts lasted from 30 March to 20 April 2020. In the rest of the country, less stringent regulations were in place.

We use this geographical variation to contrast the employment outcomes of respondents in lockdown (treated) and no-lockdown (control) districts. We find that the strong and significant immediate treatment effect of the lockdown began to fade four months after restrictions were lifted. Yet nationwide, employment and labour earnings remained significantly below pre-COVID-19 levels.

The negative impact of the lockdown on employment was most pronounced for workers in informal self-employment, while workers in formal wage work did not face a higher risk of unemployment at all, whether they were in a lockdown district or not.

⁴ Schotte, S., Danquah, M., Osei, R.D., Sen, K. (2021) The labour market impact of COVID-19 lockdowns: Evidence from Ghana. WIDER Working Paper 2021/27. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2021/965-5>

TEXT BOX 2.5

Can digital job platforms close the gender gap in Africa?⁵

Youth unemployment is an issue of major policy concern in sub-Saharan Africa. Furthermore, young African women are disproportionately observed in unpaid (domestic) or informal types of self-employment. In Mozambique, an ongoing survey follows the graduates of technical and vocational education training (TVET) colleges in the country to see what we can learn about young workers as they transition from school to work. Researchers interested in the potential of digital technologies to smooth frictions in the labour market and support youth to find decent work prepared a randomized intervention. They sent SMS invitations to randomly selected participants in the survey to register on different online job-search platforms. Compared to recent graduates who did not receive the invitation, those who did were not very much more likely to secure work within the nine months the study took place, which suggests that policymakers cannot solve youth employment with one-dimensional solutions like new digital technologies. However, the study's results do suggest that digital technologies can be an important part of the solution for certain cohorts among the recent graduates.

The *Emprego* platform, a conventional website where employers post vacancies and receive applications directly from users, helped male graduates in the treatment group to gain formal sector employment, but not female graduates, compared to the control group. The *Biscate* platform, for manual freelancers for specific tasks or services (for example, plumbing or hairdressing), was more helpful for female graduates. This suggests that while digital platforms for formal jobs tend to benefit male jobseekers more than women, platforms for informal tasks can play an important role in addressing gender gaps in youth employment outcomes for a low-income country like Mozambique, where most workers are informally employed.

⁵ Jones, S., Sen, K. (2022) Labour market effects of digital matching platforms: Experimental evidence from sub-Saharan Africa. WIDER Working Paper 2022/69. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2022/200-3>

These studies highlight the disproportionate impact of the pandemic on informal employment. Such a finding goes against the conventional understanding of the informal sector, in particular, as absorbing formal job losses during crises and downturns. Further, the analyses show how pre-existing inequalities or 'fault lines' have been widened during the pandemic and the ensuing uneven recovery. The precise nature of these amplified vulnerabilities naturally varies by context, but often features [unequal outcomes by gender, type of work, status in employment, caste, and race](#).⁵⁴

The pandemic prompted an almost unprecedented policy focus on social protection, in part due to the lack of adequate relief and social safety nets when earnings came to a standstill in the second quarter of 2020. The pre-existing mechanisms for smoothing or protecting income largely failed and the crisis-induced relief aid was inadequate in coverage, benefits, frequency, and duration. Now more than ever, there is a case for [a new social contract that includes informal workers as key stakeholders](#) in contracts between the State and Capital.⁵⁵

Addressing gender gaps

Women often occupy the worst-paid jobs with the least protection, while gender-related social norms often hinder women's access to better opportunities. This is true everywhere, but the problem tends to be of a different degree across Global South countries. In the Middle East and North Africa, the female labour force participation rate is shockingly low at around 20 per cent, and in South Asia, it is not much better at 24 per cent. The quality of employment for

women is also significantly worse than for men, with [women having a larger share of informal employment than men](#) in 90 per cent of sub-Saharan African countries, 89 per cent of Southern Asian countries,⁵⁶ and almost 75 per cent of Latin American countries. Informally employed women [are more than three times as likely](#) than informally employed men to be in unpaid work than males.⁵⁷ This is a barrier to achieving *SDG 5: Gender Equality*.

Conditional on individual and household characteristics, [women are 7 percentage points more likely to be in vulnerable employment than men](#).⁵⁸ The experiences of marriage and parenthood are also important drivers of this gender gap, as these are experienced differently by women than by men in ways that often disadvantage women's work opportunities and lifetime earnings. Across countries, [the gender gap is smaller](#) in richer countries, with lower fertility rates, and more gender-egalitarian laws, particularly laws which ensure greater gender equality in marriage, parenthood, property ownership, and access to entrepreneurship.^{59 60}

A key aspect of the route to social and economic empowerment for women concerns society's ability to enable women to navigate life transitions between school, work, marriage, and parenthood without sacrifice. Our analysis of the effects of motherhood on women's labour market outcomes in Chile, Mexico, Peru, and Uruguay finds that [motherhood reduces women's employment by 17–20%](#) within the first four years after childbirth, and increases women's part-time employment, self-employment,

and informal employment.⁶¹ Importantly, these effects occur right after childbirth and do not fade in the medium or long term.

Our study on family policies in Viet Nam, which analysed the labour market effects of a policy change that extended maternity leave from four to six months, finds that the extension of maternity leave helped [induce a reallocation of women from unpaid agricultural or household work to formal-sector employment](#).⁶²

The lack of economic opportunity for young women compared to young men is associated with early marriage in Global South countries. As a result, [even when young women have higher educational attainment](#), this is not reflected in greater labour market participation.⁶³ Social norms also explain early marriage. In India for example, research shows that in areas where households report a greater fear of crimes against girls, adolescent girls [are more likely to be married early](#).⁶⁴ Further, the effect of perceived crime against girls on the likelihood of marriage is higher in households that practice *purdah*, the practice of screening women from men by covering their faces.

These and other studies from our institute suggest that countries with less conservative gender norms and more generous family policies are associated with smaller differences between male and female labour market participation, as well as other more favourable labour market outcomes, such as pay and job quality, for women in general.

The aspiration for a fairer society

Fair and sustainable economies are critical to global resilience in the face of crises and to meeting the 2030 Agenda for Sustainable Development. The aspiration for a fairer society is not just a broadly shared value, it is also critical to other outcomes humanity cares about.

Our project on [The impact of inequality on growth, human development, and governance](#) documents the pernicious effects of high inequality. High levels of [inequality are strongly correlated with lower human development index \(HDI\) scores](#).^{66 67} This means inequality is associated with lower society-wide levels of education, public health and life expectancy, and economic performance. Economic growth — shown to be critical to poverty reduction — [lifts less people out of poverty](#) in highly unequal societies.⁶⁸ And, [inequality undermines political participation](#) and support for democracy in democratic societies, potentially [prevents the formation of stable democracy](#) in non-democratic societies, erodes institutional quality, trust, and social cohesion, and may promote corruption.^{69 70}

The trend in global income inequality

As new research uncovers the many negative impacts that high inequality can have, a consensus is emerging that achieving [SDG 10 – Reduced Inequalities](#) is a keystone to other global goals. Both the relative and absolute measures of income inequality for most people's countries are rising steadily, according to [the World Income Inequality Database \(WIID\)](#), despite progress in other arenas.⁷¹ However, more countries for which data

TEXT BOX 2.6

Monitoring global trends with the World Income Inequality Database (WIID)

UNU-WIDER's [World Income Inequality Database \(WIID\)](#) has recently been enhanced with two companion datasets that provide the detailed income distribution at the country level and for the world as a whole since 1950. With this database, we can now provide a more detailed, systematic, and comprehensive analysis of the patterns in global distributive trends for income (and their interplay with other big trends like economic growth, migration, or natural disasters).

The WIID Companion datasets also standardize income inequality statistics and contain interpolated and extrapolated data points to fill gaps. This enables for the first time meaningful comparisons of our income inequality data — which are held in one the most comprehensive collections in the world — across countries and over time. By hosting and maintaining the WIID, UNU-WIDER makes a critical public good available.

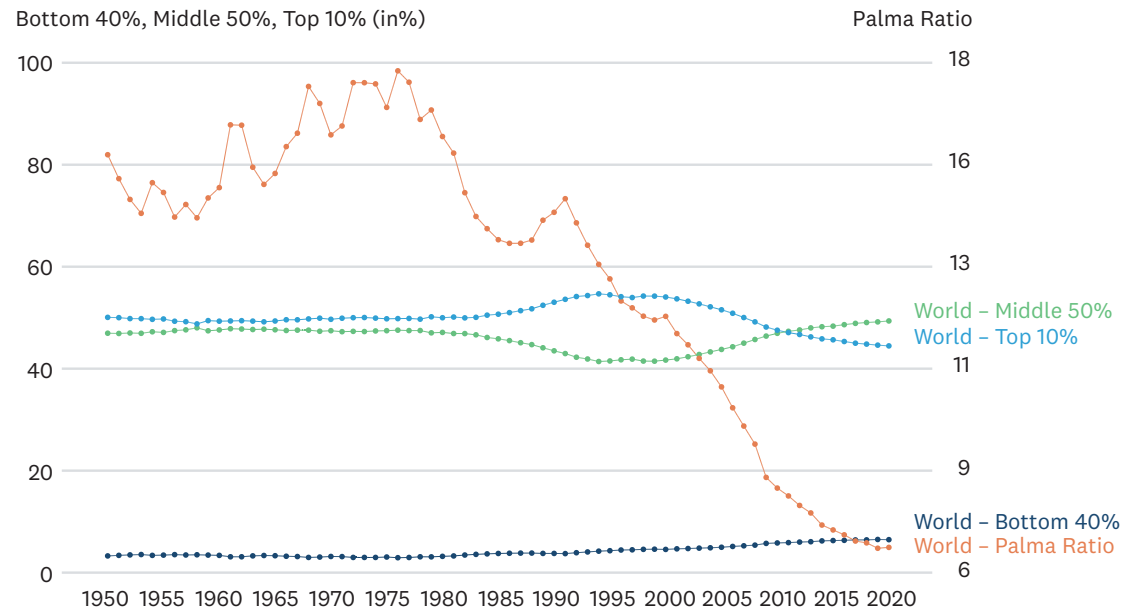
The most recent International Monetary Fund (IMF) projections on economic growth by countries provide one example of how the WIID data is used to project future scenarios and monitor progress on global goals. From April 2022 (before the full effects of the food and energy crisis could be accounted for), the IMF projections suggest that after a small increase of inequality in 2021, due to the negative impact of the pandemic on the Indian economy, inequality between countries will continue to decline at least until 2027. If correct, overall inequality should also continue to decline, but the trend is in danger of being reversed.

are available did experience reductions in a common relative measure of income inequality (the Gini Coefficient) than have experienced an increase.⁷² Unfortunately, these reductions in relative inequality impact a much smaller number of people: [at least 58 per cent of the world's population witnessed inequality increase](#) compared to 26 per cent witnessing a decline.⁷³

Global income inequality, which includes between-country and within-country components, is on [a long downward trajectory](#) as average incomes between countries converge, but this good news is complicated by several factors.⁷⁴ First, this trend is only true for relative measures of income inequality. In absolute terms, the distance between high- and low-income earners at the global level is growing.⁷⁵ Second, the decline in global inequality is driven by the rapid progress of high-population countries — namely, China and India — whose large population shares are heavily weighted in the aggregate measure.⁷⁶ Third, this trend is predicted [to reverse course](#).⁷⁷

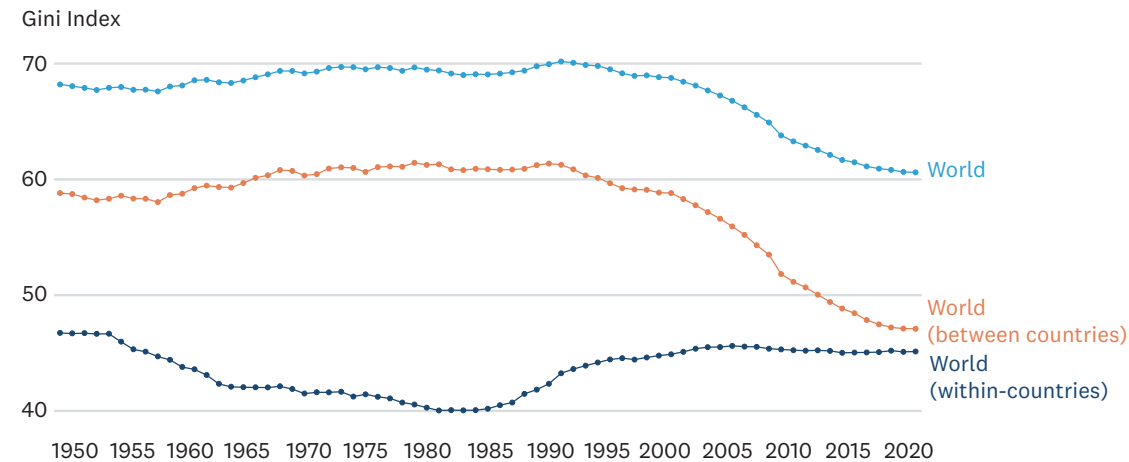
After several decades of increasing relative income inequality, the measure began to decline in 1998, when increasing shares of income growth began going to the poorest 40% and the middle 50% of the population (the bottom 90%). At the same time, the relative share of income growth going to the richest 10% of the population declined (see Figure 2.6). This decline in global inequality was entirely driven by the fall in inequality between countries (see Figure 2.7) and occurred even while inequality within countries increased.

FIGURE 2.6
Share of total world income held by various population groups, and Palma ratio
(the ratio between the income shares of the richest 10% and the poorest 40%)



Source: WIID Companion wiidglobal dataset (version 30 June 2022).

FIGURE 2.7
The trend in global inequality as measured by the Gini index



Source: WIID Companion wiidglobal dataset (version 30 June 2022).

The convergence of incomes between countries was mainly driven by fast economic growth in China (which [explains 56% of the total decline](#) in the corresponding Gini index after 2000) and, to a lesser extent, India (which explains another 17%).⁷⁸ Similarly, the increase in inequality within countries reflects a large level of heterogeneity by world region, since inequality increased in some places and declined in others. Increases in the within-country component can basically be explained by the trends in China and, to a lesser extent, India, too.

These findings reflect the importance of the very large shares of the world population that live in China and India. A composition effect due to faster population growth in sub-Saharan Africa — the poorest and most unequal region — was also substantial. The decline in the overall Gini would be [almost three percentage points](#) larger without this effect.⁷⁹

Inequality between countries

The decline in global inequality that began in 1998 is decelerating in recent years. Significant inequalities between higher- and lower-income countries are still pervasive. Even more concerning, if the mean incomes of either or both India and China pass the global mean income, global Gini will likely begin to rise again and the between-country component of inequality may begin a journey back to pre-2000 levels, an effect known as [the global inequality boomerang](#) and identified by UNU-WIDER research.⁸⁰

Fortunately, for inequality to boomerang, an erosion or stagnation of growth in economies with mean

incomes below the global mean is necessary. This is something that can be avoided by enhancing the growth trajectories of lower-income economies. One opportunity for collective action on this front — beyond the standard toolkits of international aid, balance-of-payments support, and relief for debt distress — is in international tax fairness.

UNU-WIDER research contributes to problem recognition with several studies on the tax loss lower-income economies suffer due to international tax havens and multinational corporate tax avoidance and several studies that offer lessons on how to increase tax compliance and mitigate this loss. It contributes further through a major initiative to improve the capacity of national authorities to mobilize domestic revenues effectively — [the *Domestic Revenue Mobilization \(DRM\) programme*](#).⁸¹ Research from the programme identifies fiscal policy actions that support inclusive growth, strong social protection systems, and fair tax systems with strong redistributive capabilities to tackle within-country inequality.

The DRM programme directly addresses between-country inequality with two of its six projects: the first on detecting and countering illicit financial flows and the second on extractives for development. The other four projects address within-country inequality.

One study provides new estimates of corporate profit-shifting — a common form of tax avoidance which exploits international tax havens. The study estimates that the volume of corporate profits

shifted to tax havens globally increased from 2% of the global total in 1970 to 37% of the global total by 2019, resulting in [a tax loss of EUR 250 billion globally](#).^{82,83} The total value of profits shifted to tax havens annually [now approaches USD 1 trillion](#) (USD 986 billion in 2019).⁸⁴ The authors of the study have made by country estimates of the tax loss [publicly available](#).⁸⁵ If paired with data from another of UNU-WIDER's common good databases — [the Government Revenue Dataset](#) — these estimates show how large a share of total revenues Global South countries may be losing annually. This is revenue that could otherwise be used to address development needs and balance international inequalities.

Multinational corporations are not the only ones using offshore tax havens. Wealthy individuals, corrupt officials, and domestic companies also shelter illicit and licit funds offshore. Evidence is difficult to obtain, but some of the best estimates indicate that individuals hold financial assets of [10% of global GDP in offshore accounts](#) and that Global South countries are more exposed to the problem.⁸⁶ Together these studies show that between-country inequality is not driven by differential rates of economic growth and development alone, but that international financial flows can also play a role in slowing the rate of convergence when the direction of flows is from lower-income economies to higher-income economies.

The project on extractives for development has similar goals but takes a different approach. It seeks to build knowledge on how Global South governments with large reserves of natural resources can harness their economic value to improve

The volume of corporate profits shifted to tax havens globally increased from 2% of the global total in 1970 to 37% of the global total by 2019, resulting in a tax loss of EUR 250 billion globally. The total value of profits shifted to tax havens annually now approaches USD 1 trillion (USD 986 billion in 2019).

domestic outcomes and balance international disparities. Economies with large extractive industry sectors — for example, mining and petroleum — are often challenged by strong incentives for corruption, a need to work with large multinationals that may or may not abuse their clout, and several well-known macroeconomic risks associated with natural resources — such as tendencies towards enclave economies and the phenomenon known as Dutch disease.

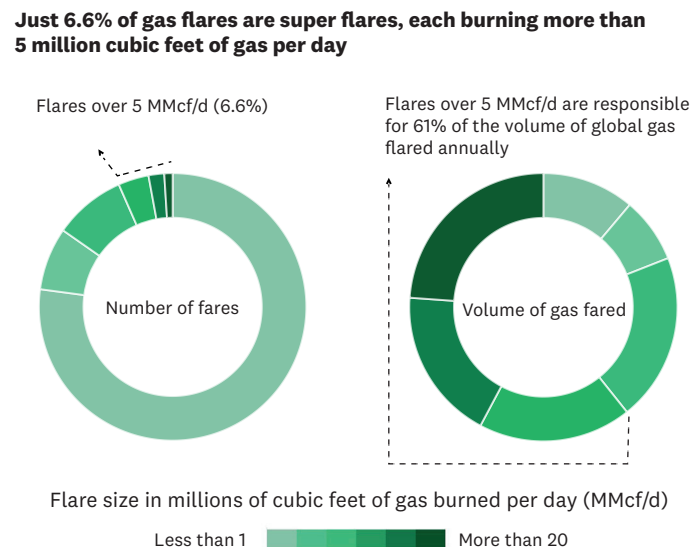
Improving transparency and rooting out corruption is hard work, not least because offshore tax havens facilitate payment of bribes, for example, to actors

with decision-making power over valuable oil and gas licenses. Data leaks, such as the 'Paradise Papers' and the 'Panama Papers' have revealed the scale of the problem. With this data, one study shows how the creation of offshore accounts in tax havens by oil and gas licensing decision-makers can be [a useful indicator for measuring corruption](#).⁸⁷ Countries need to tighten their rules around licensing, including full transparency on the process, with pre-qualification criteria to screen out opportunistic individuals and companies.

Oil theft is another problem which leads to [the loss of over USD 100 billion in crude oil and oil products annually](#).⁸⁸ Thieves siphon oil from pipelines, dilute crude oil and oil products, and — at the largest scale — even organize ship-to-ship transfers of oil in remote areas of the ocean. Not only is public revenue lost, but theft endangers human life and leads to environmental pollution, and finances organized crime and bribes to public officials to look away. Piracy of oil tankers also endangers and disrupts maritime trade in West Africa. One solution our research suggests is [to add chemical markers to oil and oil products](#), allowing their original source to be traced to assist in prosecutions.⁸⁹

Governments look to fossil fuels for revenue and domestic energy, but this adds to global greenhouse gas (GHG) emissions. Our studies explore the tensions between inclusive development and the climate crisis. Several papers demonstrate the large-scale [opportunities for methane emission reductions](#), by cutting flaring and venting from oil and gas facilities, which can now be readily monitored with satellite data.^{90,91}

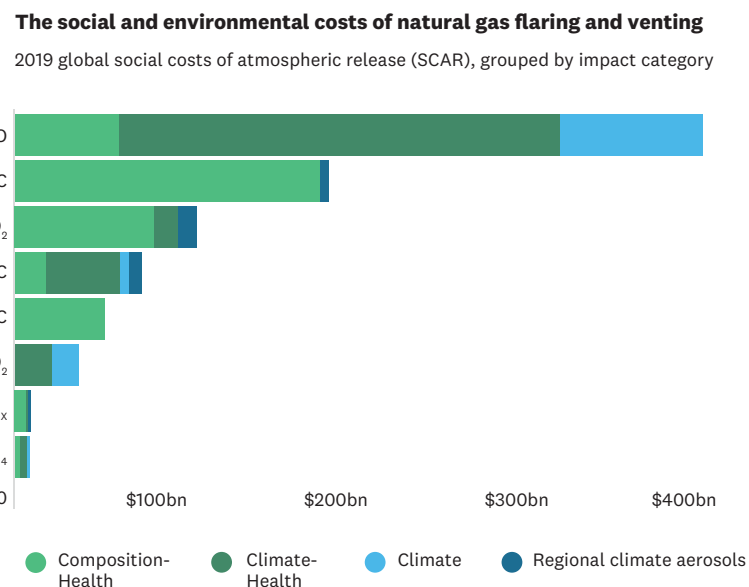
FIGURE 2.8
Number and volume
of measured gas flares
worldwide



Note: Figures depict global annual gas flares (2017), grouped by flare size
 Volume of gas flared
 Source: Adapted from Romsom, E. & McPhail, K. (2021), data from the National Oceanic and Atmospheric Administration (NOAA) 2017 Visible Infrared Imaging Radiometer Suite (VIIRS)

7.5% of natural gas extracted globally is wasted through venting and flaring, which contributes substantially to the measure of fugitive emissions, a category that accounts for more than 5% of total annual global GHG emissions.⁹² Satellite data reveals that just 6.6% of gas flares burn more than 5 million cubic feet of gas per day. This minority of super flares accounts for the majority of gas burned (61%) and, by extension, GHG emissions. Identifying super flares enables regulatory authorities to impose taxes and fines on excessive emissions, providing a triple win: reduced emissions, better air quality and improved health, and, not least, a large revenue source for government. Nigeria has been successful with these measures.

FIGURE 2.9
SCAR of global gas flaring
and venting



Notes: Costs expressed in 2019 US\$ per gas or chemical. Costs are discounted at 3%. CH₄ (methane), NO_x (nitrogen oxide), SO₂ (sulfur dioxide), BC (black carbon), VOC (volatile organic compounds), CO₂ (carbon dioxide), OC (organic carbon), CO (carbon monoxide).
 Source: Romsom, E. and K. McPhail (2021). 'Capturing Economic And Social Value From Hydrocarbon Gas Flaring And Venting: Solutions And Actions'. WIDER Working Paper 2021/6. Helsinki: UNU-WIDER.

Our research on natural resource development emphasises the need to balance incentives between renewable and non-renewable resources, so that nature is preserved (not only for its intrinsic worth but also as the basis for many livelihoods). Maximizing public revenue from mining must be set against the negative externalities of pollution, loss of biodiversity, and loss of forest cover if the sector is not effectively regulated. Marine mining is now a concern, as technological advances such as robotic mining increasingly allow mining of the ocean floor, which is difficult to monitor and regulate. Permitting marine mining creates a real danger to marine habitats and potential to adversely affect livelihoods from fisheries and tourism.⁹³

When it comes to concerns about international fairness, continued dialogue on multilateral initiatives to compensate Global South countries who forego natural resource development to

preserve the earth system remains important. As is the recent decision from COP27 to [create a loss and damage fund](#) for vulnerable countries hit hard by climate change.⁹⁴

Inequality within countries

The decline in overall global income inequality is driven primarily by falling inequality between countries, but within-country inequality at the global level continues to increase, even in relative terms. In many countries, a significant driver of the trend in economic inequality is the disparity between individuals and groups in labour market earnings.

Labour earnings represent, by far, the largest source of income for most people. Even though the relationship between earnings and income inequality is mediated by tax-based redistributive policies, there are limits to what these can achieve if labour markets are highly unequal to begin with, especially in Global South countries where governance is characterized by limited state capacity and labour markets are characterized by a high incidence of informality. In other words, efforts to combat inequality should be as concerned with pre-distribution — income before taxes and social transfers — as with redistribution, or the extent to which public policy can rectify unequal outcomes after the fact.

With this in mind, UNU-WIDER research on the [Changing nature of work and inequality](#) investigates trends in earnings inequality in 11 major developing and emerging economies, located throughout Africa, Asia, and Latin America. The research [documents large transformations of these countries' workforces](#)



Photo: Juan Arredondo/Getty Images/Images of Empowerment

in the 2000s and 2010s. Large numbers of workers moved away from employment in agriculture and towards employment in manufacturing (Bangladesh and China are well-known cases) or away from agriculture and into low-productivity services.⁹⁵

Across the countries studied, there was a generalized expansion of education and a growth in jobs.⁹⁶ This corresponds with a decline in the routine-task intensity of most jobs — an indicator that more skill is required to perform them — in most recent years. Jobs with a high intensity of routine tasks are often lower-paid and risk being replaced by either automation or offshoring. Inequalities of earnings between occupations also declined or remained constant in most cases, with the strength of the relationship between the routine task intensity of a job and its average earnings declining over time.⁹⁷ On the whole, this finding suggests that disruptions to the labour market caused by increased technological adoption and/or offshoring are not a primary explanation for changes in earnings inequalities in the countries studied, as is often assumed.

Changes in the composition of workers by skill and education level do contribute to increases in inequality in several cases but are also not a main driving force. [The collected studies](#) find some evidence of polarization in employment rates and/or earnings — more growth in lower and higher occupational tiers than in the middle — in some countries and periods. But this cannot be generalized, [as it has been in the high-income economies](#),⁹⁸ because there is also evidence of

de-polarization trends or no clear patterns in the sample of Global South countries studied.

The earnings inequality trend is mainly related to changes in the earnings structure — in other words, how the market remunerates workers' characteristics. There is evidence of a rise in education premia — the higher earnings attributable to a worker's higher level of education — which contributes to higher earnings inequality, particularly during the 2010s. And, there is more mixed evidence on changes in earnings that are attributable to the routine-task content of jobs, which were equalizing in some cases, but not in others.

In any case, traditional explanatory factors for trends in earnings inequality, especially changes in the education premium, remain relevant in the cases studied even when we also find evidence of job polarization, or when earnings associated with the routine task intensity of jobs played a role. This means that in addition to more conventional scholarly explanations for earnings inequality (primarily differences between workers in bargaining power, skill, and education), we should pay attention to the potential influence of other local factors, such as labour laws and institutions (for example, minimum wage policies and unionization), rates of formalization, gender norms, or macroeconomic stability (for example,

fluctuations in the exchange rate and the trade balance).

The project on [Addressing group-based inequalities](#) focuses on inequalities between groups and individuals based on identity characteristics — sometimes referred to as horizontal inequalities. A growing body of research, including [previous UNU-WIDER work](#),⁹⁹ demonstrates that horizontal inequalities — those between ethnic or culturally-defined groups — are critical to explaining national inequalities. In some countries and periods this is more true than in others.

It is also clear that horizontal inequalities have similar impacts on human development, economic growth, and governance, if not more so. As [a World Bank report](#) summarizes, 'Some of the greatest risks of violence today stem from the mobilization of perceptions of exclusion and injustice, rooted in inequalities across groups...'¹⁰⁰

Looking across countries, data suggest that Global South countries as a whole made [considerable progress](#) towards reducing horizontal inequalities over the past decades,¹⁰¹ though [considerable inequalities remain](#).^{102 103} A variety of policies have supported such reductions in horizontal inequalities. These range from universal poverty

COVID-19 revealed the extent to which African tax and social protection systems are ill-equipped to protect households from income losses ... Of five countries studied, only Zambia implemented new policy measures that had a significant effect on the economic situation of poorer households.

programmes, such as Brazil's Bolsa Familia, emblematic of the country's '[race-blind approach to social policy](#)',¹⁰⁴ to approaches that directly and explicitly provide benefits to ethnically marginalized groups, such as well-known affirmative action policies pursued [in India](#),¹⁰⁵ [South Africa](#),¹⁰⁶ and [Malaysia](#).¹⁰⁷

UNU-WIDER's new Database on Affirmative Action shows that such policies have been adopted in dozens of countries around the world. The database provides information and coding on nearly 400 variables for 53 countries, and covers equalizing policies in education, public and private employment, and political representation.

Both systematic review of the quantitative literature and analysis of the information compiled in the database show the potential for affirmative action [policy to improve the representation and wellbeing of marginalized groups](#).¹⁰⁸ At the same time, our work also documents deep controversies that nevertheless make affirmative action problematic in several contexts.^{109 110 111}

The redistributive potential of state policies through taxation and distribution of benefits can play an important role in rectifying unequal outcomes. A challenge for lower-income countries is their relatively weaker tax and transfer systems to address concerns around fairness and fund redistributive social transfers. Our project on [Building up efficient and fair tax systems – lessons based on administrative tax data](#) uses administrative taxpayer-level data to examine how to improve these systems and increase public revenue.

We document a government taxpayer registration campaign in Uganda that increased the [number of taxpayers by approximately 70%](#). By establishing so-called one-stop shops and a simpler e-filing system, Uganda increased its revenue. Furthermore, the number of small businesses filing presumptive taxes almost doubled.¹¹²

A tax change for high-income earners in Uganda that increased the marginal rate for top earners by 10 percentage points is associated with [a 7 per cent reduction in the income top earners report](#).¹¹³ There is suggestive evidence that top earners were shifting income between wages and dividends to reduce their tax burden. This behavioural response demonstrates how efforts to increase revenues can be thwarted. Policymakers can improve the revenue gains from tax rate changes by learning to anticipate taxpayers' responses, or by learning about and adjusting to these responses afterwards.

In Tanzania, as part of a collaboration between the Tanzania Revenue Authority and the Finnish Tax Authority (VERO), a new data-driven approach to tax examinations in the Dar es Salaam tax offices, [increased adjusted taxable income by 15 percent](#) in the first year.¹¹⁴ Results from Zambia suggest that the adoption of a new VAT withholding system in 2018 [increased VAT revenues by 13 per cent](#).¹¹⁵ These findings clearly demonstrate opportunities for action in tax reform.

In terms of government transfers or benefits, our work under the [SOUTHMOD project](#) – which relies on tax-benefit microsimulations – examines both the efficiency and redistributive potential of social

protection policy. COVID-19 revealed the extent to which African tax and social protection systems are ill-equipped to protect households from income losses. In most countries studied, governments responded to the pandemic with additional policy measures to cushion lockdown-related income losses. Such policies were generally well-targeted, but benefit payments were too small and coverage too narrow to offset the economic shock.

Of five countries studied, only Zambia implemented new policy measures that had a significant effect on the [economic situation of poorer households](#).¹¹⁶ In some countries, school closures during lockdown periods also led to the pausing of school feeding programmes, a critical source of nutrition for children in low-income households. In Ghana, for example, the national school feeding programme was paused for nine months in 2020, a negative shock [which more than offset the positive effects of additional social protection measures](#).¹¹⁷

The tax and social protection systems in countries in the Global South barely react when large parts of the population suffer income losses. In most wealthier countries, sudden income losses are cushioned automatically, for example, through decreased income tax payments or unemployment insurance systems kicking in when people lose their jobs.

In much of the Global South, these 'automatic stabilizers' are more limited because of the relatively small share of people, mostly formal sector workers, who can access them. Eligibility to social protection programmes is often tied to household characteristics, such as assets and household

size, which do not respond immediately to sudden shocks.

Finally, more social spending is clearly required, but fiscal space has not expanded over the past decade. Rather, fiscal constraints are even tighter today, as the pandemic is followed by the food and energy price shocks that are a consequence of Russia's war against Ukraine. While technical solutions, such as improved IT systems for tax collection and administration, can help develop fiscal capacity, our research indicates that [the politics behind society-wide fiscal contracts are more important](#).

A broad study of how fiscally-capable states develop historically finds that, of several political factors, it is [constraints on the executive branch in particular](#), that are critical to bringing about an important shift in the composition of state revenues — from taxes levied on a narrow base to broadly-levied taxes, such as income taxes.¹¹⁸ The adoption of widespread income taxation, in particular, is a powerful redistributive tool and is a key feature of modern fiscal states.

As our research programme demonstrates, the achievement of *SDG 10 – Reduced Inequalities* requires action on several fronts. Fairer societies are a critical component to a renewed social contract, both within countries and globally. The overarching implication of our work on reducing inequalities is that a focus on greater equality inevitably leads to the other desired outcomes which are the shared aspirations of humanity and enshrined in the *UNs 2030 Agenda for Sustainable Development*.

TEXT BOX 2.7

Learning from the 2020 Presumptive Tax Reforms in Uganda⁶

Collecting tax on small businesses is a major challenge for most African tax administrations. These economies are typically dominated by large informal sectors, often characterized by poor record-keeping and low levels of tax compliance, and leading to reduced revenue, which is a barrier to national development.

Governments often use presumptive tax — tax on turnover — to collect revenue from small firms and individual entrepreneurs. In Uganda, the presumptive tax has been plagued by concerns about high tax rates, over-complexity, and regressivity. The government introduced a new system in July 2020.

Analysis of the new policy by UNU-WIDER, SASPRI, and the Uganda Revenue Authority finds that the current regime [reduces tax revenue potential by between 48–72% compared to the previous rules](#). Firms that do not keep records face a regressive tax schedule and the new rules continue to suffer from excessive complexity. In addition, there are also concerns about slow implementation and ineffective enforcement.

To address these challenges, we used UGAMOD, our tax-benefit microsimulation model, to explore reform scenarios. One of the most promising proposals is a low-rate flat tax system for small firms with a turnover between UGX 10–150 million. This proposal satisfies the call for further simplification, is estimated to generate more short-term revenue than the current regime, and has the potential to attract more presumptive taxpayers over time. If combined with ongoing compliance initiatives in Uganda, including a simplified e-filing system and a taxpayer register expansion project, a low-rate, flat presumptive tax regime can improve revenues for Uganda.

⁶ Waiswa, R., Lastunen, J., Wright, G., Noble, M., Ayo, J.O., Nalukwago, M.I., Barugahara, T.K., Kavuma, S., Arinaitwe, I., Mwesigye, M., Asiimwe, W., Rattenhuber, P. (2021) An assessment of presumptive tax in Uganda: Evaluating the 2020 reform and four alternative reform scenarios using UGAMOD, a tax-benefit microsimulation model for Uganda. WIDER Working Paper 2021/163. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2021/103-7>



3 | Opportunities for action

As we cross the mid-point of the *2030 Agenda for Sustainable Development*, it is clear that many SDGs will not be achieved unless significantly accelerated. While progress on many SDGs was weak in the pre-pandemic years, COVID-19 and the aftershocks of the Russian invasion of Ukraine reversed even what had been achieved. The findings of UNU-WIDER's *2019–2023 work programme* provide clear opportunities for action, which can be a springboard for Southern governments and the international community to recover and accelerate progress towards the SDGs. In this section, we discuss these policy opportunities and chart out the future research agenda for UNU-WIDER.

The political context

It is increasingly evident that [there is a transition from an unipolar to a multipolar world](#), one which discourages fully global collective action on the pressing issues that face Global South countries. The urgent multilateral action that is needed for the climate emergency, the food, energy, and finance crises, and the unequal recovery from the pandemic is currently lacking. At the same time, [there is a rise in autocratic rule](#), with the wave of democratization from the 1990s and 2000s receding and gradually being reversed.

The current political context makes it difficult for policymakers and the international community to act in the interests of the poor and vulnerable. The variability of state responses to COVID-19 also showed that [state capacity in many parts of the world](#) is weak.¹²⁰ As is the resilience of societies in low-income Africa and Asia to weather future shocks.

Weak state capacity is also evident in the persistence of political clientelism — the strategic, discretionary, and targeted exchange of private goods and services for political support — in Latin America, Africa and Asia, and WIDER research finds that the prevalence of clientelism is associated with [higher corruption and weaker rule of law](#).¹²¹ Policy reforms that [reduce the vulnerability of voters](#), particularly the poorest, and take discretion for resource distribution out of the hands of politicians and their agents, can reduce political clientelism.¹²² Additionally, the creation of and investment in formal local-level civil society institutions could provide a remedy to some of the more harmful

consequences of electoral clientelism.

Corruption is a problem particularly evident in resource-rich economies, with oil theft equating to [5–7 per cent of the global market](#) for crude oil and petroleum fuels.¹²³ At the same time, the amount of money lost to tax havens keeps growing, with [a remarkable increase in profit shifting between 1975–2019](#), even after major policy initiatives were announced.¹²⁴ Globally, ten percent of corporate tax revenues are lost as a result, reflecting that the bucket is leaking when it comes to mobilization of funds for lower-income countries.

But there are opportunities for the donor community to further both the SDGs and the cause of democracy across the Global South. Our research shows that aid — specifically aimed at improving democratic infrastructure and institutions — does have [a positive impact overall](#).¹²⁵ Further, aid which supports civil society, media freedom, and human rights is the most effective for democracy.

Therefore, donors need to support bureaucracies in lower-income countries, so they become more effective and accountable to the most vulnerable of society. The key message here is that there are significant interlinkages between *SDG 17* and *SDG 16*, with the goal of promoting inclusive and accountable institutions that generate national resources to finance development goals. The policy options which emanate from the *2019–2023 work programme on transforming economies, states, and societies* are well-suited to peacebuilding, creating decent work, and bringing about a fairer society.

Policy options for peace

To date, considerable resources are committed to ending conflicts and building peaceful and effective states in post-conflict countries. But these interventions are often met with limited success. Our research indicates that rebuilding conflict-affected societies requires a good understanding of the legacies of conflict and wartime governance. Conflict does not only leave behind destruction, hatred, anarchy, or criminal structures. It also generates social responses to violence that can be harnessed for the consolidation of peace and the establishment of a functioning social contract between state and society.

The effects of rebel governance, or exposure to violence, on community organization can be harnessed for the consolidation of peace. To give an example, programmes that increase communication and coordination between community institutions and the state are a fruitful way to accomplish goals.

Existing local governance structures are crucial to resolve disputes, even when they are outside the institutions of formal state power, such as customary courts and local armed actors.¹²⁶ This is especially true in communities that are historically marginalized or controlled by non-state armed actors. A statebuilding policy framework with the twin objectives of strengthening state capacity and civil society actors in tandem is more likely to achieve results.

This does not exactly fit a commonly held state-centric view that peace and development are best achieved through a centralized authority that

ensures the rule of law. Instead, it centres the idea that it is worthwhile to support autonomous institution-building efforts at both central and local levels. For example, provision of political representation (especially if conflict runs along identity lines) to reduce violence cannot be overlooked.¹²⁷ Simultaneously, support for grassroots democracy can consolidate democratic practices and even re-establish trust in the state.¹²⁸

In Colombia, for example, one legacy of violent conflict is strong local organizational capacity. Cooperation with existing local organizations, such as through grassroots peace initiatives, can help states better understand local needs — knowledge that can be used to re-establish local trust in the state.

Similarly, interventions that hope to replace wartime economies, which often rely on illicit markets, need to move away from coercive policies, such as eradication of illegal crops, that further diminish trust in the state, and towards more cooperative approaches.¹²⁹ Importantly, cooperative efforts need to be mindful of local needs and they require large investments on the part of the state to replace lucrative wartime economies and establish control in the long term.¹³⁰

The goal should be to re-establish the state as a legitimate actor, not just reduce violence. The ability of the state to effectively control territory depends on its ability to legitimately provide for basic rights and economic needs. For example, communities require viable economic alternatives to sustain their livelihoods, they require broader socio-economic

inclusion, and they require protection from powerful criminal organizations.¹³¹

As a whole, our research on violent conflict demonstrates that statebuilding efforts that put the needs of local populations at the centre are more likely to succeed. This does not mean that the international community cannot play a significant part in providing important assistance. For example, research shows that United Nations peacekeeping operations can [provide the security needed](#) for communities' health to recover.¹³²

But it is important to remember that supporting for statebuilding in the aftermath of civil wars implies moving past entrenched ideas about what constitutes good governance and towards a deeper understanding of the power structures [established during conflict](#).¹³³ Wartime structures can limit the impact of traditional statebuilding policies, such as strengthening security forces, holding elections, and providing basic public services. Wartime structures may also offer entry points for initiatives that can create a legitimate state and a peaceful society, where citizens trust respective institutions to redress grievances or resolve disputes without violence.

Policy options for decent work

A key characteristic of fair and sustainable economies is that they offer dignified livelihoods to people as a means to achieve their individual aspirations. Too often, limited economic opportunity contributes to a waste of human potential, on top of poor outcomes and decreased resilience. The

TEXT BOX 3.1

Do employment tax incentives work? Evidence from South Africa^{7 8}

40% of South Africa's young workers are unemployed. About three million young people suffer from persistently high unemployment and the youth unemployment rate has hovered above 40% for the past 10 years. In response, policymakers implemented a youth wage subsidy, known as the employment tax incentive (ETI).

The ETI is probably the South African government's most prominent labour-market intervention in the past decade. Providing tax credits to firms for hiring young workers earning less than ZAR 6500 per month, the policy aims to address, or at least mitigate, South Africa's exceptionally high rate of youth joblessness by encouraging targeted private-sector job creation.

First implemented in 2014, the policy has been renewed three times, most recently until 2029. [Tax credits worth ZAR 4.8 billion were paid out to firms in 2019/20 and the policy was dramatically expanded during the pandemic period.](#)

But does the ETI actually have an employment effect? Firms may claim the subsidy on new employees they would have hired anyway. The evidence as to whether the policy creates jobs is mixed and contradictory. Our [research](#) shows that the existing evidence is affected by important methodological challenges. While we present suggestive evidence that the ETI creates jobs for young people, other evidence points to an ineffective policy.

We use firm-level administrative tax data developed in partnership with South Africa to analyse the wage subsidy and provide policymakers [with critical evidence for how to finetune and improve the instrument.](#) ETI-claiming firms are very different from non-claiming firms. Three key differences are particularly striking and important:

- Claiming firms are much larger than non-ETI firms, with substantially more employees and sales.
- Claiming firms have much faster employment growth than non-ETI firms.
- Claiming firms already have a younger employee age structure

These findings suggest that many firms are foregoing a subsidy which would increase their after-tax profits, either because they are not informed of its benefits or lack the administrative capacity to claim the subsidy. Considering all the firms that hire young, low-wage workers, around 30% of firms made a subsidy claim in the first year of the policy.

Take-up increased in subsequent years, but nearly half of eligible firms do not claim the subsidy. The take-up rate is also more pronounced for the youngest workers compared to the oldest workers in the eligible group (under 25 years old) and for workers in more typical low-wage sectors, such as agriculture and retail.

Our research suggests bigger impacts can be achieved with better implementation of the policy and continued monitoring and adjustment to the eligibility criteria around subsidy amount and duration, and the wage levels it is applied to.

⁷ Ebrahim, A. , Pirttilä, J. (2019) Can a wage subsidy system help reduce 50 per cent youth unemployment?: Evidence from South Africa. WIDER Working Paper 2019/28. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2019/662-3>

⁸ Budlender, J. , Ebrahim, A. (2021) Estimating employment responses to South Africa's Employment Tax Incentive. WIDER Working Paper 2021/118. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2021/058-0>



opportunity to create decent work and shared prosperity in Global South countries depends on decision-makers' abilities to overcome three critical pillars: the challenges of informal livelihoods and stratified labour markets, gender gaps, and constraints on the economy's ability to supply decent work.

Policymakers face twin challenges: how to encourage the movement of workers from informal to formal employment and, at the same time, support lower-tiered informal workers to have dignified livelihoods. The jobs ladder concept enables decision-makers to see more dynamic informal work as a steppingstone out of dead-end informal activity and towards more decent formalized work, rather than as undesired informal activity. A key implication for policymakers is to be measured and patient. As with so many things, formalization requires appropriate sequencing as some informal activities are an important springboard for worker transitions.

A clear policy implication of our book, [The Job Ladder: Transforming Informal Work and Livelihoods](#), is that economic growth is not enough to reduce informality alone.¹³⁴ There needs to be, on top of a coherent system of investment in education and training, active labour market policies that specifically target the lower-tier informal self-employed and wage-employed workers with social transfers and other modes of support to enable their transition out of dead-end jobs.

At the same time, there needs to be greater policy focus on enhancing the livelihoods and working conditions of lower-tier self-employed workers (where the majority of workers in sub-Saharan Africa are), such as credit provision to household enterprises, and the recognition of the rights of urban informal self-employed workers such as street vendors and waste pickers in city planning processes.

Furthermore, policy should specifically target the formalization of upper-tier informal workers. Better enforcement of labour protections for all informal workers supports this goal. Finally, formal sector job creation is necessary to allow those lower down the job ladder to move up.

An encouraging feature of structural transformation in sub-Saharan Africa, a region with high rates of informality, is that [there is a marked increase in manufacturing employment between 2010–18](#), driven mostly by an increase in the employment shares of small firms.¹³⁵ While this trend in employment is encouraging, manufacturing productivity has not increased since the 1980s, which suggests

that policies that enhance the productivity of smaller firms in sub-Saharan Africa are of crucial importance, especially to address the region’s challenge with high rates of youth unemployment.

While the process of structural transformation is crucial to generating sufficient wealth to improve human wellbeing, it can also lead to upward pressure on inequality, at least in the short term. Specific policy approaches that can support those most likely to be left behind, softening as much as possible the increase in inequality can help. Figure 3.1 below shows the potential inequality effects of different forms of economic development. Each quadrant in the figure shows different outcomes with

respect to growth-enhancing structural change and the evolution of inequality.

For a developing country, the desirable place to be is in the bottom-right quadrant — where the country experiences growth-enhancing structural transformation along with stable or decreasing inequality. A strong policy focus on rural and agricultural development through public investments, adoption of technology, and a focus on food prices and food availability to minimize urban-rural income divergence remains important in Global South countries. Education policy and access to other public services, including healthcare, housing, transit, and social security, all protect against increasing inequality.

Policy options for a fairer society

The policy actions for reducing inequality are inherently related to addressing the main drivers of inequality. Income inequality between countries is mainly driven by the gap in per capita income growth between higher- and lower-income countries, particularly the most populous countries which are overweighted in the measure. Inequalities between countries in other outcomes of the development process (education levels, public health, etc.) are similarly linked to how fast lower-income countries can catch up to other countries in these dimensions. Thus, the reduction of this type of inequality requires accelerating growth (and human development more generally) in the world’s poorest regions, especially South Asia and sub-Saharan Africa.

Therefore, policy actions to reduce inequality between countries relate to maintaining and accelerating structural transformation processes in countries like Bangladesh, Ethiopia, and India, where they are already in place. Or, to initiate structural transformation processes wherever they are currently absent.

It is worth noting that this means solving fundamental issues in many countries that are failing to deliver economic prosperity because they are involved in long-lasting conflicts or the state lacks capacity to provide a minimum of public goods, including peaceful co-existence among population groups of various ethnicities or religions, law enforcement, macroeconomic stability, institutional trust, and so on.

FIGURE 3.1
The Developer’s Dilemma

		Growth-enhancing structural transformation	
		Weak	Strong
Income inequality	Increasing	Weak/’adverse’	Strong
	Stable or declining	Ambiguous	Weak/’benign’

Source: Alisjhabana et al.(2022)

The development process also matters for reducing inequality within countries, since it determines the abundance and quality of jobs in the economy. As the quality of available jobs, their number, and their composition changes, so too does the relative demand for workers with different skill sets. Development based on the intensive use of capital, or that disproportionately increases the demand for high-skilled workers, as in the mining or finance sectors, will tend to generate more inequality than when development expands the economic opportunities of larger sectors of the population, as in the agricultural or manufacturing sectors.

Inequality at the country level, more generally, heavily depends on how inclusive and functional labour markets are in the first place ('pre-distribution'). It also depends on the capacity of governments to redistribute income to mitigate market inequalities with social cash and in-kind benefits financed by progressive taxes. It is important to consider the limits of this redistribution of market income, particularly in several Global South countries with small formal sectors and a limited tax base. Therefore, there is a need to balance policies that avoid a high market inequality in the first place with those that improve income redistribution.

A systematic review of the empirical evidence on the impact of various government policies to reduce inequality¹³⁶ underscores a core point: that [how inequality is measured](#), in absolute or relative terms, matters. Less recent UNU-WIDER work shows that the trend in global inequality is [different when](#)

[absolute measures are used](#) as opposed to relative measures.¹³⁷ Likewise, absolute versus relative measures of inequality may point to different policy impacts, depending on which metrics are used.

Labour markets tend to create large and persistent inequalities between people of different socio-economic backgrounds. Of special relevance is the earnings gap between low- and high-skilled or low- and highly-educated workers (the skills and education premia), especially when educated workers are relatively scarce compared to how in demand they are, a common situation when a country is adopting new technology. Large inequalities between ethnic, racial, religious, and other culturally-defined groups may persist across generations, [influenced by lower intergenerational mobility for disadvantaged groups](#).¹³⁸

Governments can directly influence how these unequal 'pre-distributions' are shaped in the first place, for example, by:

- Removing legal or more subtle forms of discrimination against disadvantaged groups
- Increasing the general level of education of the population, or other productive skills, by increasing access to new technologies
- Facilitating more inclusive labour relations and preventing certain firms or population groups from accumulating excessive market power.

The government can also reduce the level of market income inequality through redistributive policies, for example, by:

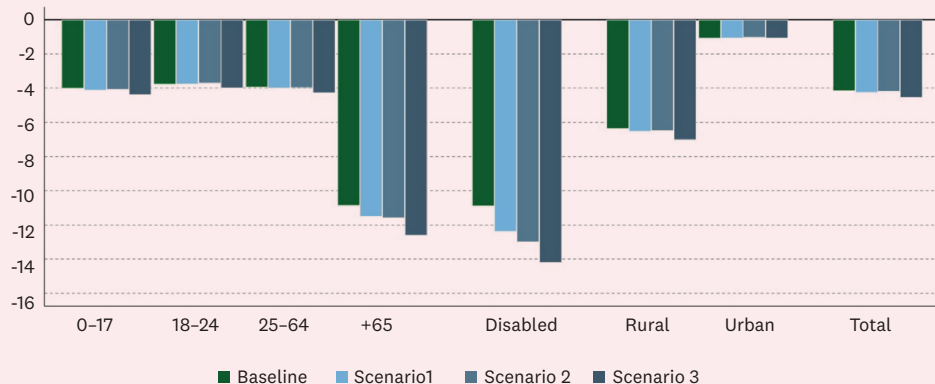
- Providing a social safety net that includes both cash transfers and in-kind provision of education or healthcare. The safety net needs to contemplate how to grant access to those excluded from the labour market, like children (for example, with child benefits, school grants, school feeding programmes, etc.) and the elderly (for example, pensions and other social insurance).
- The state should also consider ways to increase the incomes of the working poor. Countries face several important challenges on this, including the trade-offs between more universal and more targeted benefits, the implications in terms of costs, identification of beneficiaries, or the potential of benefit structures to make work less attractive, as well as the risks of excluding workers in the informal sector from the most generous contributory benefits.
- Financing social protection with a progressive tax system that ensures that affluent population groups and corporations effectively contribute to it, with functional income and wealth taxes, and reducing reliance on more regressive indirect taxes.

Cash Plus – Exploring policy options for reducing poverty in Zambia^{9 10}

Poverty and inequality are persistently high in Zambia. In a bid to improve the situation, the Zambian government introduced and progressively expanded the Social Cash Transfer (SCT) programme. The transfer provides cash payments to poor and vulnerable households and is intended to be a ‘floor benefit’ with complementary benefits targeting the multidimensionality of poverty. To improve poverty reduction, the government initiated the Cash Plus reform in 2019.

UNU-WIDER joined a team that includes Southern African Social Policy Research Insights (SASPRI), the Zambia Institute for Policy Analysis and

FIGURE 3.2
Reduction in poverty headcount by Cash Plus reform scenario, by individual characteristics¹¹



Research (ZIPAR) to help the Zambian government understand the poverty alleviation effects of the reform. Using MicroZAMOD, we find that the current social protection system in Zambia provides support to 76% of the extremely poor population and reduces poverty by 4 percentage points. But among the extremely poor, only 34% receive SCT, the floor benefit. This suggests that the current policy design does not provide sufficient coverage of the target population.

More notably, the potential Cash Plus reforms described in Figure 3.2 fail to address this problem. Our analysis shows that by adding Cash Plus benefits to the social protection system, Zambia will reduce poverty somewhat. But to achieve Zambia’s ambitious poverty reduction targets, the SCT programme needs to be expanded too.

The SCT programme should target additional groups and the benefit level should be increased. In particular, the existing SCT is well-targeted to elderly and rural populations, and those claiming disability, but it rarely reaches the extremely poor in urban and/or working-age, male-headed households (see Figure 3.3). An expanded SCT provides a broader foundation on which to base Cash Plus reforms and increase the potential to reduce poverty and inequality in Zambia.

Source: Gasior et al (2021).

Note: Reduction refers to change in percentage points. ‘Baseline’ refers to the impact of the current social protection system in Zambia, while Scenarios 1-3 refer to Cash Plus reform scenarios described in Figure 1.

⁹ Gasior, K., McLennan, D., Kalikeka, M., Bwalya, M., Jousté, M. (2021) Towards greater poverty reduction in Zambia: Simulating potential Cash Plus reforms using MicroZAMOD. WIDER Working Paper 2021/164. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2021/104-4>

¹⁰ Gasior, Katrin, David McLennan, Mbewe Kalikeka, Miselo Bwalya, and Maria Jousté. Towards Greater Poverty Reduction in Zambia: Simulating Potential Cash Plus Reforms using MicroZAMOD, WIDER Working Paper 2021/164. Helsinki: UNU-WIDER, 2021.



Photo: Imani Nsamila

Strategies to address group-based inequality include transfers or benefits that target specific culturally-defined groups, such as positive discrimination for members of disadvantaged groups in access to education and employment. These affirmative action policies may also be adopted with respect to political representation (for example, reserved seats and quotas in government), which can foster greater inclusivity in [policymaking toward greater inclusivity](#).¹³⁹ The core challenges in adopting and implementing policies that support greater equality in this area are political — finding the political will to adopt and implement inclusive reform amid often sharp distributional conflicts.

Additionally, policies that aim to reduce inequality between and within countries can sometimes be in conflict. Some structural reforms that allow poor countries to grow faster, by inserting their productive structures into the globalized economy, for example, can reduce inequality between countries while increasing it at the country level — either by increasing the demand for high-skill workers, widening the gap between urban and rural areas, or between the most and least connected to international markets. But, these policies can be complementary too.

The central message from the findings of UNU-WIDER's 2019–2023 work programme is that opportunities for action are plentiful and go far beyond economic growth to include peace, good jobs, and a fairer society. People involved in policy processes need to find ways to meet these legitimate demands of their citizens. The key takeaway here is that the need of the hour is to re-establish a workable social contract between citizens and government, society and the state, both for current and future generations.

The future research agenda

The world is at a crossroads. In [Our Common Agenda](#), the new United Nations vision for the next 25 years, the UN Secretary-General calls for a new global order that protects the interests of future generations, renews social contracts, and strengthens solidarity between and within countries. The challenges facing the implementation of this agenda are daunting.

Over the last decade, global warming increased by almost 1 °C (the warmest decade on record) putting communities and ecosystems at risk of survival. The ongoing war in Ukraine has placed the agenda on green energy transitions at the forefront of international policy but political will to advance it is still lacking. In addition to the Ukraine war, almost 30 violent conflicts are active today. Armed conflict affects more than one-fifth of the world population and is a leading cause of poverty, food insecurity, and deprivation in the world. By 2030, two-thirds of the world's poorest will live in fragile and conflict-affected countries. As a result of these conflicts, forced migration has reached unprecedented levels: UNHCR estimates that over 100 million people in 2022 were affected by forced migration. At the same time, the gap between the poorest and the wealthiest continues to increase and shows no signs of subsiding: today, around 2000 billionaires have the same wealth as the world's poorest 60 per cent. The COVID-19 global pandemic exacerbated these

TEXT BOX 3.3


Data as a cross-cutting theme

The production and analysis of quality data is a core component of state capacity. UNU-WIDER has been at the vanguard of data advancements that support governments and benefit researchers and policymakers. We are strong believers in data as a public good to support and accelerate sustainable development.

UNU-WIDER hosts, updates, and maintains two of the world's most comprehensive databases on government revenue and world income inequality: the [Government Revenue Dataset \(GRD\)](#) and [the World Income Inequality Database \(WIID\)](#). In 2021, UNU-WIDER released a dataset to monitor structural transformation globally. [The Economic Transformation Database \(ETD\)](#) compiles data on sectoral employment shares and production for several low- and middle- income countries.

UNU-WIDER also invests in partnerships with national governments to release administrative tax data for policy research. Our collaboration with the National Treasury of South Africa and the South Africa Revenue Service in our South Africa country programme ([SA-TIED](#)) and [several Revenue Authorities in sub-Saharan Africa](#) has supported the first releases of administrative tax data in lower- and middle-income countries ever. This data makes new research on personal income, individual firms, inequalities, tax policy, employment, and more, possible.

In the next five years, UNU-WIDER will deepen and extend our contributions to the 'data revolution for sustainable development'. We plan to expand the scope and accessibility of the ETD, GRD, and WIID datasets and continue our work with revenue authorities in Global South countries to build new data infrastructure and improve research capacity in the region.



trends, making climate adaptation more challenging, paving the way for authoritarian rule and populist movements in many parts of the world and deepening further social and economic inequalities. The wellbeing of current and future generations and the achievement of global common goals are at serious risk if these trends are not reversed.

The main aim of UNU-WIDER's 2024–27 work programme is to harness research and evidence to address the three most pressing development challenges of our times, which will define the course of progress towards sustainable development in the decades to come. These three thematic priorities apply across borders and societal limits, and influence the economic, social, and environmental dimensions of sustainable development.

The first is to **enable just energy transitions to reduce human-induced global warming**. Over the last decades, the world has experienced more frequent and intense extreme climate-related events, which cause widespread adverse impacts and damage to nature and people, beyond natural climate variability (IPCC 2022). Yet, we lack adequate knowledge about the tools and mechanisms necessary for a transition to climate-neutral economies, especially in Global South countries. Research can fill this knowledge gap so energy transitions ensure fairness in their distributional effects, do not exacerbate poverty and economic vulnerabilities, and leave no one behind—that is, enabling just energy transitions.

The second is to **build sustainable peace in conflict-affected societies**. While peace and stability are central to the prosperity and security of countries and their citizens, we currently have limited understanding of how and why violent conflicts persist, how and why their legacies endure across time, and what can be done to reduce the risk and impact of violence. The ongoing war in Ukraine has further emphasized how conflicts can spill over

beyond borders through interconnected economic, social, and political processes, resulting in rises in insecurity, economic vulnerability, and uncertainty across the globe.

The third is to **reduce persistent inequalities across and within countries** in material and non-material dimensions. While cross-country inequalities have fallen in recent decades, several Global South countries, especially in sub-Saharan Africa, have not shared the economic progress witnessed in other parts, such as in East and South Asia. At the same time, within-country inequalities have increased, especially after the COVID-19 pandemic, and intra- and inter-generational inequalities are growing as a result of rises in living costs, unemployment and underemployment, especially among younger generations, digital and technological divides, and the accumulating costs of climate change. Inequality remains a major obstacle to sustainable development and new solutions are needed to reverse these trends.

The three challenges form the thematic priorities for UNU-WIDER's future research agenda as they are the core development challenges facing Global South (and Global North) countries today. They apply across boundaries and social limits, and influence the economic, social, and environmental dimensions of sustainable development.

Addressing them will determine how the world will face, in the words of the UN Secretary-General, its current 'stark and urgent choice: a breakdown or a breakthrough'.

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