Report

Inclusive and sustainable economic transformation

Ways forward in low- and middle-income countries

Vidya Diwakar, Tony Kamninga, Tim Kelsall, Sam Pickard, Sherillyn Raga and Andrew Shepherd, with Foqoruddin Al Kabir, Hamidah Busyrah, Balgis Inayah, Fahmida Khatun, Mizan R. Khan and Elvin Nyukuri

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United Kingdom

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Key messages

There are many international strategies on inclusive and sustainable economic transformation (ISET) but fewer coherent national strategies. Typically, economic transformation trumps social inclusion, which in turn trumps environmental sustainability.

ISET units in ministries of finance can accelerate progress by institutionalising intersectoral and multi-level ISET policy-making and implementation. All types of regime can make progress on ISET, though it helps if the social foundation is broad, social movements are strong, and voice and accountability are high.

Now that strategies and policies are emerging, implementation challenges need to be tackled:

- Acknowledge likely opposition from powerful interests and in critical institutions, and develop tactics to address this.
- 'Think and work politically' to design coherent institutional arrangements and incentives to balance the promotion of ecological sustainability and social inclusion with economic growth and transformation.
- Empower reform-minded coalitions of interested stakeholders through participatory approaches to decision-making.
- Mobilise the private sector to support ISET through value chain standards.
- Mobilise climate finance to support stronger progress towards ISET through national budgets (and private sector investment).

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About the authors
Vidya Diwakar (formerly ODI Global Research Fellow, currently Deputy Director of the Chronic Poverty Advisory Network hosted at the Institute of Development Studies, where she is a Research Fellow) leads a suite of mixed-methods studies on poverty dynamics in parts of sub-Saharan Africa, South Asia and Southeast Asia. Her work focuses on gender-disaggregated drivers of poverty escapes; armed conflict and intersecting crises as drivers of poverty traps; and the role of multisectoral programming in supporting sustained poverty reduction. Vidya led the development of Chapter 4 for this report.

Tony Kamninga is a Research Officer in the Development and Public Finance team at ODI Global. He is a quantitative researcher whose current work supports access to and delivery of development finance for environmental action, climate-smart agriculture and social protection. Prior to this, Tony worked on research to support the understanding of chronicity of poverty, impoverishment and sustained escapes from poverty. Tony collaborated with Andrew Shepherd on Chapter 7 of this report. He reworked the analysis on multilateral climate finance, initially worked on by Neil Bird, and worked on a similar analysis for the World Bank project portfolio and private finance.

Tim Kelsall is a Senior Research Fellow in the Climate and Sustainability programme at ODI Global in London. He specialises in political economy and political settlements analysis and has interests in a range of issue areas, most recently urban climate change adaptation and just energy transitions. Prior to joining ODI Global, Tim taught politics and development studies at Oxford and Newcastle Universities, edited the journal *African Affairs* and worked freelance. He provided political economy advice and analysis for this report.

Sam Pickard is an interdisciplinary researcher who has been working across climate, energy and sustainable development themes at ODI Global since 2014. Now an ODI Global Research Associate, he is also a Recognised Researcher at the Barcelona Supercomputing Center, where he

works to co-produce climate and air quality services, and to further understanding on how to improve citizen and stakeholder engagement in decision-making. He led the drafting of Chapter 6 and contributed to Chapters 1–4 and 8.

Sherillyn Raga is a Research Fellow at ODI Global. She specialises in research on macroeconomics, financial development, trade and investment in Asia and Africa. Prior to joining ODI Global, Sherillyn worked at the Bangko Sentral ng Pilipinas (the Philippine central bank), the International Monetary Fund and the Asian Development Bank. For this project, Sherillyn collaborated with Indonesian researchers on the delivery of the case study investigating the presence of joined-up ISET objectives in energy transition policies and projects in Indonesia. She also led the synthesis of evidence showing how ISET policy-making is carried out in practice in Bangladesh, Indonesia and Kenya (Chapter 5).

Andrew Shepherd (Senior Research Associate, ODI Global, and formerly ODI Global Principal Research Fellow; Director of the Chronic Poverty Advisory Network hosted at the Institute of Development Studies, where he is an Honorary Research Associate) leads policy analysis and engagement on poverty reduction, including the production of a series of international Chronic Poverty Reports and other policy guidance. He led the author team for this report and drafted Chapters 1–3 and 8 and parts of Chapter 6 and gave guidance for Chapter 7.

Foqoruddin Al Kabir is Senior Research Associate at the Centre for Policy Dialogue, Bangladesh. His areas of research interest include macroeconomics, climate change and environmental economics, among others, with theoretical application and development. He is also skilled in qualitative and quantitative research and policy development. He was a co-author of the Bangladesh case study on ISET in the water sector.

Hamidah Busyrah is a Researcher at the Dala Institute. Currently, she is actively engaged in studies focused on energy transition, social transformation, gender and power dynamics in Indonesia. She contributed as one of the co-authors of the Indonesia ISET case study.

Balgis Inayah is a Researcher/Evaluator at the Dala Institute. She is experienced in conducting research and evaluation in projects related to climate change mitigation and adaptation, including on just transition, energy transition and energy policy. She has expertise on environmental sustainability, governance and policies as well as how they relate to the concept of intersectionality and Gender Equality, Disability and Social Inclusion principles in energy transition. She was the lead author of the Indonesia ISET case study.

Fahmida Khatun is Executive Director of the Centre for Policy Dialogue, Bangladesh. She is also currently a Board Director of the Central Bank of Bangladesh and a Member of the Task Force on Re-Strategising the Economy and Mobilising Resources for Equitable and Sustainable Development, formed by the current interim government of Bangladesh. Her expertise includes macroeconomic policy, financial sector, aid effectiveness and climate change, among others. She was the lead author of the Bangladesh case study on ISET in the water sector.

Mizan R. Khan is the Technical Lead for the Least Developed Countries Universities Consortium on Climate Change. He has worked in academia while working closely with the government and the development sector in Bangladesh and beyond. He has worked extensively on climate change, climate challenges and climate negotiations. He was the co-author of the Bangladesh case study on ISET in the water sector.

Elvin Nyukuri is Senior Lecturer at the University of Nairobi. She specialises in environmental policy, climate change and natural resource governance in Kenya and sub-Saharan Africa. She has worked on various projects commissioned by ODI Global focusing on Kenya in the areas of climate resilience, poverty dynamics, resource governance and policy development. She collaborated with other researchers at ODI Global to deliver the Kenya ISET case study.

Executive summary

Economic transformation – shifting employment towards increasingly high-earning and high-value activities – is essential to the development of low- and lower-middle-income countries (LICs and LMICs), where poverty is still widespread. But it matters greatly how economies grow: economic transformation must be inclusive, with benefits shared broadly across society, and environmentally sustainable. The latter requires not only reducing greenhouse gas emissions but also curbing pollution, biodiversity loss and other harmful impacts. Inclusive, sustainable economic transformation (ISET) represents a way forward for the planet and its people, including for LICs and LMICs.

Advances towards ISET have been made in many international and national strategies in the past five years but two major challenges remain. First, there is typically still a hierarchy that prioritises economic growth (sometimes transformation) above social inclusion and poverty reduction, which are themselves often positioned above ecological sustainability. Second, in research and policy, the potential synergies and trade-offs are better understood between economic growth or transformation and environmental sustainability, and between economic growth and poverty reduction, than between environmental sustainability and social inclusion or poverty reduction. This is important because these trade-offs and synergies need to be actively managed.

LICs and LMICs tend to have different policy priorities to high- and upper-middle-income countries. HICs and UMICs must recognise their historic environmental impacts and acknowledge major responsibility. They must lead action to achieve global environmental sustainability and allow the LICs and LMICs space for economic development and poverty reduction. But the LICs and LMICs must also play a part. While retaining legitimate space for economic transformation and poverty reduction, they must increasingly progress this environmental sustainability agenda.

While international and national strategies have progressed ISET policies, especially in the past five years, as yet there is no big push towards ISET, or towards joined-up Sustainable Development Goal (SDG) implementation. As a result, progress on outcomes is lagging. Where there is modest progress, it is typically driven by one or more of the following: external (international) pressure via value chain standards, trade agreements or the SDGs; internal pressure via

progressive social movements; and crises that prompt radical ISET-related action from governments. Countries experience these drivers differently, with the result that progress in policy-making and outcomes is highly varied.

Progress towards making and implementing ISET policies can be accelerated by developing ISET units in ministries of finance and planning and mandating them to institutionalise intersectoral and multilevel ISET thinking, policy-making and implementation. Development partners can usefully contribute to such initiatives with technical assistance and financing. Progress can also be sped up through national government and development partner support for innovation and experimentation, and by upgrading innovation institutions and networks.

Evidence suggests that all types of political regime can make progress on ISET, though it helps if a regime's social foundation is broad rather than narrow; social movements are strong; and voice and accountability are high. Creating a better balance among economic, social and environmental objectives can be enabled by reducing the risks and vulnerabilities facing LICs and LMICs (an often-neglected criterion for graduation from least developed country status); adopting a risk-informed approach to development; and strengthening government effectiveness, especially for intersectoral collaboration. Predictably, fragile and conflict-affected states face the biggest challenges in these regards.

As ISET policies have begun to emerge, this report suggests a need to focus on ISET's implementation challenges. Strategies to overcome these include the following:

1. Acknowledge likely opposition from powerful interests, and develop tactics to address this, such as compensation for losses; public–private partnerships that favour ISET-aligned investment; effective systems of compliance; and processes that draw on the power of social movements and communities to hold the public and private sectors to account.

2. Acknowledge passive opposition in critical institutions that remain committed to economic growth above all else, and the need to change institutional cultures through special units and processes of cultural change, supported by technical assistance.

3. Design coherent institutional arrangements and incentives to equalise the promotion of ecological sustainability and social inclusion with economic growth and transformation; institutional arrangements need to be capable of withstanding resistance from powerful vested interests – 'thinking and working politically' is a useful approach.

4. Mobilise reform-minded coalitions of interested stakeholders, involving ISET-aligned social movements like trade unions and civil society organisations, and empowering them through participatory approaches to decision-making.

5. Mobilise the private sector to support ISET through value chain standards. In the aggregate, this requires implementing and observing mandatory and voluntary trade agreements, including reformed World Trade Organization regulations and norms, and carbon border adjustment mechanisms. At an individual firm level, this involves expanding corporate social responsibility along the value chain and intensifying the assessment of social and environmental outcomes.

6. Support progress towards ISET using climate finance through national budgets and private sector investment. However, to be effective, this will require providing expanded volumes of finance (including private sector equity finance) and changing its distribution, especially moving beyond a focus on supporting the energy transition towards adaptation projects, and with a stronger focus on agriculture and informal economies.

In support of this agenda, more research is also required on three issues:

1. the degree to which shareholder activism and Fairtrade arrangements can support ISET

2. the ways in which ISET plays out in the predominant and heterogeneous informal economies that predominate in LICs and LMICs: here, there is a need for much greater knowledge about ISET outcomes and relevant context-specific policies, implementation strategies and appropriate indicators of progressive change

3. how agriculture, which is increasingly recognised as critical to countries' climate change mitigation as well as adaptation efforts, can also remain inclusive and reduce poverty more effectively.

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Acronyms

8FYP	8th Five-Year Plan (Bangladesh)
ACCTS	Agreement on Climate Change, Trade and Sustainability
AEER	Aksi Ekologi dan Emansipasi Rakyat (Ecological Action and People›s Emancipation) (Indonesia)
AGOA	African Growth and Opportunity Act
AU	African Union
AUC	African Union Commission
Bappenas	Badan Perencanaan Pembangunan Nasional (Ministry of National Development Planning) (Indonesia)
BCGE	Bio-Circular Green Economy (Thailand)
BDP	Bangladesh Delta Plan
BETA	Bottom-up Economic Transformation Agenda (Kenya)
CCCF	County Climate Change Fund
CES	Consejo Económico y Social (Economic and Social Council) (of Dominican Republic)
CIDP	county integrated development plan (Kenya)
CIF	Climate Investment Funds
CIPP	Comprehensive Investment and Policy Plan (of the JETP)
CO_2	carbon dioxide
CPD	Centre for Policy Dialogue
CSA	climate-smart agriculture
CSO	civil society organisation
CTF	Clean Technology Fund (of CIF)
CVF	Climate Vulnerability Forum
DFI	development finance institution
DMO	domestic market obligation (Indonesia)
ECA	United Nations Economic Commission for Africa
ETR	Ecological Threat Report
EU	European Union
FAO	Food and Agriculture Organization of the United Nations

FEK	Federation of Kenya Employers
FLLoCA	Financing Locally Led Climate Action (Kenya)
G7	Group of Seven Countries
G20	Group of 20 Countries
GCF	Green Climate Fund
GDP	gross domestic product
GEF	Global Environment Facility
GGGI	Global Green Growth Institute
GHG	greenhouse gas
GNI	gross national income
GPI	Global Peace Index
GSP	Generalised System of Preference (EU)
GTAP	Global Trade Analysis Project
GVC	global value chain
HIC	high-income country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEA	International Energy Agency
IEP	Institute for Economics & Peace
IESR	Institute for Essential Services Reform
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
INFORM	Index for Risk Management
IPCC	Intergovernmental Panel on Climate Change
IRENA	International Renewable Energy Agency
ISET	inclusive and sustainable economic transformation
ISID	inclusive and sustainable industrial development (of UNIDO)
JETP	Just Energy Transition Partnership
KII	key informant interview
LAC	Latin America and Caribbean
LEED	Leadership in Energy and Environmental Design

LIC	low-income country
LMICs	lower-middle-income countries
LoGIC	Local Government Initiative on Climate Change (Bangladesh)
MC	Ministerial Conference (of the WTO)
MCF	multilateral climate fund
MCPP	Mujib Climate Prosperity Plan (Bangladesh)
MDB	multilateral development bank
MDP	Ministry of Devolution and Planning (Kenya)
MDPA	Multidimensional Poverty Analysis
MEPyD	Ministerio de Economía, Planificación y Desarrollo (Ministry of Economy, Planning and Development) (of Dominican Republic)
MIC	middle-income country
MINAE	Ministerio de Ambiente y Energía (Ministry of Environment and Energy) (Costa Rica)
MoEFCC	Ministry of Environment, Forest and Climate Change (Bangladesh)
MPTFO	Multi-Partner Trust Fund Office (Bangladesh)
MSMEs	micro, small and medium enterprises
NAP	National Adaptation Plan (Bangladesh)
NDC	Nationally Determined Contribution
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
PCI	Power Concentration Index
PLN	Perusahaan Listrik Negara (State Electricity Corporation) (Indonesia)
PPP	purchasing power parity
R&D	research and development
RMG	readymade garment
RUEN	Rencana Umum Energi Nasional (National Energy General Plan) (Indonesia)
SCAPS	severely conflict-affected poor state
SCF	Strategic Climate Fund (of CIF)
SCP	sustainable consumption and production
SDG	Sustainable Development Goal

SEDICI Social and Economic Development Impact of Climate Finance (of CIF)

SFS Social Foundation Scores

Sida Swedish International Development Cooperation Agency

SMEs small and medium enterprises

SREP Scaling Up Renewable Energy in Low Income Countries Program (of CIF)

T&C textiles and clothing

TESSD Trade and Environmental Sustainability Structured Discussions (WTO)

TNP2K Tim Nasional Percepatan Penanggulangan Kemiskinan (National Team for the Acceleration of Poverty Reduction) (Indonesia)

TWP thinking and working politically

UK United Kingdom

UMIC upper-middle-income country

UN United Nations

UNDESA United Nations Department of Economic and Social Affairs

UNDP United Nations Development Programme

UNEP United Nations Environment Programme

UNESCAP United Nations Economic and Social Commission for Asia and the Pacific

UNFCCC United Nations Framework Convention on Climate Change

UNFSS United Nations Forum on Sustainability Standards

UNIDO United Nations Industrial Development Organization

UN-OHRLLS United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

US United States

V20 Vulnerable 20 Group of Finance Ministers

VA value-added

WDI World Development Indicators

WGI Worldwide Governance Indicators

WTO World Trade Organization

1 Introduction

The Sustainable Development Goals (SDGs) represent a high-level global consensus on the ideal future: broad-based peace and prosperity on a healthy planet, and an end to poverty, deprivation and suffering. Inclusive, sustainable economic transformation (ISET) captures the ambition of low- and lower-middle-income countries (LICs and LMICs) to go beyond economic growth to create job opportunities for many in firms and sectors that are more productive and pay better than smallholder agriculture or the informal economy, on which most people in such countries depend. Economic diversification is a further important aspect of economic transformation, helping countries' economic growth become less volatile. Both characteristics of economic transformation are potentially important drivers of inclusion and poverty reduction, when accompanied by supportive human development and economic policies. Given the ways in which climate change, biodiversity loss and environmental degradation are especially affecting poor and vulnerable people in LICs and LMICs, it is increasingly important that economic transformation also occur in an ecologically sustainable fashion. These are the policy dilemmas that the idea of ISET addresses.

1.1 Basic introduction to ISET terms

This work is rooted in the pursuit of universal prosperity on a healthy planet, the variety of interpretations of this lofty goal and the different pathways to achieve it. Our focus is socially **I**nclusive, ecologically **S**ustainable, **E**conomic **T**ransformation (hereafter: ISET) in LICs and LMICs. Reflecting the dominance that economics retains in most government planning, our brief for this project (see Section 1.5) was to take economic transformation as our central theme and to understand how it can be (more) socially inclusive and (more) ecologically sustainable in LICs and LMICs. Box 1 provides definitions and examples relevant to the core themes in the report.

Box 1 Definitions

What do we mean by inclusion, poverty reduction, economic transformation, sustainability and planetary boundaries?

Economic growth is represented by increases in a country's gross domestic product (GDP).

Economic transformation entails moving employment to higher-productivity and higher-value activities that enable increases in human and physical capital. It may also encompass improvements in productivity within sectors through innovations and efficiencies.

Environmental sustainability: Economic and social activity happens while conserving biodiversity and ecosystem functions, reducing pollution (including greenhouse gas (GHG) emissions) and using natural resources in ways that take account of the needs of future generations.

Planetary boundaries: There are nine planetary boundaries monitored by the Stockholm Resilience Centre. These are climate change; biosphere integrity (functional and genetic); land system change; freshwater use; biogeochemical flows (nitrogen and phosphorus); ocean acidification; atmospheric aerosol pollution; stratospheric ozone depletion; and release of novel chemicals.

Social inclusion involves ensuring the benefits of transformation reach those at the bottom of the distribution, especially those facing discrimination and multiple disadvantages, and provide children with the means to be included in future transformation.

Poverty reduction means reduced poverty, either monetary or multidimensional. In practice, the focus is often on extreme poverty.

A political settlement is a tacit but evolving agreement among those holding power on the rules of the political and economic game, which enables them to secure a distribution of benefits they find acceptable. Two key characteristics by means of which political settlements can be classified are the breadth of their social foundation and the concentration of power (Kelsall and Hickey, 2020).

1.2 The Agenda for Sustainable Development as a global framework and a starting point for understanding ISET themes

Agenda 2030 and the accompanying SDGs constitute the world's major development policy framework. The Goals apply to the global North as well as the global South and cover social, economic and environmental policy themes with specific targets and indicators (Table 1). Although they were designed as an interconnected set (UN, 2023a), they have largely been pursued individually and even in silos, in line with the prevailing institutional structures and communities of practice.

Table 1 Selected SDGs relevant to ISET

Inclusion and poverty reduction	SDGs 1 & 2	Zero poverty and zero hunger
	SDGs 3, 4 & 5	Education, health and gender equality
	SDG 10	Reduced inequalities
Environmental sustainability	SDG 11	Sustainable cities and communities
	SDG 12	Responsible consumption and production
	SDG 13	Climate action
	SDG 14	Life below water
	SDG 15	Life on land
Economic transformation	SDG 7	Affordable and clean energy
	SDG 8	Decent work and economic growth
	SDG 9	Industry, innovation and infrastructure

1.3 High-level synergies between ISET themes

Since the SDGs were first announced, there has been a raft of research evaluating the potential synergies and trade-offs between them (e.g. Kroll et al., 2019). A recent UN report on synergies (UN, 2023a) represents an important step in realigning practitioners with the original crosscutting intention of the SDGs. Despite these efforts to join up the SDGs themselves, much less work appears to have considered the tacit knowledge of interactions between different approaches to sustainable development, and how thinking has developed within these economic, social and environmental silos.

There are, clearly, some foundational points of agreement. For example, the United Nations Framework Convention on Climate Change (UNFCCC) noted that:

> responses to climate change should be coordinated with social and economic development in an integrated manner with a view to avoiding adverse impacts on the latter, taking into full account the legitimate priority needs of developing

> countries for the achievement of sustained economic growth and the eradication of poverty (UN, 1992: 3).

Awareness of the need for inclusive growth through the 1990s and 2000s and the introduction of concepts like climate-resilient development (Mitchell and Maxwell, 2010) and green growth (Jacobs, 2012) led to attempts to bring together the different approaches to development. This has occurred in parallel with the dominant and relatively independent thinking within these different branches, which has also been evolving in recent decades. Reflecting this in broad brush terms suggests that, at least in principle, for those working in **lower-income contexts**:

- Some economists and policy-makers in LICs and LMICs have shifted their focus from economic growth to economic transformation, with attention to different needs for countries at various levels of development; some also recognise that we must share wealth and mitigate GHG emissions.
- Social inclusion experts have shifted their focus from poverty reduction to reducing inequality and recognise that we must generate wealth and account for climate risks.
- Some social inclusion experts have shifted their focus from poverty reduction to reducing inequality, and increasingly recognise that LICs and LMICs must generate wealth and account for climate risks.
- Environmentalists have shifted from a narrow focus on limiting directly generated environmental bads (e.g. air pollution, GHG emissions) towards managing natural resources in response to climate risks, and recognise that inclusive economic development is essential for poverty reduction.

Beyond these headline points of agreement, synergies and trade-offs between ISET themes vary. Moreover, differences exist in what the various professions see as priorities, and what needs to be achieved in the short, medium and long term. Most analysts and practitioners in all three branches recognise the need for ISET as a long-term goal; whether to prioritise social, economic or environmental goals in the immediate present is a matter of debate. Similarly, how to handle the trade-offs between them remains contentious.

1.4 Unpicking more complex relationships between ISET themes

The evidence connecting economic development and poverty reduction is very deep, with economic growth widely seen as the principal driver of reduced poverty. It is possible to develop a more nuanced narrative, however, one which shows that economic growth has reduced poverty variably, depending on levels of inequality, economic structure, macroeconomic management and a country's policies. The volatility inherent in a highly specialised economic structure, characteristic of LICs, for example, is a barrier to reducing poverty.

This is one motivation for switching the focus from economic growth to economic

transformation, which includes an element of diversification of the economy as well as increased productivity. For LICs in particular, economic transformation emphasises the creation of new job opportunities in more productive, better-remunerated sectors, expanding employment and building skills, thus ensuring economic growth is not concentrated in the hands of only a few people. For 20+ years, there has been a research and policy discourse on pro-poor (or even pro-poorest) economic development. This centres around the idea that beneficial inclusion in economic growth is not automatic but needs engineering through human development and macro and microeconomic policies. Economic transformation, where it can be achieved, is a potential route to reducing poverty through employment creation, especially in labour-intensive manufacturing. This can be linked to women working outside the home (see Chapter 4), where productivity is higher than in smallholder agriculture or in many of the informal economies where the majority of poor and vulnerable people pursue their livelihoods. For middle-income countries (MICs), in addition to diversification, economic transformation emphasises sustained increases in productivity that allow them to avoid the 'middle-income trap' and catch up with high-income countries (HICs).

Economic growth has long been seen as being in tension with environmental sustainability. This tension is often viewed at the micro level, but it is also present in macro dimensions. For example, the International Monetary Fund (IMF) suggests that, for sub-Saharan Africa, revenues from the critical minerals necessary for the energy transition are poised to rise significantly in the next two decades. However, this revenue increase is not enough to offset the revenue losses caused by decreased sales of traditional fossil fuels. Sub-Saharan African countries are estimated to lose over $1.2 trillion in revenues in the next 20 years (IMF, 2024).

Despite this tension, at the global level, impacts of the climate crisis have driven environmental issues up the international research and policy agenda. This has generated a plethora of strategies designed to reduce the tension, headed by green growth and sustainable economic transformation – and some of these approaches are built into the SDGs. For example, SDG 12 on sustainable consumption and production (SCP) entails a 10-year framework to achieve this (Box 2), covering natural resource management; reducing waste, especially of food and chemicals; recycling; the practices of big companies; public procurement; and information. The framework includes reducing fossil fuel subsidies and developing scientific capacities in developing countries. The onus to enable the change is particularly on developed countries, where unsustainable consumption and production are responsible for much of our current breaching of the planetary boundaries. Yet, 10 years after 193 countries agreed the 10-year framework, the 2022 Progress Report makes for depressing reading: other than including the framework in the SDGs, there is unfortunately little to celebrate (UN, 2023b).

Box 2 The 10-year framework for achieving sustainable consumption and production

The global (UN) framework for action was agreed in 2012 to enhance international cooperation and accelerate the shift to SCP patterns. It applies to both developed and developing countries, and in the latter supports capacity-building and facilitating access to related technical and financial assistance. The framework aims to develop, replicate and scale up SCP and resource efficiency initiatives, at national and regional levels. By decoupling environmental degradation and resource use from economic growth, countries can increase the net contribution of economic activities to resource efficiency and productivity, poverty eradication, social development and environmental sustainability. Finally, the framework encourages innovation and cooperation on a wider scale among all stakeholders to achieve greater collective impact for the shift to SCP patterns.

However, progress has been extremely limited, and a 2022 report by the UN Secretary-General extended the framework's deadline until 2030, perhaps reflecting the paucity of effort dedicated to it over the decade. A new raft of initiatives has recently been launched, suggesting implementers are still working out the conceptual and operational infrastructure to achieve the framework's original ideas; these initiatives include instigating changes in public procurement to promote circular resource use; linking to digital transactions, which now account for almost two-thirds of the global economy; creating jobs and business development opportunities for youth; and national-level strategies to develop sustainable food systems.

Source: UN (2023b)

Whereas the discourses on the economic development–poverty reduction/inclusion interface and the economic development–environmental sustainability interface of ISET are both well developed, the relationship between environmental sustainability and poverty reduction/inclusion is far less well covered in both research and policy. Arguably, the synergies between them are harder to identify than are those between economic development and sustainability – yet much more work on where these dimensions interact is warranted (see, for example, Hubacek et al., 2017).

An early output from this current project was to establish that, yes, it is possible to achieve decent livelihoods within planetary boundaries (Box 3). This analysis is built around the idea of a fair share of the climate budget. The headline finding is that the emissions of the rich (both in the HICs and in wealthy

sections of lower-income countries) must drastically reduce to allow lower-income countries, most of which emit well below the per capita level implied by the global fair share, to moderately increase their emissions, but only so far as the fair share limits. This does not provide carte blanche for lower-income countries to develop substantial fossil fuel infrastructure, or to follow the fossil-fuelled development pathways of today's HICs and upper-middle-income countries (UMICs). Even these emissions in lower-income countries will need to be phased out in the medium term, to achieve net zero emissions globally and limit global heating. Thus, our findings and our approach do not support the type of development approach still being pursued in heavily industrialised MICs that are dependent on fossil fuels (and coal especially).

Table 2 illustrates the different transitions for countries at different levels of income.

Table 2 Urgent transitions by country income category

	Country income category		
Dimension	**LICs and LMICs**	**UMICs**	**HICs**
Environmental	Climate adaptation for resilience Avoiding lock-in to future CO2 emissions and other environmental bads	Just energy transitions to escape lock-ins and reduce emissions Urbanisation, transport and agriculture transitions	Decarbonising energy systems to achieve 45% reduction in CO2 by 2030
Social inclusion	Extreme poverty reduction Food security: through environmentally sensitive/ climate-smart agriculture	Elimination of extreme and moderate poverty Containing inequalities	Reducing inequalities of opportunity and wealth
Economic transformation	Closing the productivity gap with HICs and UMICs	Investing out of the 'middle-income trap' Containing material consumption by the rich	Reducing material consumption by the global rich

While poverty reduction and beneficial socioeconomic inclusion are closely related to economic growth and transformation, their relationship with environmental sustainability is unsurprisingly characterised by tensions. The issue of reducing poverty without exceeding planetary boundaries is a significant challenge, as underlined in Box 3 and Diwakar et al. (2023). The 'solution' involves a politically demanding decreased consumption among the global wealthy to allow space for the increased consumption at the bottom. Climate change negotiations are framed by fraught discussions on the obligations of developed and developing countries, much of which is about richer countries

failing to facilitate the policy and economic space developing countries need to continue to grow and reduce poverty, often while having to deal with more frequent and intense environmental hazards and ecological losses.

There are also tensions beyond climate change. Environmental conservation efforts often fail to include the poorest, who do not own the land, water, pastures or trees that are central to better natural resource management, and therefore cannot benefit from most of the potential returns to building natural capital.[1] The impacts of the biodiversity and climate crises often affect the global poor most, not least because they have the fewest resources with which to adapt to these situations. The tensions embodied in overcoming these vulnerability traps occur at a country as well as an individual or household level.[2]

1 This was the conclusion of an unpublished review for the Food and Agriculture Organization of the United Nations (FAO) of the combination of poverty reduction and conservation objectives in integrated projects and programmes (Shepherd et al., 2020). This review is available from the authors on request.

2 A 2019 FAO document seeking to link poverty reduction with climate mitigation and adaptation also indicated that there was everything to play for, and pilot projects were needed to test out how the links could best be achieved (Charles et al., 2019).

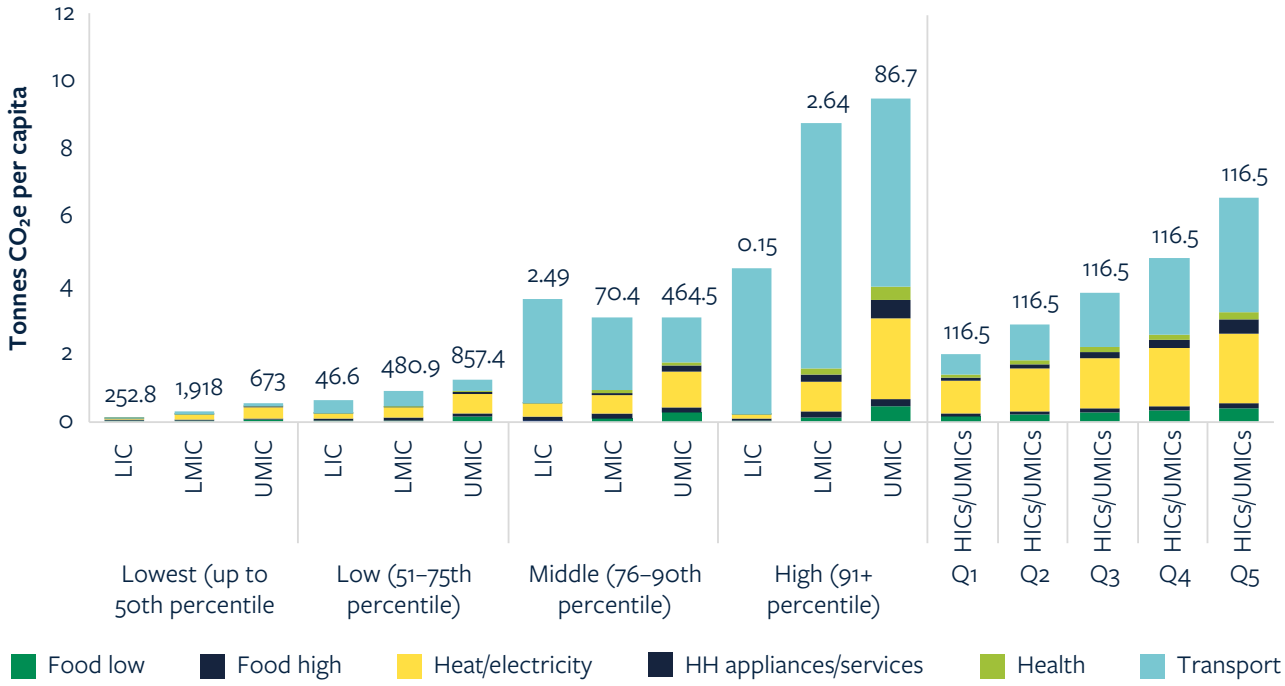
Box 3 Decent livelihoods within planetary boundaries

Our detailed analysis comparing the consumption patterns and carbon intensities of key sectors with the remaining carbon budget tells us that decent livelihoods within planetary boundaries are feasible. It is possible to significantly raise the level of living of people in the bottom half of the global distribution. However, this would involve the top of the global distribution in developed as well as developing countries reducing their material consumption or carbon footprints, especially in transport and electricity (Diwakar et al., 2023; Figure 1). This is a major political issue going forward. However, the solutions are largely to do with (i) system design on the energy side, through cleaner energy; but also, more challengingly, with (ii) modes of transport – that is, the use of air travel and private vehicles, only some of which can be reduced through electric vehicles.

Figure 1 shows rough estimates of how household expenditure levels translate into per capita GHG emissions. It should be noted that there are large differences in per capita GHG emissions across countries within income groups – even between neighbours in Europe. The carbon intensity of a country's power generation system, its dependence on private motorised transport and its economic composition (e.g. the presence of hard-to-abate sectors like cement, chemicals, or iron and steel) will shape per capita emissions even more profoundly than will per capita income. European countries on average have much lower per capita emissions than do other major Western economies (i.e. Australia, Canada and the US), thanks in part to Europe's more dense and well-connected urban areas and – frequently, if not universally – greener electricity systems. If the analysis included all HICs, the bars on the right of Figure 1 would look quite different.

The valuable nuance is that the national averages conceal stark differences within countries. The wealthiest Indians or Nigerians, for instance, may emit as much as Australians. However, most Indians or Nigerians, unlike the average or even poorer Australian, have very small carbon footprints. Nevertheless, the emissions of the middle deciles in UMICs are also growing significantly.

Figure 1 Estimated per capita GHG emissions associated with household consumption in 80 countries for which data were available, by consumption segment, country income category



Note: An average of the GHG intensities of the agriculture, residential and industry sectors is used to convert food energy to GHG footprint data (see Appendix 1 for more detail). Note also that, owing to data limitations, the LIC group here comprises just six countries. Numbers in italics show the global population (in millions) for each subsegment.

Source: Diwakar et al. (2023), based on analysis of the Global Consumption Database 2010, Eurostat household budget surveys 2010, GTAP 9 and IEA energy balances 2010.

1.5 Sida's challenge to ODI and our approach

Two organisations working on these themes that have a degree of global reach are the partners in this work. In 2019, the Swedish International Development Cooperation Agency (Sida), a bilateral donor agency facing the challenges of integrating and reconciling economic, environmental and social dimensions within its own practice, observed that ODI, a development-focused think tank, was similarly challenged (Box 4). Sida's chief economist's team proposed to ODI that it develop a programme of work focused on integration, synergies and trade-offs in which it put its own internal issues in the spotlight while examining these issues in the wider world.

Building on an ODI paper on economic transformation and poverty reduction (Diwakar et al., 2019), Sida's challenge to ODI was to integrate environmental concerns into this analysis and study how these three concerns were integrated or not in practice in the world of policy-making, especially but not only in Sida's focus countries.

We discuss this in terms of a landing zone where these three aims overlap, but our point of departure is economic transformation and how it can be made socially inclusive and ecologically sustainable. We justify this as economic transformation remains the most politically powerful lever for development planning. We note that some untransformed economies are also capable of degrees of inclusion and sustainability (see Chapter 4). However, it is unlikely that untransformed economies will have the dynamism to remain highly inclusive or have the resources to invest in greater environmental sustainability over longer periods of time.

We could equally have asked, 'How do we make social inclusion more economically transformative and ecologically sustainable?' or 'How do we make ecological sustainability more economically transformative and socially inclusive?' Had we done so, you would likely be reading a different report, though there are clear overlaps with the material we present here.

Box 4 Integrating economic, social and environmental issues at organisational level

Responding to Sida's challenge, ODI formed a team from four programme units – International Economic Development, Climate and Sustainability, Equity and Social Policy, and Risk and Resilience – and spent several monthly meetings discussing what the programme was about: variously, the inclusivity and sustainability of economic transformation, or how the economic transformation, environmental sustainability and social inclusion objectives in the SDGs could be better balanced. Significant intellectual tensions were evident, especially between proponents of economic growth as an indicator of sustainable development and proponents of environmental sustainability who questioned the value of growth per se unless it was green and distributed equitably. While an element of this continues, shifts in discourse globally and within our group have led to economic growth proponents giving some recognition to green agendas and environmentalists recognising the need to frame their views in a way that engages with political economic realities.

Alongside these internal deliberations, ODI team members also worked to understand how the wider world was dealing with these issues. We focused initially on trying to find the hallowed triple win of ISET, whether countries were achieving balanced outcomes, how better-performing countries were achieving those higher standards and whether climate finance supported them. The focus on the textiles and clothing sector quoted in Box 16, Chapter 6, is an example of the evidence supporting the evolution of our internal discussions.

Broadly speaking, environment has been a priority in Swedish government policy priorities for decades, while climate change became prominent around 2008. Projects have been labelled with the Rio markers[3] with follow-up on a yearly basis in portfolio analysis based on tagging in all Sida projects. By 2023, 56 projects had direct effects and 30 indirect effects.[4] The driver of this progress has been country demand, partly shaped by the SDGs.

Sida introduced the Multidimensional Poverty Analysis (MDPA) framework in 2017. This has been integrated into operations as a mandatory multidimensional poverty analysis to be conducted by all strategy owners. This placed people and poverty reduction at the centre of its work, but with environmental concerns also strongly represented in one of the four pieces of contextual analysis that shape opportunities in and constraints to poverty reduction (the other three being political and institutional, social and economic, and peace and conflict). The MDPA is tailormade for country-level poverty analysis and has so far been conducted and updated for 33 out 39 bilateral country strategies. It has also been conducted for two regions and one global analysis. Most of the analyses are published on Sida's website. The analysis is decentralised to strategy owners, with backstopping support and quality assurance from Sida's Chief Economist Team, which has also continuously updated and finetuned the framework and its support material, drawing on lessons learnt. One important lesson learnt from several internal reviews was that about 50–80% of MDPA conclusions came back as Strategy Objectives in strategies decided by the government. Other conclusions were that the structure in the chain from analysis to operations could be strengthened, and that the quality of the analysis could be improved by using trends, benchmarking and outlooks and drawing operational conclusions. These prerequisites would build a stronger bridge between analysis and operations, including operational decision-making all the way to portfolio choices and project-level relevance and follow-up. It was concluded that the concept had increasingly informed those strategies since 2017, and implementation plans contained some indications of MDPA influence. However, it was uncertain how well linked to the analysis projects were. Sida therefore espouses a 'portfolio' approach, so that some projects at least are reaching the poor and extending benefits to them. Others may have indirect links.

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3 Five Rio markers track activities and development finance targeting the Rio Convention objectives – adaptation and mitigation, biodiversity and desertification. The environment marker tracks more local environmental issues.

4 Interview with Love Theodossiadis, Acting Chief Economist, Sida, February 2024.

Operationalising an integrative framework like the MDPA requires institutional work and is in practice challenging. In 2022, Sida produced a Climate and Environment Policy, and guidelines for integration into Sida's operations. However, while this considered economic growth and transformation, it included little on poverty reduction or social inclusion – perhaps an illustration of how challenging it can be to keep the three dimensions in play at the same time. A similar siloed way of working comes when conducting mandatory environmental impact assessments at the project level and for all projects, rather than looking at the overall picture and identifying where the most important issues related to environment and poverty are – which would emerge from an MDPA – and putting energy into addressing a smaller set of selected issues. This latter would lead to a stronger link between analysis and operations, and Sida focusing its energy on addressing the most important issues with more resources rather than spreading itself thinly across all projects, doing everything. It would also be useful for following up on the most important changes in terms of the environment related to people living in poverty.[5]

In conclusion, then, there is a history of previous conceptual attempts to join up the development objectives inherent in the SDGs, usually on a bilateral basis. Inclusive growth or climate-resilient development are examples, and ISET builds on these. While there has been some convergence in thinking between economists, social inclusion specialists and environmentalists, priorities for the short, medium and long term are much debated. The report argues that, given both urgent needs and planetary boundaries, these must vary by country-income context, with priorities for LICs and LMICs distinct from those of UMICs. The trade-offs and synergies between economic development and poverty reduction as well as economic development and environmental sustainability are better understood and catered for in policy than the relationships between poverty reduction and environmental sustainability. It is mathematically possible for poverty to be reduced within planetary boundaries. However, this would involve politically challenging reductions in especially energy and transport consumption by the world's most prosperous people. And, of course, finding less resource-intensive modes of production and consumption in future.

5 Ibid.

2 Taking stock: the contribution of this report

2.1 Where are we in 2024?

Globally, we are falling far short of achieving the SDGs. More than half of the Goals are off-track, and around a third either are showing no progress or have reversed. Far too little is being doing to curb the types of activities that are driving the climate, biodiversity and pollution crises. Russia's invasion of Ukraine has fuelled price inflation, driving a cost-of-living crisis that has further entrenched poverty and inequality. Many developing country economies are hamstrung by debt and have been unable to recover from the global Covid-19 pandemic (UN, 2023c). Individual countries are also a long way from achieving ISET outcomes (Chapter 4) but also, it seems, a from implementing national and sectoral policies (Chapters 5 and 6) that are the critical first step in forging new pathways. As another UN report bluntly notes, 'We must change course' (UN, 2023a).

Alongside regaining ground lost when the pandemic and subsequent crises diverted attention from this sustainable development agenda, there are major structural challenges to achieving universal, ecologically sustainable prosperity. These include the rapid transgression of several planetary boundaries (including, but not only, woefully insufficient efforts to limit global heating to 1.5°C above pre-industrial levels); socioeconomic polarisation; limited progress in export-led industrialisation and diversification for countries outside of East and increasingly Southeast Asia, as well as limited ability for LICs to recover from recession; and extremely limited knowledge of the potential for achieving ISET in the informal economies around the world that provide livelihoods for most of the global poor (Box 7, below).

2.2 What changes are needed?

There is clearly a need for a big shift in priorities and power, but what sorts of changes are required of individuals, organisations, governments and societies to meet these challenges? Individual decision-makers need to think outside their disciplinary and organisational zones of comfort, and organisations need to provide incentives rather than barriers to doing this. This goes against the narrow disciplinary training of individuals and the results orientation of many organisations. The metrics of monitoring need to be designed to make it possible to measure and assess multiple objectives and outputs simultaneously. Since government policy and regulation set the framework for public decision-makers' and private actors' actions, if policy and regulation remain focused on single sectors/issues, joined-up decision-making may not happen. The need for deep mindset changes and challenges to patterns of organisational incentives are at odds with the urgency of developing new, more balanced,

approaches to decision-making. It may be that such changes are needed across the board, or they may be particularly needed in one or more of the objective areas; in any case, if shortcuts to institutional transformation can be found, they will be welcome.

Policy implementation is also a serious issue: policies are too often designed but remain un- or partially implemented. Equally, as Box 5 illustrates for subsidies, some policies that are inhibiting ISET can prove extremely challenging to retire. Political settlements with narrow power concentrations are often better at implementing new policies, especially where these run up against dissent – but they are often themselves captured by interests with deep roots in the status quo economic structures. This raises the question of what political changes might be desirable – to get better policies in the first place as well as faster or more effective implementation.

Box 5 Moving away from undesirable subsidies and towards economically, socially, environmentally useful subsidies

Well-designed subsidies can be a driver of equitable and sustainable development but poorly designed subsidies, such as those on fossil fuels, or fishing in overstocked fisheries can be inefficient and inequitable as well as environmentally unsustainable. A recent ODI event looked at national and international perspectives on this issue.

National perspectives:

Indonesia managed a reform of fuel subsidies in 2014 by consulting and communicating the new policies, which included additional cash transfers, health insurance subsidies, grants for students and low-interest loans for businesses. Nigeria has made three attempts to remove fuel subsidies, of which the last (2022) was partially successful but later reversed. Failures were the result of protest, which in turn was prompted by the scale of any price hike; the 2022 hike was small compared with earlier attempts. Sri Lanka switched from subsidised chemical fertiliser to organic fertilisers but had to abandon this when there was a fall in agricultural output and food insecurity; it raised fuel and electricity prices in 2023 as part of the IMF agreement, which hurt the poor in a context of 60–70% inflation and led to protest. Targeted relief was difficult to implement.

Lessons from these experiences include the need to communicate policy change effectively; to mitigate any increased poverty resulting from subsidy removal to maintain the social contract; to carry out subsidy reform in 'normal' rather than crisis periods; and to build the social movements and political party support for reform.

International experience:

The World Trade Organization (WTO) has been negotiating the removal of subsidies on fishing where it is illegal or in overfished waters (Target 14.6 of the SDGs), to counter subsidised industrial fishing fleets hoovering up stocks, for more than 20 years. This is an example of where WTO rules could take environmental sustainability into account for the first time. However, unfortunately, WTO members were unable to get the agreement over the line at the last Ministerial Conference (MC13) (26–29 February 2024), with a failure to secure the number of ratifications needed for the agreement to enter into force. An agreement at the previous MC, in 2022, would be implemented only when two-thirds of the WTO membership had agreed to it. In addition, the agreement left gaps where subsidies could be used, for example on fuel.

Many optimists regarding the role of the WTO consider the progress made to date on addressing harmful fishing subsidies as providing lessons for the reform of fossil fuel subsidies; pessimists point out that MC13 was not able to achieve the breakthrough needed and that major actors (China, the EU, the US) continue to break the existing rules that seek to provide discipline. Nevertheless, a subgroup of members is now working on fossil fuel subsidies, with a statement provided at MC13 on progress so far.

The UNFCCC Glasgow Conference of the Parties produced an agreement on phasing out the massive fossil fuel subsidies on both current distribution and new development, signed by 39 countries, including major producers. However, previous agreements among the G20 or the G7 have not been implemented, and it will require significant protest and litigation to pressure states to implement the Glasgow pact against the strength of vested interests and often flaky political will.

The World Bank's support for energy transitions has increasingly paid attention to these 'softer' issues involved in getting reforms through, with some successes: the Dominican Republic added additional mitigating payments into the national social protection scheme; in Jordan, reform was carefully timed before prices changed.

Source: ODI (2023)

2.3 How to achieve change: ISET frameworks

Whereas there were few, if any, frameworks for ISET when we started this work in 2020, several now integrate the themes we discuss here to some extent or other (Table 3). This is a positive indicator of how these ideas are being worked on together at international level – yet none of the frameworks yet include even-handed treatment of the social, economic and environmental issues at the heart of the SDGs, with the environmental dimension generally receiving less focus than the others. Unfortunately, nor do these frameworks explore in detail synergies and trade-offs, or how to maximise or manage these, respectively. Of particular note here, reflecting their different contextual targets and the organisations authoring them, the frameworks include varied approaches to the value of economic growth or transformation.

We support these rich seams of work that are related to our analysis and the pursuit of the broader fundamental question at the base of our work (how to achieve environmentally sustainable universal prosperity). Yet none looks at the precise contexts we are focusing on (ISET in LICs and LMICs). Thus, for a fuller picture of where our research sits, we direct interested readers to these complementary (but often distinct) discourses:

- For synergies between the SDGs and climate change (but little on economic transformation), see the UN's Synergy Solutions report (UN, 2023a) and the 2021–2022 Human Development Report of the United Nations Development Programme (UNDP, 2022).
- For more mainstream economic approaches (with little environmental or political economic analysis), see the World Bank's (2021) outline for rebuilding lower-income economies after Covid-19 (green, resilient and inclusive development (GRID)) and the Africa Union's (AU's) long-term strategic planning (AU, 2015).
- For a comprehensive approach to economic transformation (with specific reference to the development of the industrial sector) with socially just and environmentally sustainable characteristics, but with limited analysis on the role of HICs, see the United Nations Industrial Development Organization's (UNIDO's) inclusive and sustainable industrial development (ISID) framework (e.g. UNIDO, 2014).
- For approaches to decarbonise global and national economies (with little on economic transformation or political economy), see, among many others, the United Nations Environment Programme's (UNEP's) Emissions Gap Report series (e.g. UNEP, 2023). Work on green growth has more to say on the economic dimension (e.g. Hallegatte et al., 2012).

- For pathways to reduce the ecological impacts of material consumption in rich countries (but with little to inform work in lower-income countries), see work on post-growth economies (Jackson, 2016; Raworth, 2017), wellbeing economies (Wellbeing Economy Alliance, 2021) and degrowth (Hickel, 2020).
- For frameworks for economic transformation championed by non-state actors, see Mastercard Foundation (Knowledge Partner Mastercard, 2021) for philanthropic groups (but with little on political economy) and McKinsey & Co. (2021) for the private sector (but with little on social and environmental impacts).

2.4 Are these frameworks having an impact?

It is not immediately clear if the strategies listed in Table 3 are changing established practices. A key entry point for ISET is climate finance (Chapter 7), so it is reasonable to ask whether there have been changes in lending and investment. Key informant interviews (KIIs) with the AU and the World Bank suggested investment was following the new strategies but within constrained decision-making environments. In both cases, this reflects the constraining power of national governments and domestic policies, which may not yet be strongly aligned with the ISET objectives international organisations now espouse. For example, for the AU, member states have only relatively recently begun incorporating environmental objectives more firmly into their policy-making. As the client, the Bank is bound to respect country priorities even if they are not completely aligned with its own. Box 6 provides further analysis of two of the frameworks.

Table 3 Global ISET frameworks in 2023: key points and commentary

Framework	Key points	Comments: adequacy, impact
UN (UNDESA and UNFCCC) Synergy Solutions (annual update) (2023)	Synergies between climate and SDG actions exceed trade-offs, now the only way to achieve both climate and development goals: 'the vast majority of mitigation and adaptation climate policies offer development co-benefits' and 'the co-benefits related to health and agricultural productivity were found to globally offset the costs of climate policy and contribute to increased global GDP.' Low adoption of a synergistic approach, seen in low level of cross-referencing between national climate and development policies, owing to 'a weak science-policy-society interface and… [and] a sizeable disconnect between scientific evidence and applied policy action.' Barriers: knowledge (data, research, capacity to use it, understanding of how to address distributional impacts); political and institutional (siloes and rigidity, short electoral cycles, blurred accountability); economic (synergies not always a given, lack of funding, competing priorities, high or unclear transaction costs).	Synergies with climate action are easier to identify for the 'economic development' SDGs (6, 7, 8, 9, 11) and the environmental SDGs (12–15) and harder between the core equity-related SDGs (1, 3, 4, 5, 10) and climate action. This suggests a major hiatus to progress on poverty reduction is imminent to the extent it has to rely on climate financing.

Framework	Key points	Comments: adequacy, impact
UNDP Human Development Report 2022 framework	New uncertainty complex (climate change, technological and societal transformation, polarisation, war, pandemic, etc.). Solution: investment (renewable energy, preparedness for pandemics and extreme natural hazards), innovation (government to enable and partner innovators) and insurance (big gap in social insurance in LICs and LMICs). But inability to act on basis of accumulating evidence. Very high and growing levels of insecurity and lack of trust since 2000. Trust needs rebuilding. Education and health services central to navigating multiple crises and pressures. Continually expand human development through technology and innovation. Future challenges can look awesome (e.g. how to live in a less biodiverse world, such as without insects?)	High-level messages. Human development core to navigate uncertainties and insecurities. Climate and inclusion challenges well addressed; economic transformation less so.
GRID (World Bank, 2021)	Structural weaknesses in LMICs in 2020 slowing productivity, employment and poverty reduction. Need for new growth pattern to address these. Technological progress is key. Transformational change needed in many high CO2 sectors (energy, agriculture, food, water, land, cities, manufacturing, transport, etc.). Harness private investment, agree debt relief, support country-level analysis, use crisis and recovery expenditures to 'reset.'	Not clear the extent to which programming has been widely based on GRID. Implicit in implementation strategy is the power of the World Bank Group to get governments to change (no political/power analysis).
Regional AU: New Partnership for Africa's Development	NEPAD emphasises growth and poverty reduction; Agenda 2063 inclusive growth and sustainable development.	Environment and climate change represented in only 1 out of 20 goals.

Framework	Key points	Comments: adequacy, impact
(NEPAD) (formed in 2001) and Agenda 2063 (2015)	In first Implementation Plan (AUC, 2015), 1st of 7 aspirations was for 'a prosperous Africa based on inclusive growth and sustainable development.' The Second Continental Progress Report (AUC, 2022) saw an overall score of 37% against 2021 targets, attributed mainly to a decrease in GDP per capita from $3,170 in 2019 to $2,910 in 2021 and high employment rates. However, commendable progress on access to electricity and internet. Furthermore, substantial gains on health-related goals, including increased access to sexual and reproductive health services and reduced maternal mortality. Targets on SDG 7 – environmentally sustainable climate resilience economies and communities – partially achieved.	
UNIDO's ISID (2014)	Focus on all countries benefiting from industrial growth. Gains to be shared among women and men, and focus on small and medium enterprises (SMEs) to achieve widespread inclusion. Environmentally sustainable framework is achieved through both production and consumption.	Focus on industrial development only; limited consideration of the role of HICs and consumption (the link with production is clear).
More radical degrowth (Hickel, 2020)	Growth does not lead to and is not necessary for human flourishing (empirical evidence). Public health and education services are key, which do not necessarily require high levels of GDP or growth. After a certain point growth is negative, creating 'illth' rather than wealth.	Doesn't really deal with LMICs because the problem is in the 'rich countries.'
Philanthropic, Mastercard inclusive economies (Knowledge Partner Mastercard, 2021)	Give voice to those left out. Equitable access to resources and opportunities. Collective stewardship of shared resources for future generations. Level playing field for work and competition. Economic growth an insufficient indicator for human flourishing.	Little detail on how these are to be achieved. Politics missing in the account.

Framework	Key points	Comments: adequacy, impact
Private sector (McKinsey and Co., 2021)	Collaboration business–government–civil society. Growth (and especially productivity) increases generally beneficial for human wellbeing. Sustainability requires different steps in different countries and for different companies depending on contextual challenges. Growth will finance them. Tackle skills inequalities; compensate fossil fuel producers, relieve LMIC debt.	Apolitical. Weak on environmental and social (except skills issue) dimensions.

Box 6 AU Agenda 2063's first 10-Year Implementation Plan and World Bank's 2021 GRID

Agenda 2063 first 10-Year Implementation Plan

Agenda 2063 was designed to give countries a space to engage in long-term planning outside typical electoral cycles. The rationale was that many African countries were growing but the growth was not sustained over the long term, and therefore not durable, because economies were not transforming.

Agenda 2063 has a 10-year implementation cycle, the first phase of which is just finishing. In this cycle, the emphasis at the levels of aspirations, goals and implementation through 15 flagship projects was on economic transformation. Successes have included creation of the African Continental Free Trade Area and some progress on a single passport, a unified air transport market and digital connectivity.

The pandemic and slow recovery of the continent strengthened this emphasis, with economic recovery seen as paramount. By contrast, there was only one environmental goal in the first 10-year plan. The 2022 review of the plan recommended, among other things, a new goal on building resilience to disasters and global events like pandemics. Heads of State are now aware that growth without human development, shared prosperity and transformed livelihoods puts African economies at risk of insecurity and crime, deterring investment. And now climate change has risen up the agenda for both politicians and business, with African governments and countries now asking what they can do themselves to push for environmental sustainability. Politicians have become aware that the challenge is now to align budgets and implementation mechanisms with the fine speeches being made at UN events and elsewhere.[6]

6 Interview with Martin Bwalya, AU, February 2024.

World Bank GRID

The GRID strategy was a product of the pandemic: Covid-19's zoonotic origins made it clear that the environment could not be ignored. The strategy also built on the back of a long-term incremental focus on environmental issues, both at the Bank and in its client governments and central banks, slowly levelling the playing field between its three objectives: poverty reduction, increased prosperity and environmental sustainability. Nevertheless, environment and natural resource management are still number 11 on the list of priority areas for Bank Operations according to the latest Bank survey of opinions of government officials and non-governmental actors (World Bank, 2023a).

Nepal trades on its natural resources, supplying hydropower to India, and has successfully reforested and tackled soil erosion, rolled out Covid-19 vaccine coverage and reduced extreme poverty (albeit mainly through remittances). Under GRID, 16 of its development partners agreed on joint policies covering the three ISET areas, for new investment of $1 billion over 10 years. Coordinated by the Ministry of Finance, the platform has consulted widely to garner support, for example via downstream jobs created as a result of forest conservation. Technical assistance has been provided to some ministries. Forest user groups involve significant women's participation and cover up to 60% of Nepali households and provide a basis for expanding water storage for irrigation and hydropower. There are of course challenges: the River Basin Management Plan has to reconcile conflicting demands for water, and needs greater technical expertise; the ministerial division in charge of integrated water resource management has inadequate decision-making authority; getting private sector investment to back the strategy is problematic; conditions attached to budget support are demanding; and social protection systems are not yet fully functional.[7]

According to Bank officials interviewed for this report, other countries with strong environmental policy objectives include those in Latin America and the Caribbean (see Chapter 4 for the case of Dominican Republic). Countries aligning with the EU's environmental policies to seek membership also have a particular motivation for strengthening their environmental policies. The Bank is also working hard in Africa, where different countries are at varied levels of recognition of the issue.[8]

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7 Interview with Faris Haddad-Zervos, World Bank Country Director, and Stephen Danyo, World Bank official in charge of GRID, March 2024.

8 Average hourly earnings of female and male employees, by occupation, age and persons with disabilities

2.5 Social and political economic factors affecting ISET

As well as seeking to understand how government policy-making factors in ISET, we also explore the real-world factors that can challenge and facilitate ISET implementation. For example, if we consider potential barriers to achieving ISET at the bottom of the income distribution, we find the following:

- **Political factors** limit the recognition of and support for the informal economies, where the majority of the global poor and near-poor work. This is also a major knowledge gap (Box 7).
- There are substantial **vested interests** arrayed against the required economic transformation in agriculture, energy and labour-intensive sectors; government policies, such as subsidies given to sectors, or failure to facilitate capital flows to transformative sectors often reflect entrenched interests.
- **Knowledge gaps**, or knowledge transfer gaps, impede the development and implementation of, for example, strategies to achieve effective inclusive and sustainable transport solutions in less developed countries.
- **Common and entrenched social norms** include gender roles that limit women's economic independence; community norms that impede young people's opportunities to migrate in search of improved livelihoods, skills development or new business ideas; and constraints to social arrangements such as collaborative spousal relationships, whereby spouses could support each other's businesses, skills acquisition and labour obligations.
- **Weak social safety nets**: Universal health coverage and other welfare support schemes, for example, are often key to breaking cycles of poverty. Investment in health is especially in deficit in South Asia, but globally very few lower-income countries have invested sufficiently to make rapid progress towards universal coverage.

Box 7 ISET and informal economies: a glaring research gap

Governments have opportunities to regulate and provide incentives to the more formal parts of their economies towards more sustainable or inclusive practices, as this report's focus on energy and manufacturing shows (Chapter 6). They can also choose whether to do so, and to what extent – or the opposite. However, much of GDP (35% on average in developing countries and 15% in developed – IMF, 2021), nearly 60% of global employment (ILOSTAT) and most opportunities for economic inclusion and poverty reduction occur in the more informal economies, which are critical to poverty reduction. The distinction between formal and informal is not an absolute one: formal firms often employ at least some workers informally and informal forms often pay taxes and fees and are subject to regulation; and firms may be partly regulated and partly unregulated (e.g. they may pay local fees but not national-level taxes). Informal economies are also characterised by significant heterogeneity, such that lumping them together for analytical or policy purposes makes little sense (Ward, 2024).

We know relatively little about what ISET is occurring or what the constraints and opportunities are in urban and rural informal economies. This is a significant research gap. Given the high levels of relatively informal economic activity, and the dominant negative narratives about it (Sallah, 2016), including new negative environmental narratives (Ward, 2024), it is imperative that decision-makers begin to acknowledge the positive contributions these informal firms make, and to reshape economic and planning policies to be more supportive and inclusive.

3 Analytical framework

3.1 What does ISET look like?

How, then, do we recognise ISET? Conceptually, ISET is fairly straightforward: it consists of economic transformation, social inclusion and environmental sustainability in policy approaches and development outcomes. Economic transformation involves increasing productivity by moving labour and capital from less to more productive firms, activities or sectors. ISET requires doing so in a way that is inclusive of poor and vulnerable people and either avoids the production of environmental bads or at least limits them within ecological thresholds. This, too, is a straightforward idea, and a widely cited overarching goal, but achieving it requires today's poor countries to adopt markedly different socioeconomic development pathways to those that have transformed economies and lifted people out of poverty previously (e.g. those that created HICs and some UMICs). This is not to say we cannot learn from prior experiences, only that we cannot repeat them. This type of innovation is critical but also needs support, given that innovation networks and capabilities are weakest in the poorest countries.

In practice, we are now well aware that it is challenging to successfully balance economic, social and environmental objectives and outcomes. Indeed, the opposite of ISET (exclusive, unsustainable economic growth) appears more common where policies and outcomes that generate economic gains are neither socially inclusive nor ecologically sustainable. Indeed, economic transformation (rather than short-term economic growth) is path- and policy-dependent and is thus itself also not guaranteed (McMillan et al., 2017).

3.2 ISET in informal economies

Is it also important to ask what ISET would look like in informal economies. The answer to this question must be vaguer, given the low state of knowledge around informal economies in general (Box 7), and related to informal economic transformation in particular. Most informal livelihoods are accessible to many and thus, by nature, tend to be more inclusive, although there is variation in this – some informal occupations and enterprises have higher barriers to entry. Yet, despite this notional inclusivity, terms and conditions of work likely discriminate (e.g. by gender, race or migrant status) and may be exploitative or dangerous or create longer-term health risks. Local and national decision-making rarely address the interests of those working in informal economies and, barring mass protests, their views are rarely heard. There is little systematic knowledge about the environmental accounts of informal economies. Some may be thoroughly positive, for example in waste-picking and informal recycling networks, while others may be negative (e.g. where they lack access to appropriate resources, a desire to reduce costs or simply monitoring by authorities, they may be hampering the uptake of environmental best practices).

3.3 How might we gauge progress towards ISET? Report outline

SDG Indicator 8.5.1[9] provides a good start, given it includes productivity and inclusion. Yet, in practice, its utility is limited, as it has not been reported against in recent years (UN, 2023c); there are cross-country comparability issues with the data; and it would require informal economy-sensitive data to provide a more accurate picture. Chapter 4 focuses on the experience of countries in achieving balanced outcomes, singling out for further analysis countries that have consistently performed most evenly across the three objectives. To do this, it uses a multipronged set of outcome indicators from the three development angles. However, these national-scale outcomes tend to exhibit a time delay between policy inputs and outcomes. Thus, Chapter 4 also proposes a set of intermediate indicators of progress in policy and implementation and private sector responses.

Progress in policy development and outcomes may be related to a country's type of political settlement (the shifting bargains achieved among competing elites and their followers that allow societies and economies to function and avoid conflict and breakdown). Major changes in policy direction are sometimes needed to preserve such settlements, but they can also imperil them, with the threat of conflict or war. The character of a political settlement may thus be an important factor influencing governmental policies on ISET and the implementation of those often-contested policies, and we add this dimension to our analyses in Chapters 4 and 5.

Progress in implementation is also related to national (Chapter 5) and sectoral (Chapter 6) policies and decision-making, and to development finance processes. Chapter 5 highlights the more typical experience of LICs and LMICs, and asks whether there are lessons to learn from the more balanced countries that were the focus of Chapter 4. Chapter 6 drills down into sectors – manufacturing, energy, agriculture – and into the informal economies to see how national and international aspirations are implemented. A political settlements perspective is included in all these three chapters (4–6).

Having acknowledged that climate finance may be a useful entry point for ISET, but that large-scale financing is widely known to have been slow to arrive, especially for climate adaptation, Chapter 7 searches the World Bank's climate finance portfolio for new approaches and mechanisms capable of giving greater salience to ISET-enabling sectors (e.g. smallholder agriculture, other natural resource-based livelihoods and informal economies).

Chapter 8 concludes by highlighting the absence of a big push on ISET, despite the existence of several relevant international, regional and national strategies, and the broader SDGs; the pressing institutional constraints in the way of ISET; the knowledge gaps and the potential for South–

9 Average hourly earnings of employees, by sex, age, occupation and persons with disabilities.

South learning; and the implications of the report for development financing agencies, governments and the private sector.

3.4 Conclusion

ISET is a straightforward concept, with straightforward outcomes to aim at and measure. The 'landing zone' is clear, and measures to indicate when it is reached are available. However, reaching it requires not only shifts of power and organisational changes but also innovation: previous technological methods of achieving economic transformation cannot be copied as they will not lead to social inclusion and poverty reduction within planetary boundaries.

Institutional change is needed to achieve more joined-up and balanced policies and outcomes: organisations need to provide incentives to individuals to think outside their comfort zones, and design monitoring systems capable of focusing on several results areas simultaneously. There are now many international and regional strategies in place providing frameworks for achieving ISET. However, implementation is subject to the politics prevalent in client states. Chief among the barriers to implementation are outdated budget allocations, especially to politically sensitive subsidies, which send negative signals to markets and individuals.

4 Which countries have (relatively) achieved ISET and how?

Having explored what ISET might look like, in this chapter we consider which LICs and MICs may have achieved a degree of ISET, and how. For this, we first present the state of ISET outcomes over the past two decades, summarising results from Diwakar (2023). In this process, we observe the presence of moderate tripartite outcomes that were consistently maintained among only a subset of countries between 2000 and 2018.[10] We thus newly investigate for this chapter, in an exploratory way, what factors may have enabled these countries – hereafter dubbed 'cluster B countries' owing to the cluster analysis from which this group derived – to maintain ISET outcomes. We structure our enquiry across two key dimensions – of (i) risk (which we extend across its spectrum to also consider the relative absence of risk, through a focus on peace and stability) and (ii) governance, especially government effectiveness but also extending to the character of the political settlement. These two dimensions were earlier hypothesised to be important enabling conditions for ISET processes and outcomes (Diwakar, 2023); the political settlement component also holds a close relationship with growth and inclusion (Kelsall et al., 2022) that we now further probe in an exploratory way in relation to tripartite outcomes. It is worth stressing that the analysis in Sections 4.4–4.6 of potential drivers is not systematic but rather provides an overview of selected entry points for further research.

4.1 State of ISET outcomes

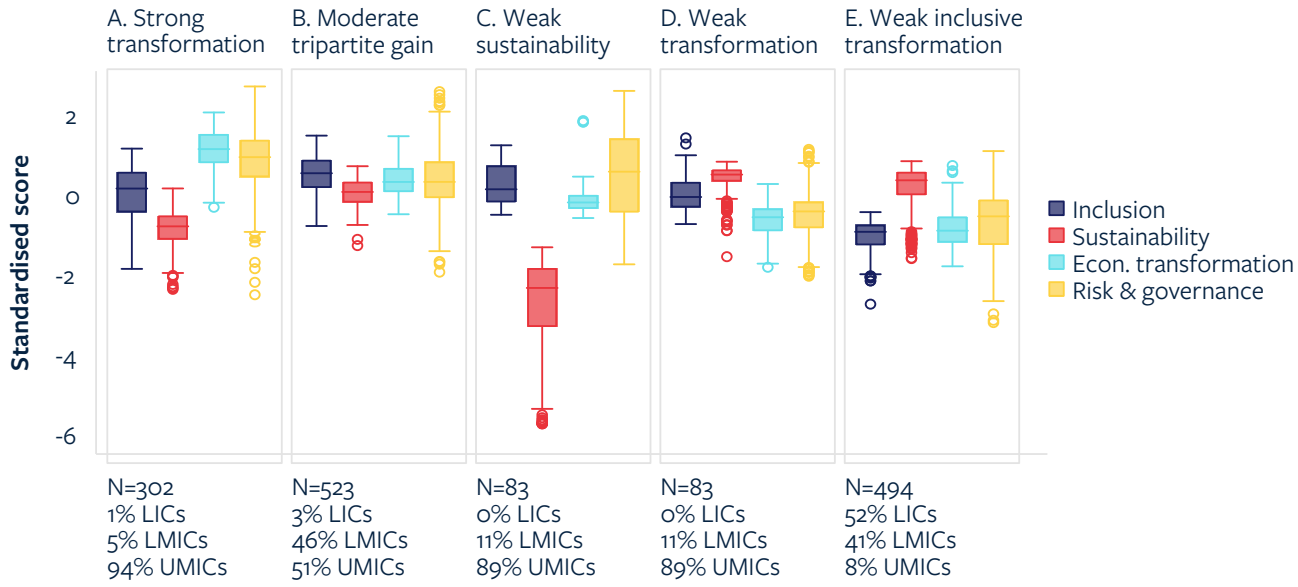
To identify ISET, we rely on a set of indicators used to proxy social inclusion, environmental sustainability and economic transformation in Diwakar (2023) – namely, the poverty headcount ratio, inequality in the bottom half of the distribution, GHG (production-based) emissions per capita,[11] (consumption-based) material footprint per capita, labour productivity and the diversification index (see Appendix Table A1.1 for variable definitions and how the indicators map

10 Note that this is based on the results of a cluster analysis of a pooled country-year dataset from 2000 to 2018, as summarised in Diwakar (2023).

11 CO_2 emissions are 'production-based' (i.e. based on emissions created within a national territory). We rely on this measure given that universal consumption data that includes land use change is not available prior to 2006 and still remains patchy to date, yet remains significant for lower-income countries' carbon budgets; it is where governments have the most agency to act (i.e. it is more difficult to limit consumption-related emissions without mechanisms like carbon border adjustments) and is in line with commitments under the 2015 Paris Climate Agreement.

onto these).[12] These variables are selected in an attempt to offer a balance around conceptual validity, data reliability and data availability. Figure 2 presents a cluster analysis of this set comprising a pooled country-year panel dataset of LICs and LMICs for a list of countries by cluster and region, after interpolating and standardising raw data scores. Diwakar (2023) contains a thorough presentation of the methods and study findings that go into greater depth.

Figure 2 Dimension scores per cluster, 2000–2018 (N=1,908) category and sector[13]



Note: 'Transformation' refers to 'economic transformation.' The same country can appear in different clusters over time, given that this is a pooled country-year dataset. The box-and-whisker plots reflect the quartile spread of the standardised scores, with the dots being outliers. See Appendix Table A1.2 for an overview of the cluster-country classifications over time.
Source: Diwakar (2023)

12 There are of course challenges to restricting these dimensions to just two indicators, and selecting certain indicators over others – such as labour productivity, which does not acknowledge the large informal sectors characterising many LICs and LMICs. The selection of indicators stemmed from discussions between three teams at ODI: the International Economic Development Group, the Climate and Sustainability programme and the Chronic Poverty Advisory Network, previously hosted at the former Equity and Social Policy programme. Each team presented a few key metrics within its discipline to measure the domains. See Diwakar (2023) for a rationale for and caveats to the indicator selection.

13 The pooled country-year database comprises a sample size of 1,908 observations after removing HICs and countries without adequate data from which to derive dimension scores.

Figure 2 reveals a few key observations (Diwakar, 2023):

1. There is a relative absence of 'triple wins' across the three dimensions. This is typically because of a trade-off between high economic transformation (e.g. in cluster A) and low environmental sustainability (and vice versa).
2. Some countries (i.e. cluster B) exemplified moderate tripartite gains, generally above the average of the set, even if they were not the highest performers on most dimensions. Within this group, there appears to be a relatively strong degree of inclusion. Cluster B comprised mostly LMICs and UMICs (with few LICs), with quite a bit of mobility into and out of this cluster over the period from 2000 to 2018.[14]
3. There is a range of risk and governance attributes underlying the different clusters; in general, government effectiveness and reduced risk appear to be more prevalent in clusters with a stronger degree of inclusion.

Cluster B averages of the pooled country-year dataset[15] in terms of the environmental sustainability, social inclusion and economic transformation dimensions over the 2000–2018 period are also shown in Table 4. This suggests that, if all LICs and LMICs were in cluster B, substantial progress would be made towards tripartite gains. GHG values are relatively low alongside material footprints, with the latter being well below a 6.8-ton sustainability threshold.[16] Interpolated poverty headcount rates are also low among this group, and well on the way to elimination. Though labour productivity is strong, diversification remains somewhat limited, especially in comparison with cluster A. This suggests this may still create conditions of risk for cluster B countries that could limit tripartite outcomes.

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14 Consistently in cluster B over the period.

15 This accordingly captures countries that were sometimes or always in each cluster during the period 2000–2018.

16 As suggested by Hickel (2020), based on Bringezu et al.'s planetary boundary of 50 billion tonnes per year divided by the 2015 population.

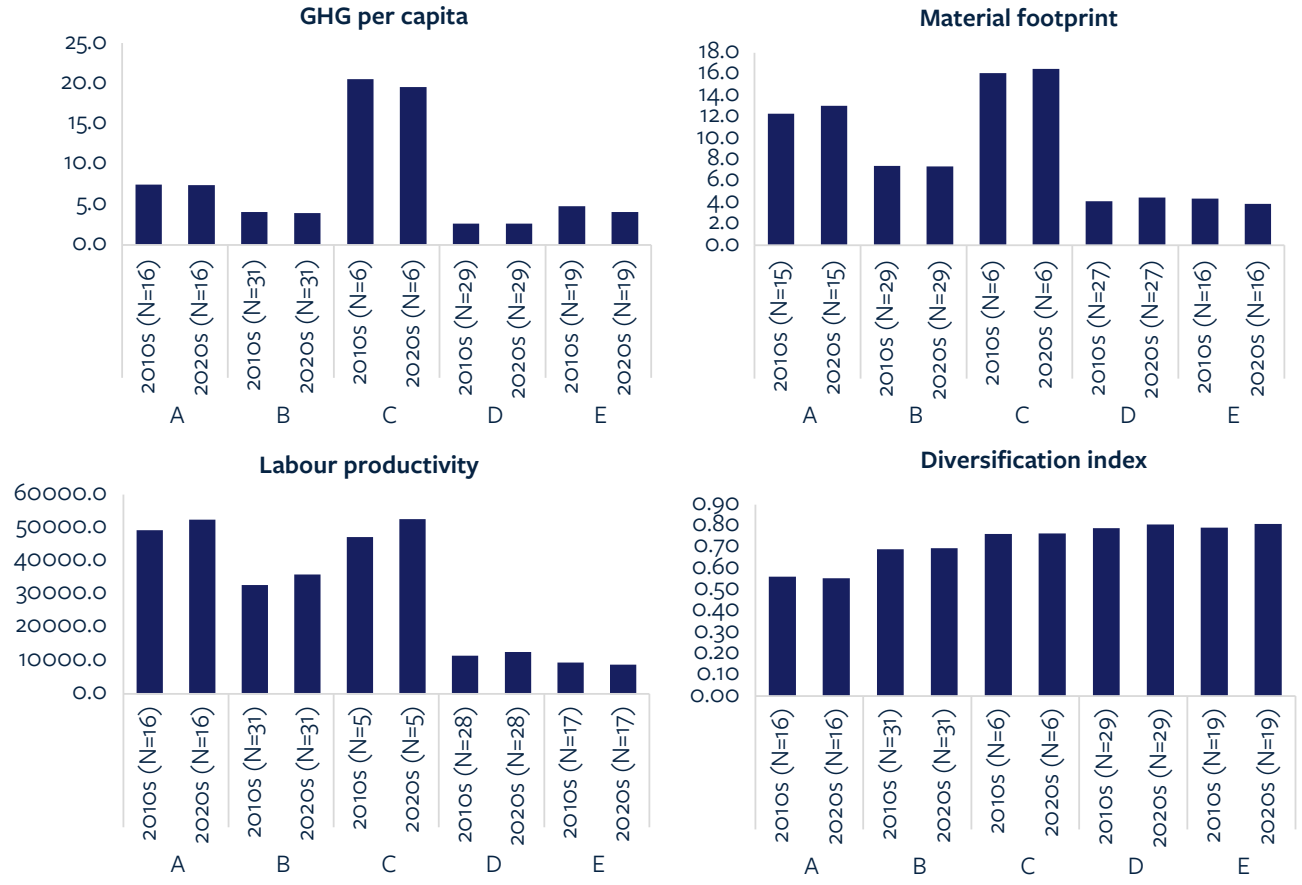
Table 4 Average indicator values across pooled country-year dataset, by cluster

	Country income category		
Dimension	**LICs and LMICs**	**UMICs**	**HICs**
Environmental	Climate adaptation for resilience Avoiding lock-in to future CO2 emissions and other environmental bads	Just energy transitions to escape lock-ins and reduce emissions Urbanisation, transport and agriculture transitions	Decarbonising energy systems to achieve 45% reduction in CO2 by 2030
Social inclusion	Extreme poverty reduction Food security: through environmentally sensitive/ climate-smart agriculture	Elimination of extreme and moderate poverty Containing inequalities	Reducing inequalities of opportunity and wealth
Economic transformation	Closing the productivity gap with HICs and UMICs	Investing out of the 'middle-income trap' Containing material consumption by the rich	Reducing material consumption by the global rich

We also compare the post-pandemic period with the decade prior to it. There has been a marginal decline in average GHG emissions per capita since 2020, likely on account of the lockdowns and international border closures during the Covid-19 pandemic. Even so, in the larger clusters, material footprints continued to increase among richer countries in cluster A. This is mainly on account of values being much lower during the early part of the 2010s; indeed, if we restrict the analysis to compare 2015–2019 with 2020–2023, these increases disappear.

Interestingly, labour productivity also continued to increase between 2020 and 2023 compared with in the previous decade across all but cluster E. Turkey (cluster A in 2018), Georgia (cluster B in 2018) and China (cluster A in 2018) recorded the largest increases in labour productivity over this period (i.e. between 2020 and 2023 compared with either the 5- or the 10-year period preceding it). Instead, the poorest countries comprising much of cluster E experienced largely stagnant or declining labour productivity. Clusters D and E also become marginally less diversified in their export structure.

Figure 3 Economic transformation and environmental sustainability during the 2020s compared with the 2010s, by cluster



Note: In all cases, averages are computed assuming the 2018 cluster categories for simplicity (where cluster A=16 countries, cluster B=31 countries, cluster C=6 countries, cluster D=29 countries and cluster E=19 countries). The 2020s refer to 2020–2023 depending on data availability. For indicator definitions (related to x-axis units), refer to Appendix 1.

The inclusion story is less evident, on account of limited data on poverty and inequality post-pandemic, especially among LICs and LMICs. For example, just one of the 19 cluster E countries and three of the 29 cluster D countries had new poverty data between 2020 and 2024. Even so, we know from wider estimates that poverty rates increased dramatically during the onset of the pandemic and showed slow recovery among poorer countries (Gill and Nishio, 2021).

Taken together, these indicators point to widespread trade-offs, and the degree of challenge in achieving ISET, but also to varied progress over time. The variation provides scope for cautious optimism,

particularly if we are able to learn from countries that may have entered into relatively better-performing clusters over time even if from a low base (e.g. E to D, C to B, etc.), or remained constantly within cluster B over the two decades.

There are, of course, different ways of classifying countries besides income group, such as by region or distinguishing between fossil fuel producers and others (see Chapters 5 and 6 for some discussion). At the same time, there is an important programming message from our present classification, in favour of an ambitious yet realistic approach to achieving the three goals that considers different starting points and possible trajectories.

Finally, including HICs in the mix would likely lead to an additional grouping, given their strikingly weak sustainability yet strong economic transformation and relatively strong inclusion when measured through the extreme monetary poverty rate (Table 5). This is not quite captured by cluster A, where the environmental sustainability dimension is not as weak compared with in the situation among HICs.

Table 5 Average indicator values across countries, by income group

Income group	GHG per capita	Material footprint	$2.15 poverty rate	Inequality (bottom half)	Labour productivity	Diversification index
LICs	3.4	2.1	52.2%	26.6%	5270.3	0.8
LMICs	4.0	4.0	23.7%	26.4%	14932.2	0.7
UMICs	7.9	10.3	6.0%	25.5%	35753.6	0.7
HICs	11.6	25.7	0.6%	26.6%	85602.6	0.5

What can we learn from countries that have made relative progress in these dimensions across income groups? We view progress in different ways, for example by considering country cluster transitions alongside the degree of absolute annual changes in their constituent indicators to draw attention to changes in countries' performance over time.[17] Results are summarised in Table 6 and point to relatively better government effectiveness in countries achieving a stronger degree of ISET over time. Among poorer countries, a reduction in risks also appears to be more pronounced among countries making stronger progress on ISET. Of course, there is likely to be a wide range of other factors we might consider as driving tripartite outcomes beyond this enabling environment, which

17 Changes over time are distinct from cluster transitions. The latter are derived from a pooled country-year dataset, while annual changes over time within LICs, for example, can help identify countries that are performing well within their group in specific indicators across the set.

we investigate below in Section 4.2, linked more broadly to our governance and risk focus (see Appendix Table A1.1 for indicators). Of these countries, Bangladesh and Indonesia feature alongside Kenya in Chapter 5.

It is worth stressing again that the cluster analysis is based on only a subset of indicators proxying the three dimensions, and only for the period up to 2018, and so the selected indicators hide various realities, including civil war in Ethiopia and Myanmar, corruption and human rights concerns, and expansion of coal in other contexts – as well as more conjunctural factors such as the Covid-19 pandemic and the Russia–Ukraine war. In addition, our focus is on relative progress, identifying where certain LICs, for example, have started from cluster E with weak social inclusion and economic transformation, to slightly improve their social inclusion to move to cluster D. Figures 4 and 5 below show rates of progress for key constituent indicators of the cluster analysis across countries.

Table 6 Examples of progress within income groups

Income group	Major transitions according to cluster groups	Countries with strong(er) annual progress on tripartite indicators	Risk and governance contexts on average vs others within country group
LICs	Mostly in E and D and moving from E to D thus making progress on inclusion	Ethiopia, Guinea, Rwanda, Uganda	Strong reduction in risk scores, improvement in government effectiveness
LMICs	Stronger prevalence of D to B and E to B transitions	Bangladesh, Nepal, Myanmar, Kyrgyzstan, Uzbekistan, India	Strong reduction in risk scores, improvement in government effectiveness
UMICs	Groups A, C and B, and movements into and out of B	Armenia, Georgia, Indonesia	Improvements in government effectiveness, no difference in risk scores vs other countries

Source: Summarised from Diwakar (2023)

The LICs mentioned in Table 6 show varied progress when disaggregated by decade. For example, Ethiopia and Rwanda saw faltering increases in material footprints, though also poverty reduction that slowed down over the period. Ethiopia's labour productivity has also increased significantly annually over the past decade compared with the early 2000s. Uganda was the only LIC out of these four countries to experience a reducing footprint in the 2010–2019 period. However, it also experienced an increase in poverty and just a small increase in labour productivity. Box 8 reviews Uganda as an example of a LIC that has made some, if unseen, progress.

Table 7 Annual progress on select cluster indicators, by decade

Country	Material footprint (unit change)	$2.15 poverty headcount (pp change)	Labour productivity (unit change)
Ethiopia	0.058 (2000–09)	-2.5 (1999–2010)	99.37 (2000–09)
Guinea	-0.003 (2000–09)	-1.1 (2002–07)	47.61 (2000–09)
Rwanda	0.093 (2000–09)	-1.6 (2000–10)	124.27 (2000–09)
Uganda	0.097 (2000–09)	-2.9 (2002–09)	178.78 (2000–09)
LIC average	**0.063 (2000–09)**	**-1.0 (2000–09)**	**90.00 (2000–09)**
Ethiopia	0.010 (2010–18)	-0.8 (2010–15)	186.96 (2010–18)
Guinea	0.004 (2010–18)	-1.8 (2012–18)	197.16 (2010–18)
Rwanda	0.030 (2010–18)	-01.2 (2010–16)	124.07 (2010–18)
Uganda	-0.049 (2010–18)	0.7 (2012–19)	46.61 (2010–18)
LIC average	**0.032 (2010–18)**	**-0.4 (2010–18)**	**28.46 (2010–18)**

Note: LIC average based on interpolated data. Values refer to absolute changes in period specified in parentheses, e.g. -0.025 for Ethiopia between 2000 and 2009 refers to a decrease in its poverty headcount by 2.5 percentage points annually.
Source: Analysis of World Bank Poverty and Inequality Platform 2023, WDI 2023 and materialflows.net 2021 data

Box 8 Assessment of the Uganda Green Growth Strategy 2017/8–2030/31

'This strategy seeks to: 1) accelerate economic growth and raise per capita income through targeted investments in priority sectors; 2) achieve inclusive economic growth along with poverty reduction, improved human welfare, and employment creation; and 3) ensure that the social and economic transition is achieved through a low carbon development pathway that safeguards the integrity of the environment and natural resources. In order to achieve the aforementioned objectives, the green growth strategy is focused on five key areas including 1) sustainable agriculture production with upgraded value chain, irrigation and integrated soil fertility management; 2) natural capital management and development with a focus on tourism development, sustainable forestry, wetlands, and optimal water resources management; 3) planned urbanization and development of green cities; 4) sustainable transport with a concentration on multi-modal transport systems; and 5) energy for green growth with increased emphasis on renewable energy investment.'

An assessment of progress of Uganda's strategy in 2023 by the University of Gothenburg and partners focused specifically on energy, forest loss and plastics pollution. Indicators for the first two were available only for the pre-inclusive green economy strategy period and showed a negative trend. Biofuels accounted for 95% of carbon emissions in 2017. Eight-five percent of the population uses firewood and 13% charcoal for cooking. On energy, the assessment predicted that the use of fossil fuels was likely to increase in the coming years with the expected completion of a refinery and oil export pipeline. By 2030, Uganda is planning to increase modestly the capacity of renewable energy through generating 756.8 MW of hydro, 25 MW of bagasse (a sugarcane byproduct) power, 20 MW of solar power and 20 MW of wind power (Ministry of Water and Environment, 2022). Solar power has been rapidly scaled up in areas beyond the grid, with banks and microfinance institutions offering loans for solar panels.

There are many price, tax and regulatory measures in place to discourage fossil fuel and biofuels. Not surprisingly, there is considerable resistance among people surveyed to bans or taxes on charcoal and (less so) on tree cutting; nearly half the population is against measures to curb fossil fuel use, which is mainly in transport and industry. The measures taken so far (banning imports of older vehicles, subsidies to electric vehicle production) have had contradictory or slow effects.

Source: Environment for Development (2023)

4.2 Countries exhibiting consistent moderate tripartite outcomes

In addition to examining changes over time, we are also interested in learning from countries that have experienced relative tripartite gains consistently over a long time horizon. This is represented by cluster B countries that did not move in or out of their cluster across the 2000–2018 period:[18] Albania, Algeria, Costa Rica, Egypt, Gabon, Jamaica, Jordan, Morocco, Philippines, Sri Lanka and Tunisia. To this, we add Dominican Republic, which remained in cluster B for all but one year over the timeframe. These countries capture a range of geographies, relatively low though diverse poverty rates (less than 1% in Jordan up to 10% on average over the past two decades in the Philippines), generally low GHG per capita emissions (except for oil- and manganese-rich Gabon compared with the others, though Gabon still has a relatively low

18 Note that there are other cluster B countries that did change categories. In the subsequent analysis, we distinguish between cluster B (constant) and cluster B (other).

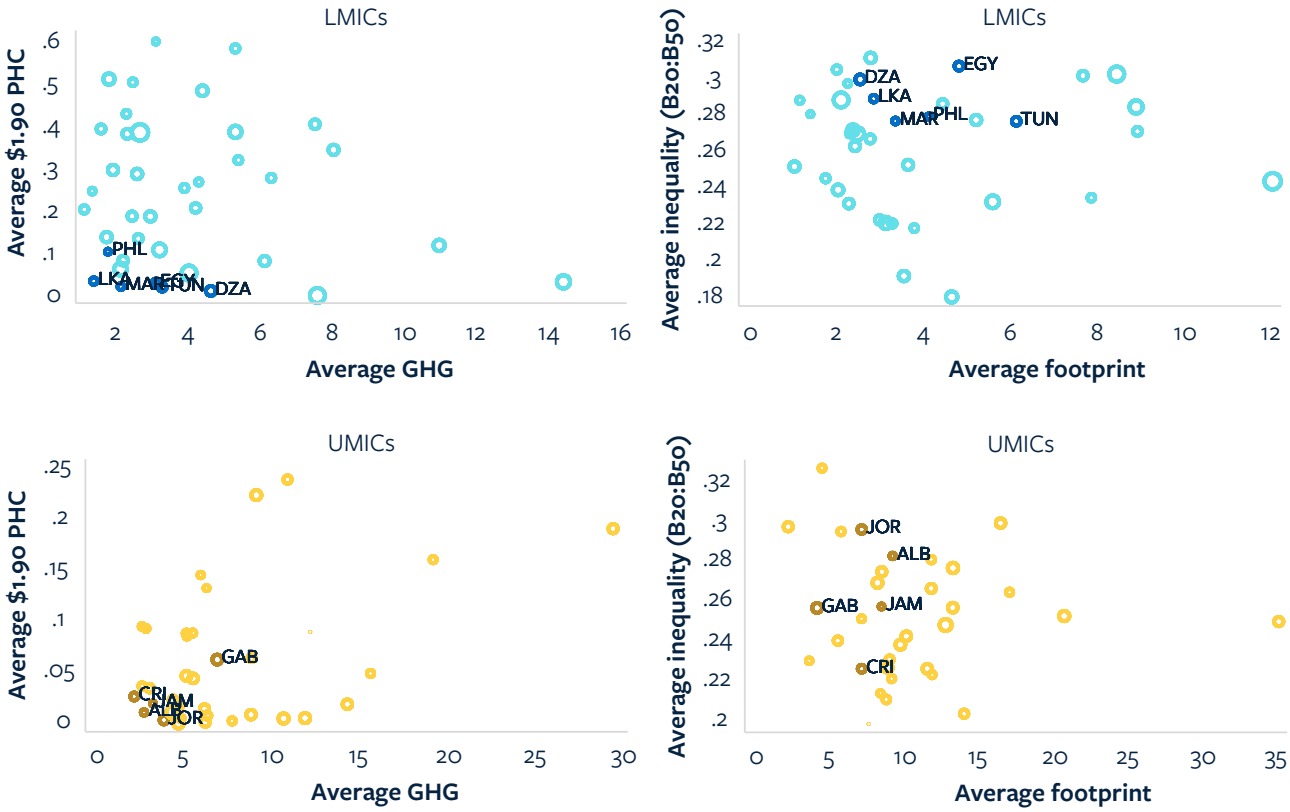
average material footprint) and relatively average to high labour productivity for its country-income groups.[19]

Results suggest that constant cluster B countries generally perform better in all income groups on levels of ISET indicators, though it is the set of UMICs in cluster B that tend to perform relatively better in terms of changes over time across ISET indicators. For example, Figure 4 presents a set of cluster B LMICs that tend to perform relatively strongly in their group, especially in terms of high inclusion (low poverty rates and low inequality) and also, though to a lesser degree, in terms of sustainability (GHG per capita and footprints). They also have higher than average labour productivity within their income group. However, when considering absolute annual changes over time, other countries within their income group generally outperform them (Figure 5). In other words, cluster B LMICs are generally experiencing good outcomes in ISET dimensions though are not necessarily improving their standing over time in these.

Constant cluster B UMICs also perform relatively better on levels (Figure 4). When it comes to environmental indicators, they also tend to perform relatively better on change (Figure 5). This includes Costa Rica, Gabon and Jamaica exhibiting decreasing GHG emissions on average annually between 2000 and 2018, and Jamaica and Jordan decreasing their material footprints over the same period. This is when compared with other UMICs, and also when compared with cluster B LMICs. The latter suggests it may at least partly be a relatively higher level of income that enables countries to continue to progress more easily on all three fronts. The relatively better standing of cluster B UMICs on environmental indicators, though, suggests these higher levels of income can occur alongside progress on environmental sustainability.

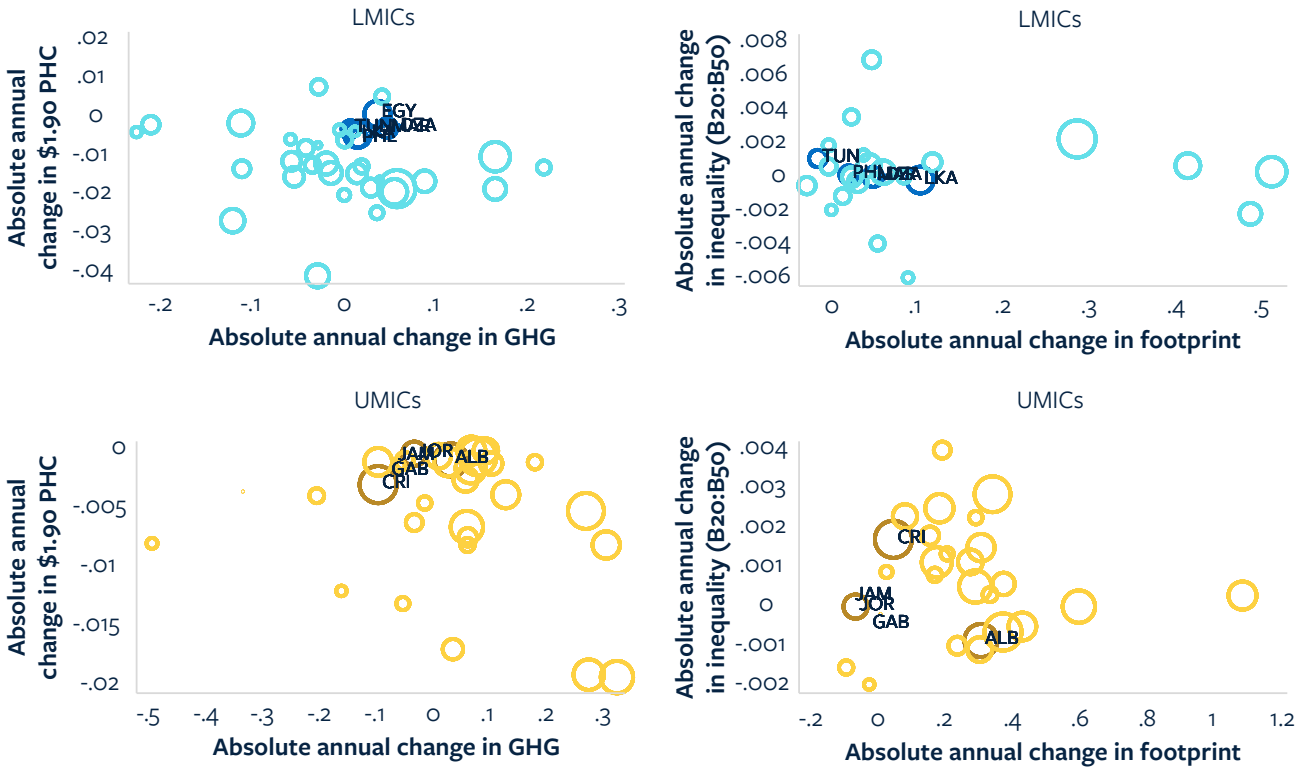
19 At the same time, Gabon's dominant extractives sector makes it less of an example of economic transformation, even if it has relatively low average material footprints.

Figure 4 Averages (2000–2018) in ISET indicators, size of circle weighted by average labour productivity



Note: The charts plot social inclusion indicators (on the y-axis) against environmental sustainability indicators (on the x-axis). The size of the circle is proportional to the average labour productivity (from the economic transformation dimension) of that country relative to other countries within its country-income group. All indicators are measured in terms of their average levels between 2000 and 2018. Cluster B country abbreviations are included in the charts.

Figure 5 Annual changes (2000–2018) in ISET indicators, size of circle weighted by change in labour productivity



Note: The charts plot social inclusion indicators (on the y-axis) against environmental sustainability indicators (on the x-axis). The size of the circle is proportional to the average labour productivity (from the economic transformation dimension) of that country relative to other countries within its country-income group. All indicators are measured in terms of their average levels between 2000 and 2018. Cluster B country abbreviations are included in the charts.

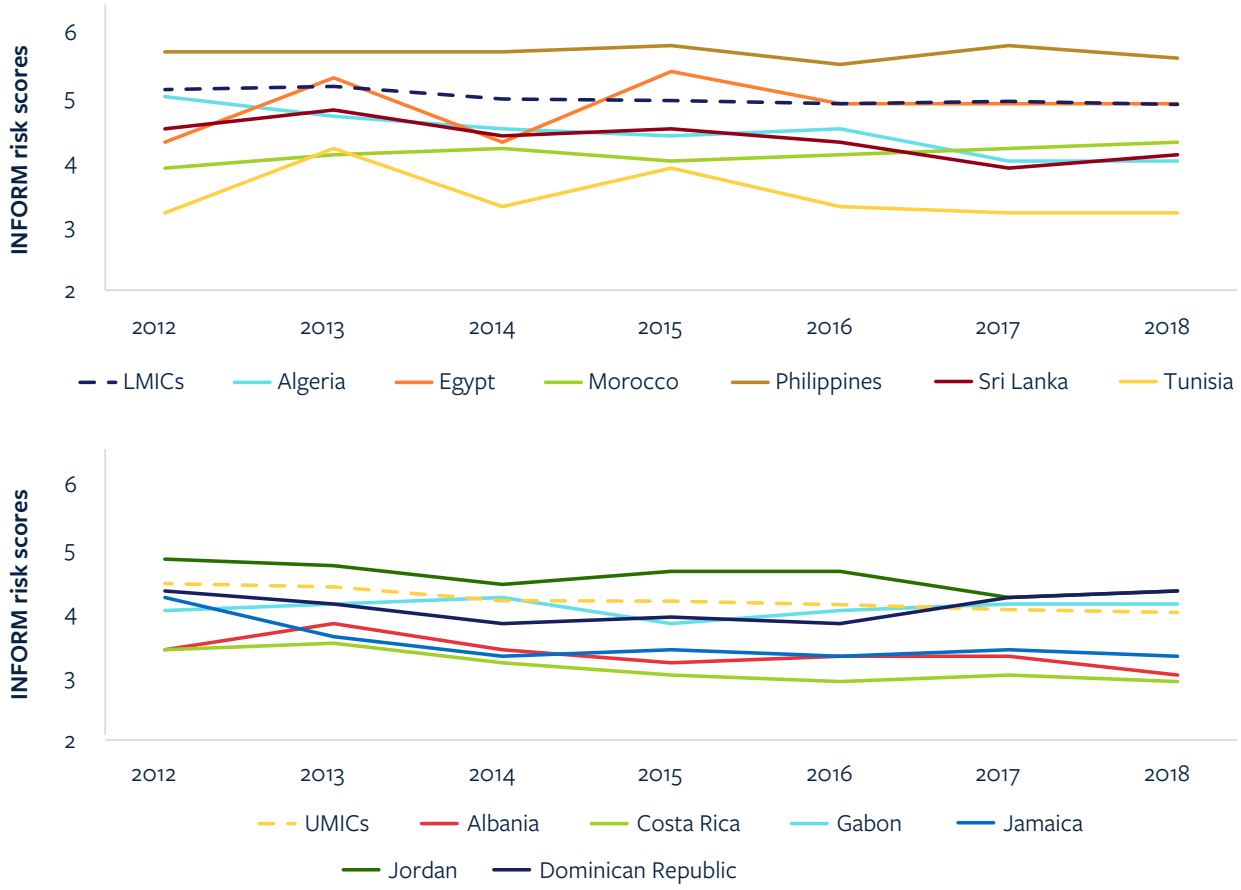
The aim of the next two sections is to draw out how and/or why cluster B countries have managed to maintain tripartite gains, linked to our risk, governance and political settlements framing. Within this, we include intentional and incidental factors of the cluster B countries to try to understand whether these countries arrived and stayed in Cluster B by design or by default. We especially focus on countries that have remained in cluster B throughout the period, but also give some attention to countries that moved into cluster B from less well-performing clusters.

4.3 The risk spectrum and its mitigation potential within cluster B

This section seeks to understand if the presence or absence of different types of risks and country responses to these may also be related to tripartite gains in cluster B countries. We rely on different indicators of risk, such as the Index for Risk Management (INFORM), the Ecological Threat Report (ETR) and the Global Peace Index (GPI). Taken together, these capture presence of multidimensional risks, country capacities to respond to these and, at the other end of the spectrum, relative absence of conflict risk conditions.

We first consider trends in country risk profiles, identified through the INFORM risk index (see Appendix Table A1.1 for its definition). Cluster B countries typically have lower risk scores than do their country-income group comparators. There are some exceptions, such as the Philippines as an LMIC, where frequent climate-related disasters (earthquakes, tsunamis, cyclones and floods) are prevalent. Egypt is also at the average, especially in recent years. At the same time, there is some evidence to suggest the Philippines has been strengthening its climate resilience, especially through moving from reactive to proactive disaster risk management (World Bank, 2023b). Similarly, though Dominican Republic (UMIC) does score worse on natural hazards, the country is relatively strong in terms of insurance, disaster risk reduction and government effectiveness. This renders it well placed to mitigate the negative effects of disasters.

Figure 6 INFORM risk scores over time for cluster B LMICs (top) and UMICs (bottom) compared with country-income group averages



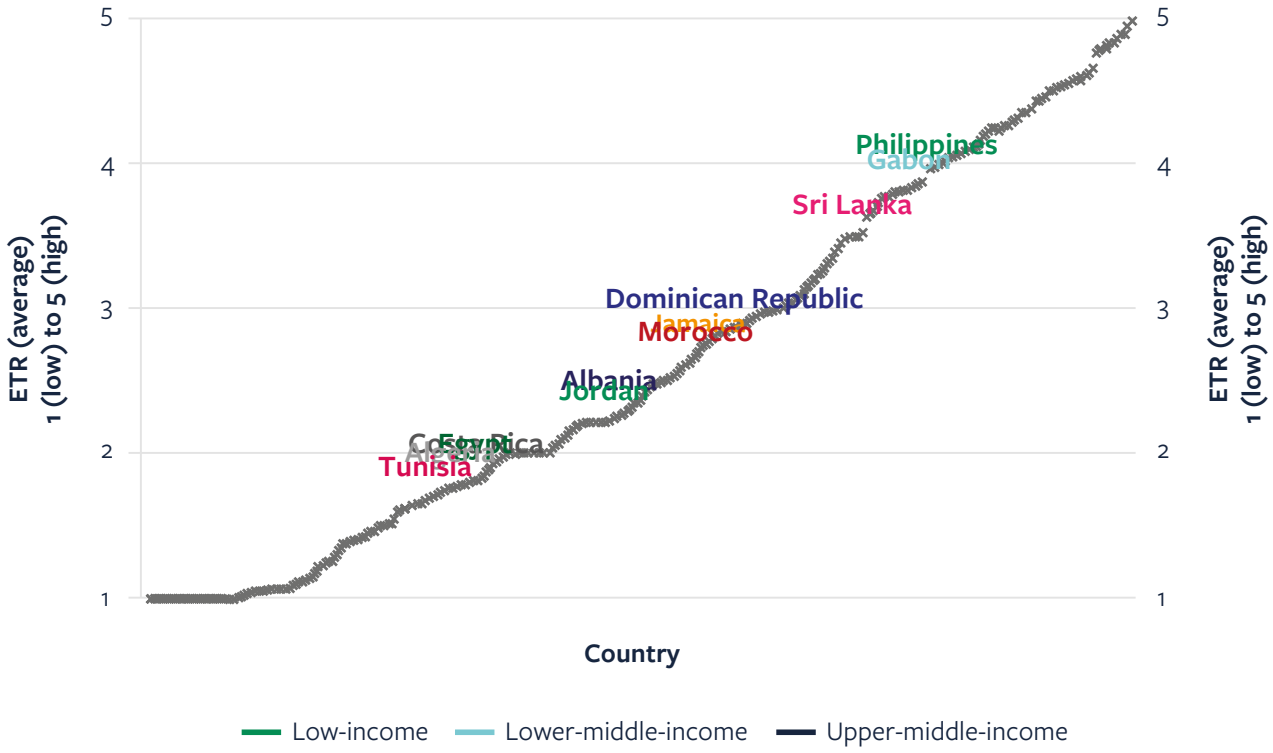
Note: Higher scores represent greater risk according to INFORM trend data

Source: Analysis of INFORM (2023) data

Other forms of environmental threats may affect tripartite gains. For example, the ETR scores in Figure 7 show that, as with the INFORM data, the African/Middle East and North Africa cluster B countries in general face less severe environmental threats than those facing their country-income group peers. However, looking at the five threats that make up the overall ETR score, there are some exceptions, with Dominican Republic facing high water risks and the Philippines and Sri Lanka at higher risk in the natural disaster category. The Institute for Economics & Peace (IEP, 2023) finds statistically significant relationships between lack of safety/security and environmental threats (particularly to food and water security, but also national disasters). On climate change threats specifically, Fankhouser and McDermott (2014) found greater 'adaptation deficits' in countries with lower levels of government spending, weaker governance and higher income inequality. However, it remains an open question whether a broader

relationship exists between the degree of environmental threat and the strength of environmental policy-making (i.e. whether exposure to environmental hazards empowers environmental ministries to make the case for other environmentally minded policies). A first attempt at this may be possible through a more detailed analysis of the INFORM component scores, separating hazard from adaptive capacity, as presented in Figure 6 above and Figure 10 below.

Figure 7 Average ETR scores for 221 countries and territories



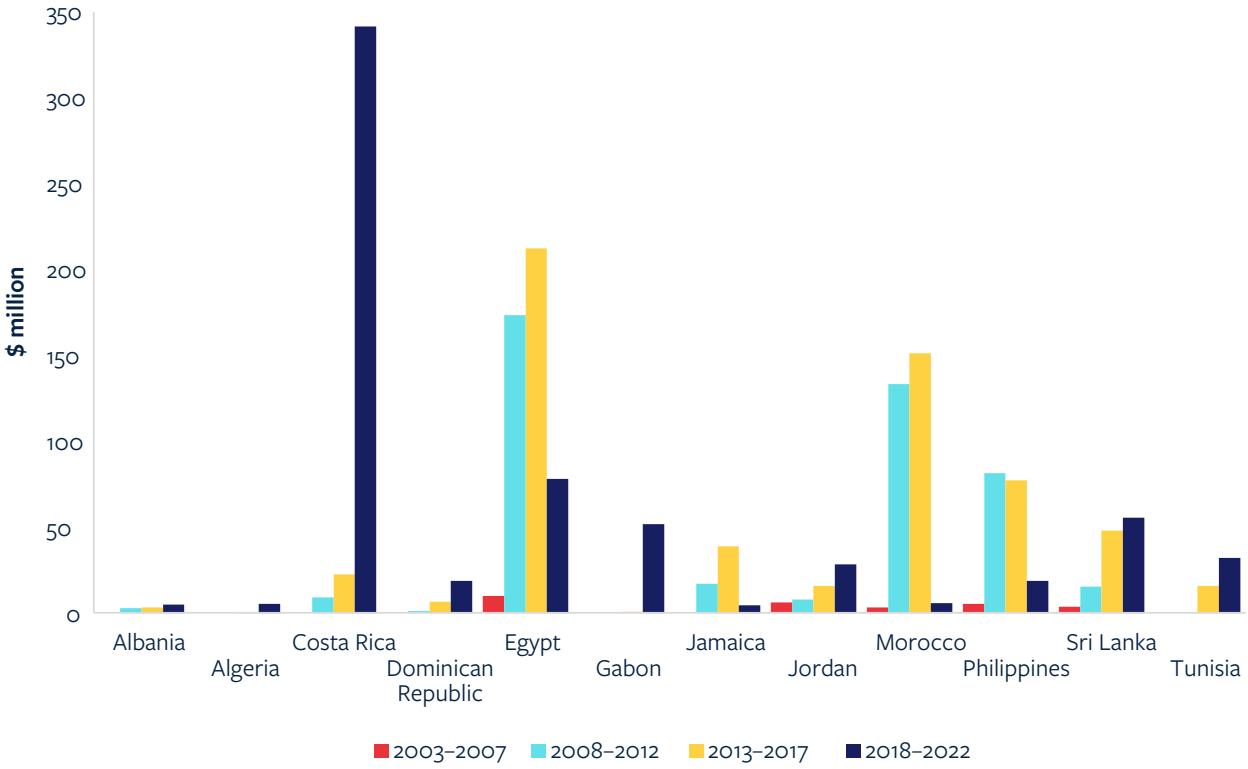
Note: We take the average values for food insecurity, natural disasters, demographic pressure and water risk ourselves rather than using the provided average values, to illustrate a greater degree of variation between the countries.

Source: Calculated from average values of four separate indices in IEP (2023)

Figure 8 shows how climate finance for cluster B countries compares with average flows for country-income groups. Although on average climate flows to cluster B countries have increased in line with or faster than average, there is no clear correlation between cluster B countries and climate finance: some (Costa Rica, Jordan) have seen climate finance flows consistently above the average for their income group; others have consistently received average (Philippines)

or below-average (Algeria) levels of climate finance. Others (Egypt, Jamaica, Morocco) were far ahead of their peer groups in the earlier phases of climate finance; others still (Sri Lanka, Tunisia) have seen climate finance grow much faster than the average.

Figure 8 Climate finance for cluster B countries compared with income-peer groups, 2003–2022

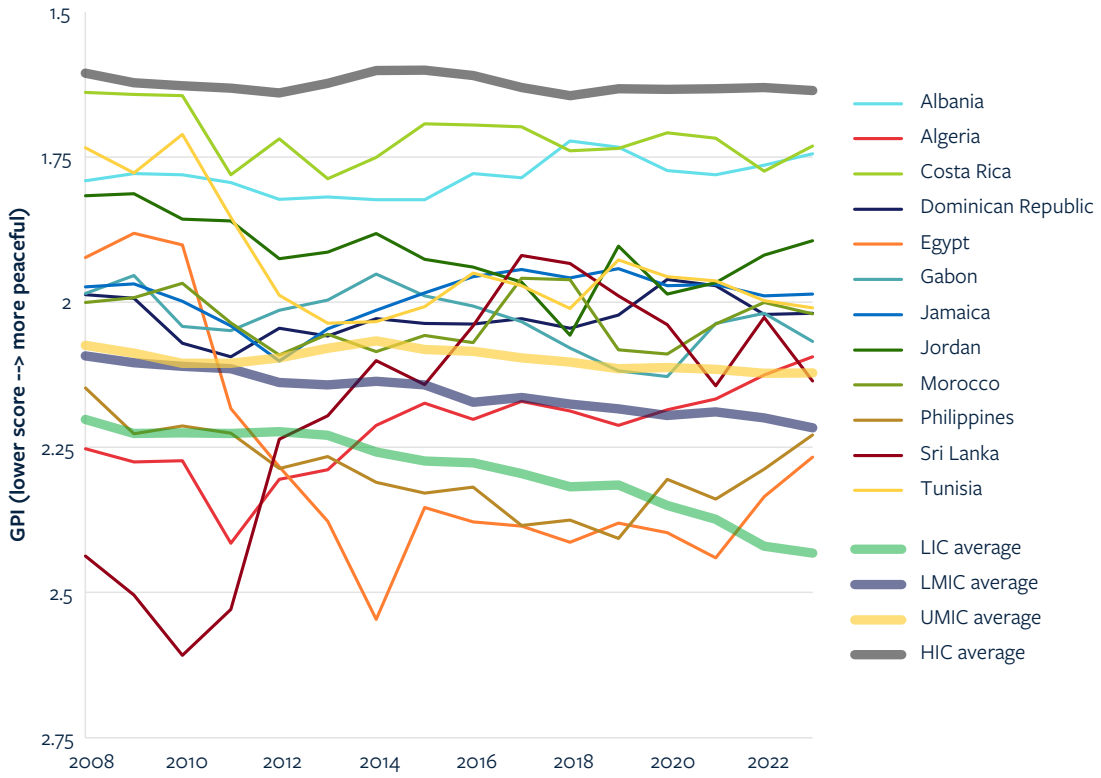


Note: To caveat the figure, there are major challenges in interpreting this data (including what is counted as climate finance, how to compare between countries and the potential for individual large investments skewing the data). To look deeper into this, see source data.
Source: Climate Funds Update 2023 (https://climatefundsupdate.org/)

Jordan is another UMIC with a high risk score. This is mainly on account of its large share of refugees and asylum seekers placing it in the 'vulnerability' category, rather than owing to the country's internal conflict or climate-related factors. Extending this, cluster B countries have, in general, been considerably more peaceful than their relative income group averages for the past 15 years. Indeed, apart from Sri Lanka during the civil war, the only two countries that show below average scores on peacefulness are the Philippines and Egypt (following the First Arab Spring), with some (e.g. Albania, Costa Rica) approaching the average

peacefulness scores of HICs. Although only tentative, this suggests that presence of peace (and not just absence of violence or of vulnerable groups) may be a factor in insulating governments or strengthening their effectiveness in ways that can support the triple gains seen in cluster B countries.

Figure 9 GPI scores, 2008–2023

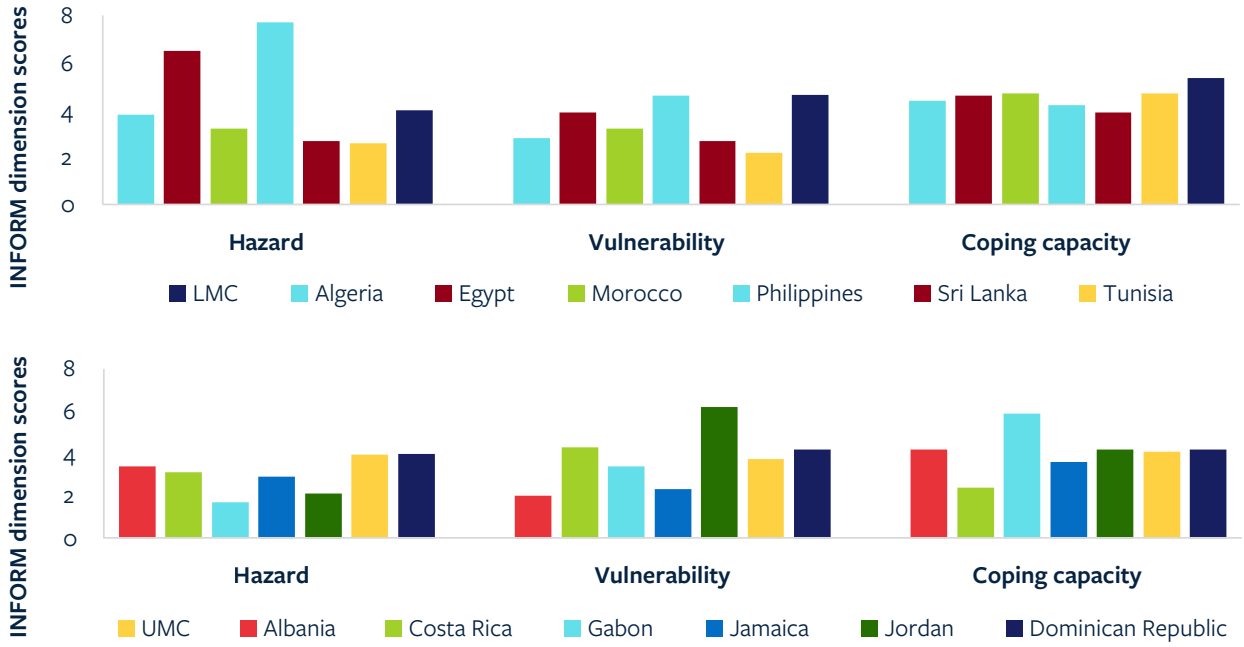


Note: The GPI measures the peacefulness of countries based on a set of indicators such as number and duration of conflicts, perceived criminality, political instability, and nuclear and heavy weapons capability.
Source: IEP (2023)

More broadly, cluster B LMICs, with the exception of Egypt and the Philippines, generally also have lower risk related to natural and human hazards, and perform better on the vulnerability and coping capacities dimensions (analysis of 2018 INFORM data). When we disaggregate by type of risk, Egypt and the Philippines remain with high risk profiles in terms of both natural and human hazards (Appendix Figure A1.2). Among cluster B UMICs, there is significant variation, though again these countries appear to be generally geographically privileged to a degree, with lower hazard scores compared with the income group

average. However, there is less of a clear relationship on the vulnerability dimension scores comparing cluster B and other countries, with wide variation observed across cluster B countries. Finally, coping capacity of cluster B LMICs appears close to the income group average, with again wide variation among cluster B UMICs. While Gabon is the UMIC with the worst coping capacity, it is fortunate in its much lower exposure to natural and human hazards. On the whole, then, it appears that it is the combination of low risk and/or strong risk response capabilities that characterises cluster B countries.

Figure 10 INFORM dimension scores, cluster B (constant) LMICs (top) and UMICs (bottom), 2018



Note: The chart disaggregates the INFORM risk index into its constituent dimension scores. As with the main index, higher dimension scores indicate greater hazard or vulnerability or stronger coping capacity, respectively.
Source: Analysis of INFORM data

The analysis above provides some indication that countries with less risk or more peace, or with stronger government capacity to respond to risks, may be able to create more stable conditions to foster ISET outcomes. However, there is a wide range of country experiences to suggest that these may be necessary but not sufficient conditions for delivering ISET outcomes.

Moreover, these results on risk should be balanced with the broader potential that might emerge in the aftermath of crises. Indeed, as the examples earlier in the chapter suggested, transformational change may arrive through abrupt changes in policy direction. This may be more likely to follow identifiable trigger events: responses to crises and new opportunities have both commonly acted as an impetus for innovation (Taalbi, 2017), in ways that also have potential to contribute to tripartite processes and outcomes. Though it is challenging to interrogate this empirically without deep contextual knowledge, supporting examples among cluster B countries include the 2030 national development strategy in Dominican Republic, which followed a major public engagement exercise, and the end of the conflict in Sri Lanka, which ushered in a decade of inclusive and environmentally minded policies. This was seen to be a reversion to more traditional development following conflict, coupled with a desire to limit environmental pollution, which was otherwise articulated as a drag on economic development (Pickard and Lemma, 2022).

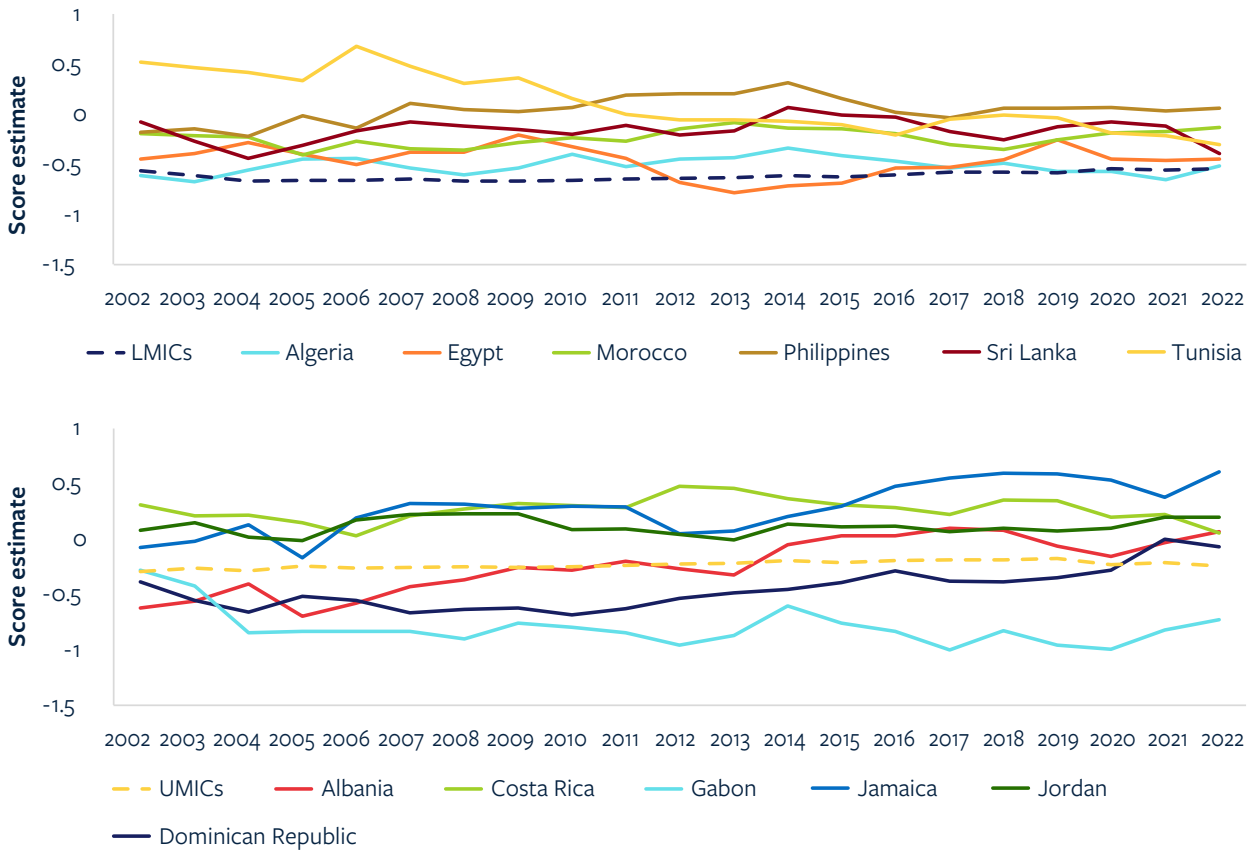
4.4 Governance and accountability with a focus on cluster B

4.4.1 Government effectiveness and accountability

Beyond a country's risk profile, its governance arrangements and political settlement (i.e. what it sets out to do, for whom and whether it has the political and bureaucratic means to achieve it) can also influence ISET outcomes. For example, a government with strong state capacity may be well placed to implement measures that can promote ISET outcomes. Government effectiveness[20] scores over time indicate that cluster B LMICs generally perform better than their country-income group average. However, the same is not true of UMICs, where we see Albania, Gabon and Dominican Republic performing less well than their country-income group average; even so, it is only Gabon among this set that has experienced a declining trend on government effectiveness over time, perhaps linked to presence of natural resources. This provides some initial indication that state capacity may be playing an important role in affecting tripartite gains.

20 The government effectiveness metric, from the World Governance Indicators (WGI), 'captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies' (www.worldbank.org/en/publication/worldwide-governance-indicators).

Figure 11 Government effectiveness estimates, LMICs (top) and UMICs (bottom), 2002–2022



Note: Higher scores indicate stronger perceived government effectiveness.

Source: Analysis of WGI data

Stronger state capacity may also tentatively enable more innovation (albeit inconsistently, as Box 9 suggests) as well as the more effective joining-up of policies from domestic ministries individually charged with economic, social or environmental policy. Sometimes, these ministries and ISET themes are already well aligned; for example, in Costa Rica, since 1995 the environment and energy portfolios have been housed in the same ministry, the Ministry of Environment and Energy (Ministerio de Ambiente y Energía (MINAE)), which has a clearly socially minded mission ('contribute to improving the quality of life of the country's inhabitants') and vision ('an environmental management system that allows Costa Rica to positively position itself internationally (in terms of politics, environment and commerce)') (MINAE, nd). Meanwhile, in Dominican Republic, the emergence of the Ministry of Economy, Planning and Development (Ministerio de Economía, Planificación y Desarrollo (MEPyD)), first created as

a secretariat in 2006 and upgraded to a ministry in 2010, has united economic planning and social development and was brought about through a fundamental restructuring of government administrative bodies, including those responsible for public budgeting, credit and investment (MEPyD, nd).

Other examples of inter-ministry mechanisms supporting this joining-up of policies include:

- cross-government taskforces with a specific mandate, such as Indonesia's National Team for the Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K)). This was created in 2010 to promote coordination across ministries/agencies to improve the implementation of poverty reduction programmes (Widianto, 2011)
- advisory boards or councils (such as Dominican Republic's advisory council on economic and social (and environmental) themes (Consejo Económico y Social (CES)) (https://ces.gob.do/), and the numerous national sustainable development councils established in the 2000s to track the Millennium Development Goals (though their effectiveness is debated)[21] and often repurposed as SDG councils post-2015, which presents a genuinely tripartite example
- inter-ministry collaborations such as the Inter-Ministerial Committee on Women's Empowerment and Gender Equality in Jordan, which includes economic empowerment (decent work) as part of the country's broader Economic Modernisation Vision (Jordanian National Council for Women, 2023).

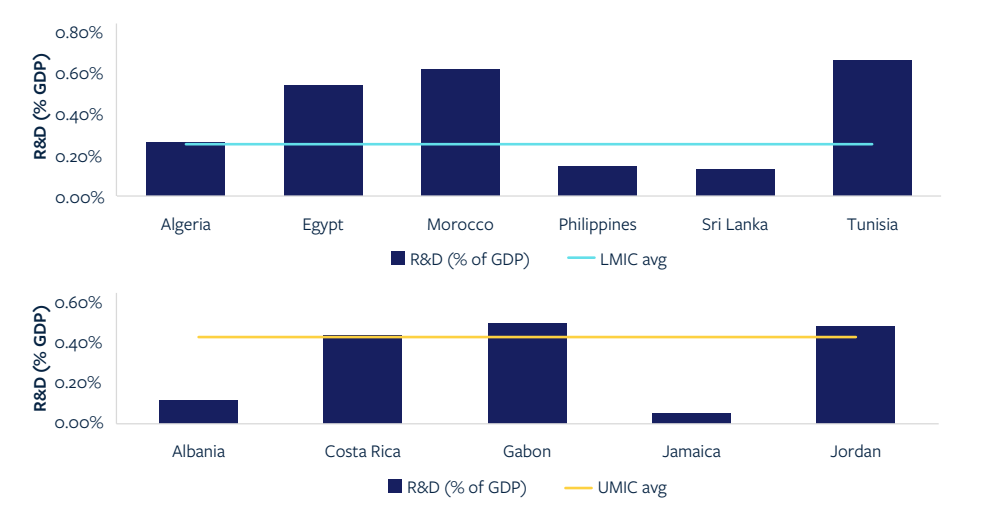
21 In Africa, the UN's Economic Commission for Africa undertook a review of the continent's national councils for sustainable development in 2005, revealing that, while most countries possessed these in some shape or form, the vast majority fell short in terms of effectively addressing the three dimensions of sustainable development (environmental, economic and social) in a 'holistic and integrated manner' (in UNDESA, 2012: 13).

Box 9 Does in-country research and development spending make a difference?

We consider whether technological innovation, measured crudely through government spending on R&D as a share of total GDP may also be higher among cluster B countries. The underlying motivation is to assess whether countries with a high degree of technological innovation may be more likely to have proposed and implemented tripartite policies or outcomes. Results from looking purely at government spending on R&D, however, suggest a range of spending, particularly high in Egypt, Morocco and Tunisia over the past two decades, though the Philippines and Sri Lanka's shares of spending on R&D are much lower than the country-income group average. Moreover, most cluster B UMICs are also either below or around the UMIC average, suggesting that public R&D spending may not in general be playing a strong role in fostering ISET outcomes.

We note, however, that this analysis should be deepened before we make conclusions on innovation. First, it does not include private R&D spending, which may be a major driver of innovation in some of these countries. Second, innovation in LMICs and UMICs may not be accurately proxied by R&D spending only. In these emerging markets, innovation often entails not creating new products and processes but rather imitating those already present in other markets, which can be introduced by the presence of foreign investment. Therefore, the role of innovation in cluster B countries deserves more thorough investigation.

Figure 12 Public R&D spending averaged between 2000 and the present, cluster B LMICs (top) and UMICs (bottom) (% of GDP)

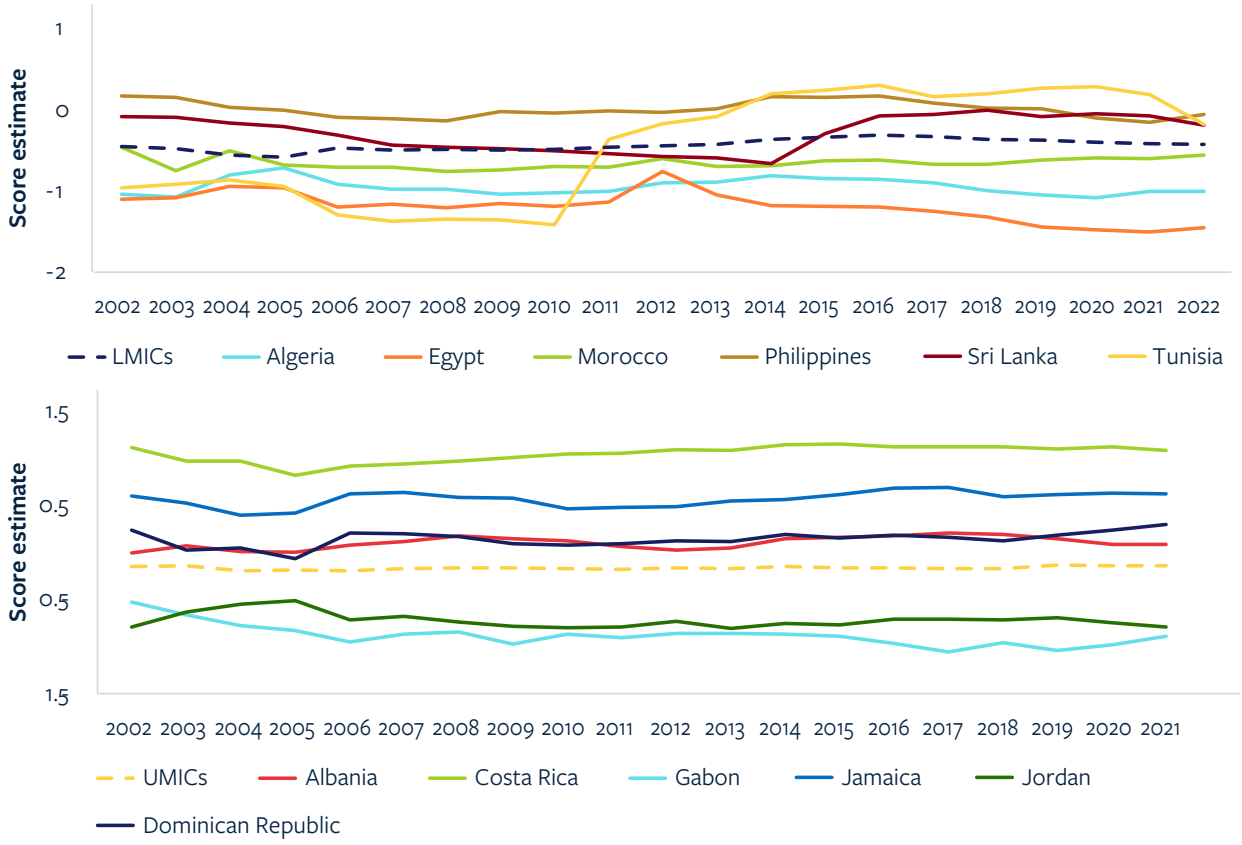


Source: Analysis of WDI (2023) data

The ability of citizens to influence development processes, including through selecting their governments, could also signal wider citizen voice to demand progress on ISET. When we examine the WGI's voice and accountability metric,[22] the African countries in cluster B generally show the weakest scores. Tunisia is the only one of this group to achieve an above-average score, following the 2011 Jasmine Revolution and the enshrining of democratic accountability in the 2014 Constitution. In contrast, the UMIC Latin America and Caribbean countries in cluster B perform well, with Costa Rica and Jamaica consistently scoring far above their income group average, and Dominican Republic – like Albania – scoring slightly above average. Until recently, the Philippines also performed well, and it still remains above its country-income group average. These governance and accountability results together suggest state capacity is perhaps an especially important enabling condition for ISET outcomes in poorer countries, while citizen voice and government accountability may become increasingly important as countries become richer.

22 This metric, from the WGI, 'captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.'

Figure 13 Voice and accountability estimates, cluster B LMICs (top) and UMICs (bottom), 2002–2022



Notes: Higher scores indicate stronger perceived voice and accountability of citizens.
Source: Analysis of WGI data

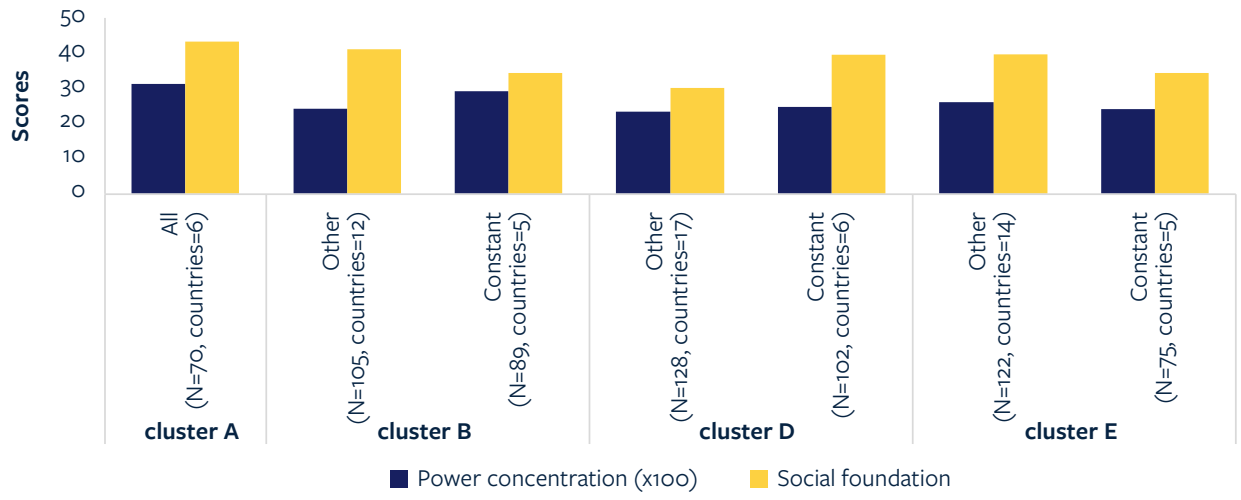
4.4.2 Political settlements as a lens for understanding ISET within and beyond cluster B

We also look across our cases to explore if there are any correlations between political settlement dimensions (e.g. the extent of the ruling coalition's hold on power and the presence of potentially disruptive groups coopted by the ruling coalition) and placement in our cluster categories (Figure 14). Appendix Table A1.1 provides definitions of the dimensions (the Power Concentration Index (PCI) and the Social Foundation Scores (SFS)). This exploratory analysis seeks to build on Kelsall et al.'s (2022) examination of political settlements and economic growth and social inclusion. In that analysis, the authors find that the PCI and the SFS are both positively and significantly associated with economic growth – the more concentrated the power and the broader the social foundation. When considering the relationship of these political settlement variables with infant mortality rate change, the size of the social foundation is positively correlated

with reductions in infant mortality. They conclude, based on effect sizes, that 'PCI per se might be more important in explaining economic development, whereas SFS on its own is equally relevant in explaining social development' (p. 151).

When we expand this analysis to consider ISET more holistically, what we observe, rather unsurprisingly, is that the constant cluster B countries have the greatest power concentration of all clusters bar countries in cluster A, which have strong economic transformation records. Perhaps more surprising is that cluster A countries tend to have a larger social foundation than do cluster B countries, yet weaker social inclusion. In fact, all the other countries that have remained in the same cluster over time have an as large or larger social foundation than in cluster B, yet weaker social inclusion outcomes. In the case of D and E countries, we might argue that their comparatively dispersed power structures make it difficult for them to deliver on social demands, though that does not explain the puzzle of cluster A countries, which have high power concentration but are also doing poorly on inclusion despite the relatively broad social foundation to the regime. It appears that social foundation and power concentration are not sufficient to explain ISET outcomes.

Figure 14 Political settlement dimension and cluster categories



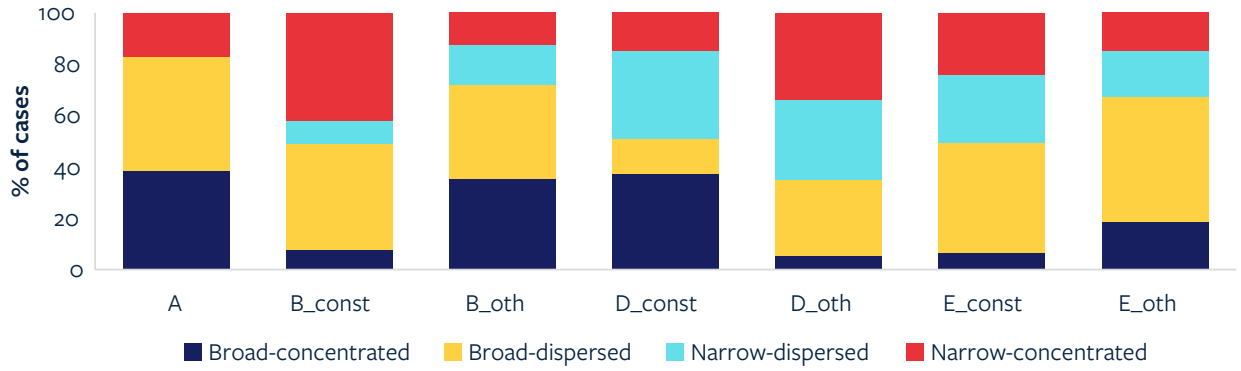
Source: Analysis of political settlements dataset from Kelsall et al. (2022)

When we dig into the political settlements of the individual countries that comprise the different clusters, this appears to be confirmed (Figure 15). Cluster B constant countries comprise two main types of political settlement: broad-dispersed and narrow-concentrated. Cluster A – which many B (non-constant) cluster countries go in and out of – also comprises two main types: broad-concentrated and

broad-dispersed. This is somewhat counterintuitive to political settlements theory, which would generally predict higher social inclusion in both categories, with lower economic transformation in the broad-dispersed type. Appendix 2 undertakes an initial exploratory analysis of these settlement types, while Section 2.5 further investigates risk, governance and political settlement dimensions of countries moving into and remaining in cluster B.

The conclusion of this analysis of political settlements and ISET is a cautiously optimistic one: cluster B outcomes can be achieved under different combinations of power concentration and social foundation size, meaning these key political settlement dimensions are not, by themselves, limiting conditions. Rather, they seem to act, if at all, in combination with other variables, for example state capacity and risk, which seem more clearly related to ISET outcomes.

Figure 15 Political settlement types and cluster grouping



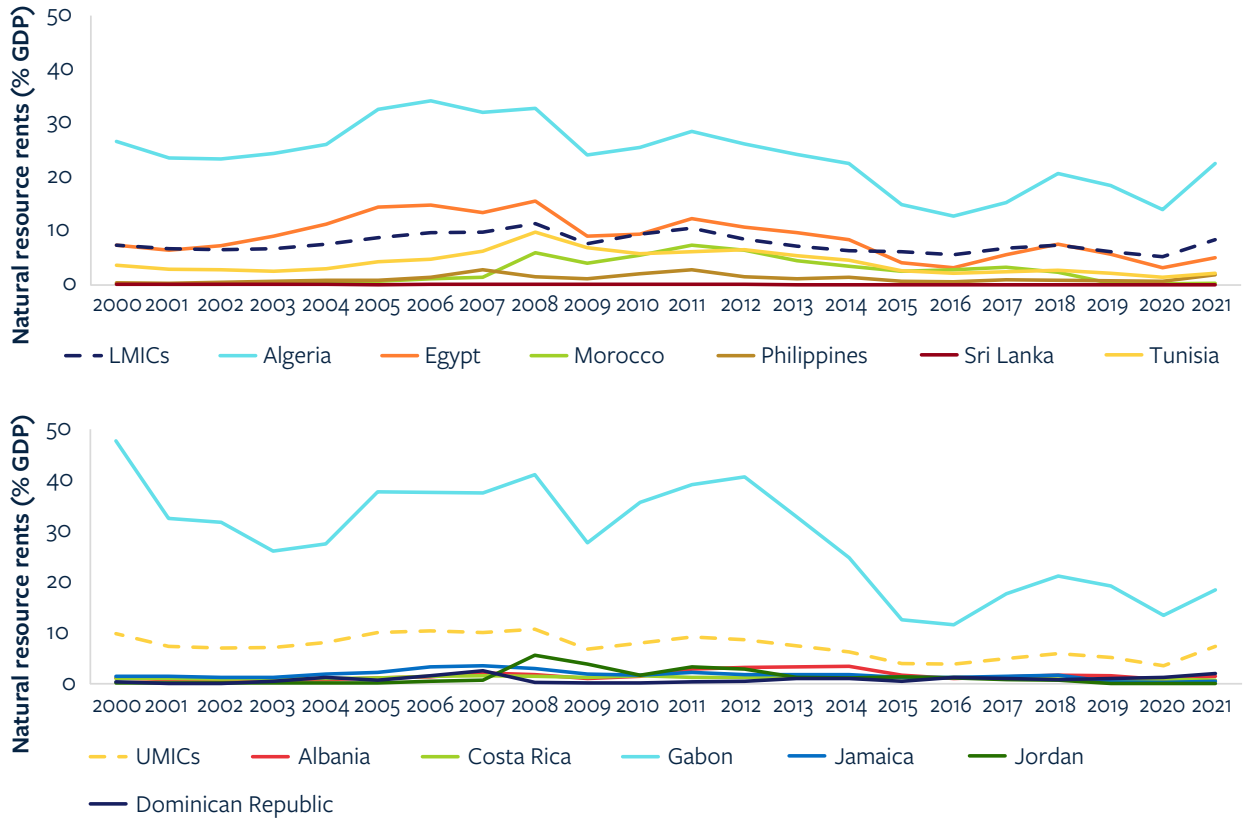
Source: Analysis of political settlements dataset from Kelsall et al. (2022)

4.4.3 Investigating the role of economic governance and its underlying structures

We also consider whether different forms of economic governance and structures may be responsible for tripartite gains. This emerges from the long history of governments promoting economic growth even before a focus on inclusion or environmental sustainability (Pickard and Lemma, 2022). We first consider whether the strong governance metrics and the broader social foundation among cluster B countries may also be related to the absence of natural resources. Indeed, the 'resource curse' argument would suggest that extractive industries may be used to fund public spending but often come with less transparency or monitoring, which can also foster less inclusive development outcomes. As hypothesised, the analysis suggests most cluster B countries tend to rely less on natural resource rents as part of their GDP base relative to other countries in their income group. There

are some exceptions, however, especially Algeria among LMICs (and variably Egypt over time, but to a lesser degree) and Gabon among UMICs. In all three countries, though, there has been a strongly declining trend of resource rents as a share of GDP.

Figure 16 Natural resource rents (% of GDP) in cluster B LMICs (top) and UMICs (bottom)



Source: Analysis of WDI data

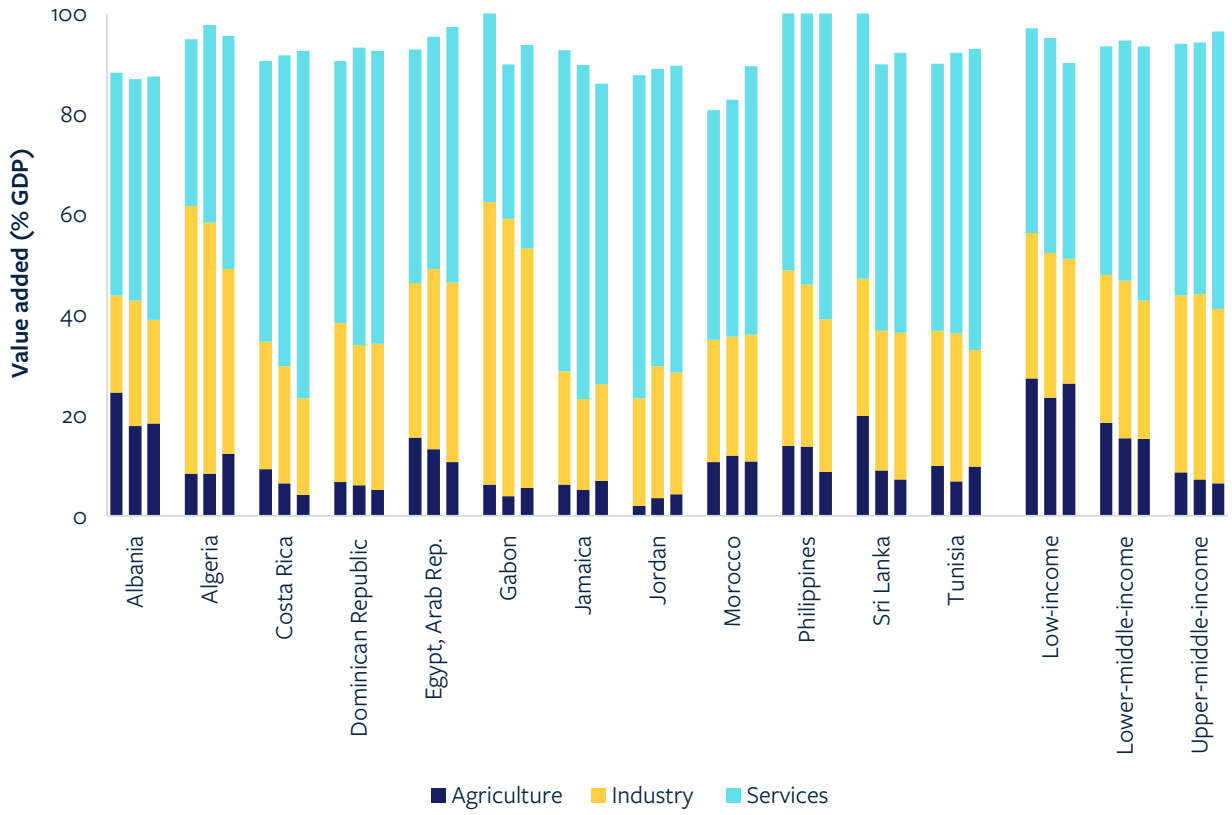
The heterogeneity of outcomes even in the absence of a natural resource curse leads us to question whether other types of economic factors may dominate in cluster B countries. For example, services dominate most cluster B countries (especially the Latin America and Caribbean members, Jordan, the Philippines, Sri Lanka, Tunisia and, to a lesser extent, Albania and Egypt). The industrial sector, which includes manufacturing, extractives, construction and utilities, is the most important in Algeria and Gabon (resource-rich

countries with a high share of extractives in their economy), though its importance in Algeria decreased considerably between 2010 and 2019.[23]

While both cluster B countries and the income group averages show the dynamic of a decreasing contribution from agriculture over time and an increasing one from services, the levels are markedly different. Except in Algeria, services are in general more important in cluster B countries than in their peers. Services-dominated economies can sometimes appear to be more sustainable where material footprint and emissions are outsourced; for example, they would perform better in a metric used in SDG 12 to evaluate resource efficiency (UNDESA, 2012). However, services also include transportation (including air travel), so this is not necessarily the case. Moreover, depending on from where and how goods with embedded environmental impacts are sourced, this could either make it easier to achieve sustainability goals (if there are strong environmental trade protections) or simply result in the outsourcing of the associated environmental ills.

23 We also consider whether this relates to the size of a country's informal economy. However, informal economy size does not appear to influence the direction of ISET processes or outcomes (Appendix Figure A1.4).

Figure 17 Contribution to GDP from agriculture, industry (including manufacturing) and services in cluster B countries in 2000, 2010 and 2019



Source: WDI 2023

4.5 Examining sustained transitions into cluster B

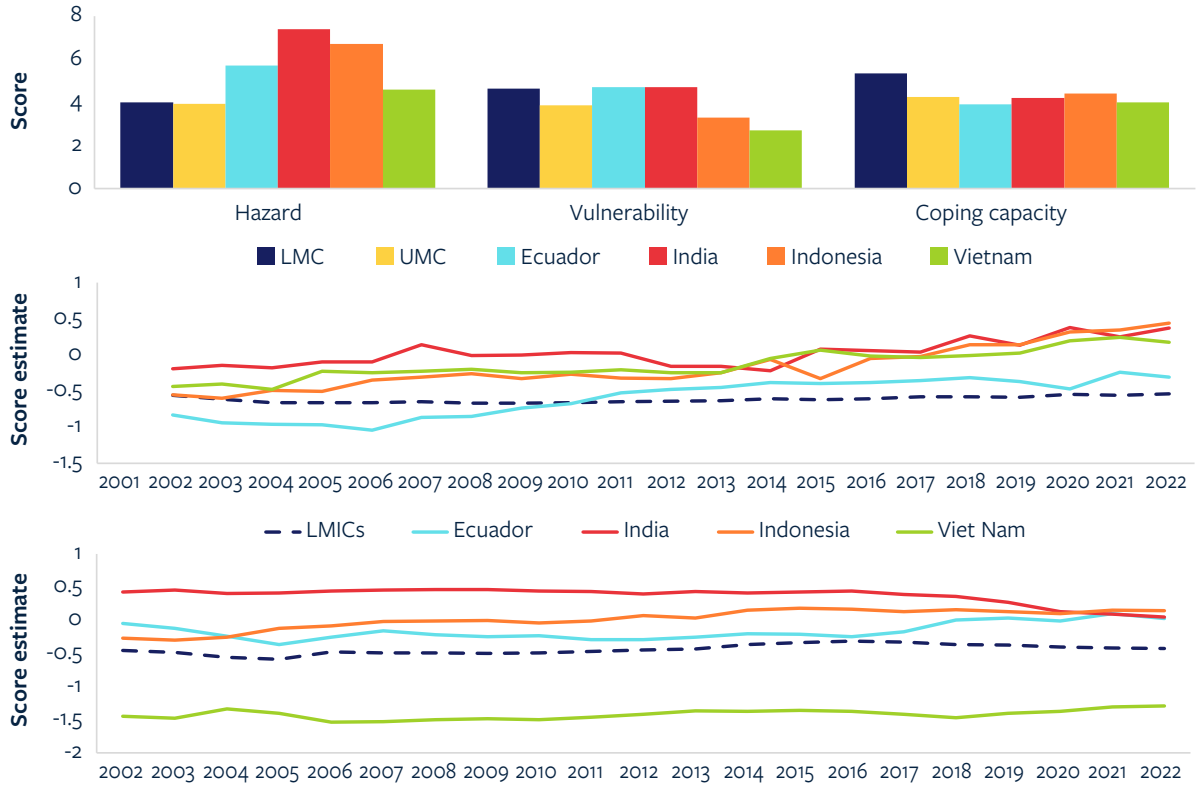
Ecuador, India, Indonesia and Vietnam represent another interesting set of countries to examine, as they moved into cluster B from less optimal clusters and have remained there for many years.[24] In terms of their risk and governance profiles:

- **Ecuador** moved from cluster E to cluster B in 2006 and has remained there. In terms of risk scores, Ecuador performs more strongly in terms of its coping capacity compared with the UMIC average, though, along with other 'sustained movers' into cluster B, has tended to experience high hazard risk.

24 Syria also experienced this movement into cluster B, though some of its pathways, including much of its reduced GHG emissions, may stem from economic collapse owing to prolonged conflict.

- **India** made a similar transition in 2005. Post-2014, under Narendra Modi, the country's voice and accountability score has weakened, though on the back of improving government effectiveness.
- **Indonesia** has spent all but two years in cluster B. It has a low vulnerability score and has seen both government effectiveness and voice and accountability improve over time.
- Finally, **Vietnam** moved from cluster D to cluster B in 2006. In spite of high hazard risk, it also has relatively strong coping capacity for its country-income group, and low vulnerability. It has also seen improved government effectiveness, albeit low voice and accountability, over the period. At the same time, Vietnam has also increased its dependence on cheap, domestically produced coal (as well as renewables), while being a strong performer in terms of rapidly ensuring almost universal access to electricity. Together, these results suggest a degree of trade-off between social inclusion and environmental sustainability.

Figure 18 Risk (top), government effectiveness (middle) and voice and accountability (bottom) among 'sustained movers' into cluster B



Source: Analysis of INFORM and WGI datasets

Finally, these transitions into cluster B and final outcomes among cluster B countries more broadly can be further investigated by exploring intermediate outcomes. Box 10 suggests what this investigation might entail.

Box 10 Considering intermediate outcomes on the way to ISET

Since outcomes can take a long time – years, even decades – to achieve, following the adoption of a new policy, institution or programme, it is useful to consider some intermediate indicators that will suggest the direction of travel.

Social and environmental standards tick two of the three ISET boxes, and have proliferated in recent years: the presence, number and strictness of standards operating in a country or sector can be extremely useful indicators of ISET. There is, then, a range of other intermediate indicators for each of the three dimensions, including those related to environmental decision-making, eco-innovation, decent work, social institutions and gender discrimination, and a number of indicators related to the business environment that can promote economic transformation. A selection of these, where data exists, could be brought together for countries, and possibly for sectors within countries.

Source: Appendix 3

4.6 Summary and way forward

To recap, analysis of outcomes across the three dimensions finds little evidence of strong 'triple wins,' with clear trade-offs between dimensions limiting rapid holistic development. Nonetheless, a small group of LICs and LMICs have achieved moderate balanced gains (the cluster B countries). An important programming message emerges from this conclusion for the international community: support countries to achieve all three goals in an ambitious but also a realistic way given their income level, starting points and ambitions.

Risk (and responses to it, conditioned at least partly by government capacity) appears to be a key issue in constraining ISET processes and outcomes. This is worrying, not least given the tendency during and after the Covid-19 crisis for countries to focus again on growth rather than also considering sustainability or inclusion, in a context of multiple, intersecting crises. Though there have been some exceptions, for example through the expansion of social protection, these measures have often been short-lived (Gentilini et al., 2022). Thailand was one of the few countries to develop an integrated approach to economic transformation

during the pandemic – the Bio-Green Circular Economy (BGCE) (Pickard and Marks, 2023).

A complementary way to interpret the risk and hazard findings is to view the relative absence of these as enablers for ISET. That is, countries in Cluster B more likely (but not exclusively) represent those that are more peaceful and less exposed to environmental threats than their peers. It could be that a lower background hazard is conducive to ISET outcomes, as some of our countries exhibit, and it could also be that these risks attract political attention and are sufficiently mitigated with built-up coping capacities, as observed across a number of our cluster B countries, which in turn yields a more balanced set of outcomes.

Cluster B countries also tend to exhibit political settlements that are either broad-dispersed chaotic democracies or narrow-concentrated autocracies that were impacted by the Arab Spring. Crude proxies – like stronger state capacity and more voice and accountability – support these findings. The political analysis reinforces the multifaceted character of ISET, which is likely to be influenced by various factors. There is evidence of 'equifinality,' which suggests there is no single formula or set of variables that definitively determines an inclusive, sustainable economy outcome. This is plausibly the case for such a complex outcome variable.

At the same time, one can view equifinality as an opportunity rather than a limitation. Given the multiple pathways to achieving ISET, it can potentially be achieved in a variety of political settlements, and policy-makers have some flexibility in designing interventions. This flexibility allows for tailored approaches that consider the unique context and challenges of different regions or countries.

In terms of risk, finally, the policy implications vary between those facing strong risks and those with low risk scores and relatively poor ISET outcomes. For the first group, to the extent they can, countries need to reduce risk to allow the political space for ISET themes to emerge and become embedded, and international agencies and the international community more broadly need to do what they can to reduce risk and assist in developing coping strategies for LICs and MICs. The climate risks within the case study countries covered in the next chapter (Bangladesh, Indonesia and Kenya) alongside their variable response capacities suggest this is a key area for further strengthening ISET outcomes. Conversely, for countries that are facing relatively mild risks but are still unable to achieve ISET goals, further attempts to reduce risk may do little to achieve ISET outcomes. Instead, it is likely that focusing on ISET goals themselves, or government effectiveness, may be required.

5 Lessons from ISET policy-making in Bangladesh, Indonesia and Kenya[25]

Since the establishment of the SDGs, countries have aspired to spur economic growth, improve social services and reduce inequality, and tackle climate change – consistent with the ISET objectives. This chapter investigates how ISET policy-making and implementation are being carried out in practice based on three case studies outside the 'constant cluster B' countries identified in Chapter 4.[26] We focus on Bangladesh's[27] water sector management policies (Khatun et al., 2024); Indonesia's[28] energy transition policies (Inayah et al., 2023); and Kenya's[29] ISET policies at the national and county level (Gatheru, 2024; Nyukuri et al., 2024).

In particular, this chapter aims to answer three main questions:

- To what extent are the three objectives of economic transformation, environmental sustainability and social inclusion embedded in national policies, and to what extent are these policies implemented at the national and local levels?
- What are the opportunities and bottlenecks to achieve joined-up policy-making and implementation?
- What can be done to foster joined-up policy-making and implementation?

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25 This chapter was prepared by Sherillyn Raga, Research Fellow, ODI; Foqoruddin Al Kabir, Research Associate, Centre for Policy Dialogue (CPD); Hamidah Busyrah, Researcher, Dala Institute; Balgis Inayah, Senior Analyst, Dala Institute; Tim Kelsall, Senior Research Fellow, ODI; Fahmida Khatun, Executive Director, CPD; Mizan R. Khan, Deputy Director, International Centre for Climate Change and Development; and Elvin Nyukuri, Senior Lecturer, University of Nairobi.

26 Cluster B countries are countries that experienced moderate tripartite gains (economic transformation, social inclusion, environmental sustainability) consistently over a long-time horizon (2000–2018) period. These countries include Albania, Algeria, Costa Rica, Dominican Republic, Egypt, Gabon, Jamaica, Jordan, Morocco, Philippines, Sri Lanka and Tunisia (see Chapter 4).

27 Cluster D, moving from 'broad-dispersed' to 'narrow-dispersed' to 'narrow-concentrated' political settlements between 2000 and 2020 (see Chapter 4).

28 Movement between clusters A and B, experiencing a 'broad-dispersed' political settlement between 2000 and 2020 (see Chapter 4).

29 Cluster D, moving from 'broad-dispersed' to 'broad-concentrated' political settlement types between 2000 and 2020 (see Chapter 4).

5.1 Background: performance on selected social, environmental and economic indicators

There has been significant socioeconomic development in Bangladesh, Kenya and Indonesia over the past two decades. Table 8 show that these countries' output grew strongly from 2000, reaching GDP growth of between 5% and 7% in the decade (2010–2019) prior to the Covid-19 pandemic. However, growth has slowed in recent years (2020–2022) amid the shocks of Covid-19 and the Russia–Ukraine war. Between 2000 and 2022, income per capita increased by nearly seven, eight and five times in Bangladesh, Indonesia and Kenya, respectively. Incidence of poverty and unemployment rates lowered significantly for Bangladesh and Indonesia but increased recently in Kenya (Table 8).

Table 8 Key economic, environmental and social indicators

	Bangladesh			Indonesia			Kenya		
	2000	2010	2022/ latest	2000	2010	2022/ latest	2000	2010	2022/ latest
Social indicators									
Population (million)	129.2	148.4	171.2	214.1	244.0	275.5	30.9	41.5	54.0
GNI per capita (current $)	430	800	2,820	570	2,510	4,580	430	930	2,170
World Bank income group	LIC	LIC	LMIC	LIC	LMIC	UMIC	LIC	LIC	LMIC
Unemployment (% of labour force)	3.3	3.4	4.7	6.1	5.6	3.6	3.1	2.8	5.5
Share of informal employment to total employment (%)	No data	87.8	94.7[1]	No data	84.3[2]	80.2	No data	82.7[3]	83.0[4]
Poverty headcount ratio at $2.15 a day (2017 PPP, % of pop)	33.3	18.2	9.6	43.6	18.3	2.5	36.7[5]	29.4[6]	36.1[7]
Human development index[8] / 2021 rank out of 190 countries	0.485	0.553	0.661/ 129th	0.595	0.664	0.705/ 114th	0.481	0.545	0.575/ 152nd
2021 Gender inequality index, rank			0.530 / 131st			0.444 / 110th			0.506 / 128th

	Bangladesh			Indonesia			Kenya		
	2000	2010	2022/ latest	2000	2010	2022/ latest	2000	2010	2022/ latest
Environmental indicators									
CO2 emissions (metric tons per capita)	0.2	0.3	0.5[10]	1.3	1.7	2.1[10]	0.3	0.3	0.4[10]
Renewable energy consumption (% of total final energy consumption)		40.3	28.0[10]		36.0	22.0[10]		76.1	72.5[10]
Renewable electricity output (% of total electricity output)		1.8	1.2[6]		15.9	16.2[11]		69.1	87.5[6]
Terrestrial and marine protected areas (% of total territorial area)		4.9[2]	4.9		5.1[2]	5.3		10.5[2]	10.3
Level of water stress (freshwater withdrawal as % of available renewable freshwater resources)		5.7	5.7[10]	15.1	24.2	29.7[10]	12.9	26.5	33.2[10]
	2000-2009 (ave)	2010-2019 (ave)	2020-2022 (ave)	2000-2009 (ave)	2010-2019 (ave)	2020-2022 (ave)	2000-2009 (ave)	2010-2019 (ave)	2020-2022 (ave)
Economic growth and transformation indicators									
GDP growth (%)	5.6	6.6	5.8	5.1	5.4	2.3	3.6	5.0	4.1
Industry value-added (VA, % of GDP)	23.5	28.2	33.4	46.2	41.2	39.8	17.0	18.4	17.4
Agriculture VA (% of GDP)	19.3	14.6	11.6	14.7	13.3	13.1	23.7	19.4	21.8
Services VA (% of GDP)	52.3	52.5	51.3	38.8	42.4	43.0	52.3	56.1	54.7

	Bangladesh			Indonesia			Kenya		
	2000–2009 (ave)	2010-2019 (ave)	% change 2000–19	2000-2009 (ave)	2010-2019 (ave)	% change 2000–19	2000-2009 (ave)	2010-2019 (ave)	% change 2000–19
Agriculture VA per worker	717	1,093	132.8	1,892	2,888	123.8	1,824	1,662	-12.4
Industry VA per worker	3,413	4,390	65.1	12,411	13,367	20.9	6,539	8,888	148.9
Services VA per worker	3,663	4,606	20.1	4,945	6,721	83.8	4,006	4,031	3.9

Note: 1/ as of 2017; 2/ as of 2016; 3/ as of 2014; 4/ as of 2019; 5/ as of 2005; 6/ as of 2015; 7/ as of 2021; 8/ higher index, better human development; 9/ higher index, higher gender inequality; 10/ as of 2020; 11/ as of 2019.

Sources: FEK and ILO (2021); ILOSTAT; UNDP (nd); World Bank (2016a, nd); WDI

However, some challenges remain in achieving ISET. Across the three countries, the informal sector has been persistently large, comprising 80% to 90% of total employment, partially reflecting the higher shares of services (which can be informal) compared with industry (which is largely formal) in overall output.[30] When looking at productivity indicators in terms of value-added per worker, productivity in the industrial sector has increased across the three countries in the past two decades. By sector, productivity growth in Bangladesh and Indonesia was fastest in agriculture (133% and 123% increases, respectively) over 2000–2019, and in Kenya in industry (149%). More than 50% of value-added was from the services sector in Bangladesh and Kenya; Indonesia had the highest proportion in manufacturing. Increases in productivity in services has been slower in Bangladesh (20%) than Indonesia (84%) and has remained almost the same in Kenya (4%) in the past two decades.

Indicators of environmental sustainability show that carbon emissions have been increasing in the three countries, although at a relatively faster rate in Indonesia. Notably, renewable energy consumption is very high in Kenya compared with in the other two countries, although Kenyans (and Indonesians) seem also to be threatened by higher levels of water stress.

The above trends suggest **there is room for the strong economic transformation in these countries to be more transformative (in terms of the economic structure of each country), inclusive (especially in Kenya) and environmentally sustainable in terms of renewable energy usage and water**

30 The most recent ILOSTAT data, based on national statistics, show 81.2% informal employment in Indonesia (2023), 84.9% in Bangladesh (2022) and 86.5% in Kenya (2019). See https://rshiny.ilo.org/dataexplorer39/?lang=en&id=SDG_0831_SEX_ECO_RT_A

supply (especially in Bangladesh and Indonesia). In this context, it is important to understand how ISET is incorporated in the policy-making process, and affects economic, social and environmental outcomes.

5.2 Country visions of economic development

Bangladesh, Indonesia and Kenya's long-term government visions privilege goals to achieve higher levels of income in the coming decades. For instance, Bangladesh aims to move from LMIC to UMIC status by 2031, and to HIC status by 2041 (General Economics Division, 2020). In Indonesia, long-term development plans (i.e. the Indonesian Vision 2045, Golden Indonesia 2045) aim for the country to become one of the largest economies in the world by 2045. Similarly, Kenya envisions itself to be a newly industrialising MIC by 2030 (Government of Kenya, 2007). **In these plans, social inclusion in the form of reducing poverty and inequality also appears to be a strong objective, following top priority for economic growth targets.** Environmental considerations are mentioned in Bangladesh and Kenya but seem to be the least prioritised after growth and inclusion objectives.

However, the latest policy development plans reflect a shift in government thinking towards mainstreaming climate change goals. In Bangladesh, the Mujib Climate Prosperity Plan (MCPP) 2022–2041, launched in 2022, is designed to support existing long-term development plans by identifying climate-resilient investment and financing strategies for green and inclusive economic growth (MoEFCC, 2022b). In Indonesia, Golden Indonesia 2045, launched in 2023, includes achieving net zero as a key pillar, with a specific target on the reduction of GHG emissions (Bappenas, 2023). In Kenya, the Bottom-up Economic Transformation Agenda (BETA), launched in 2022, which is still anchored on Kenya Vision 2030, recognises environment and climate change interventions[31] as an enabler to achieve economic transformation and social inclusion objectives.

In practice, the case studies point to an unbalanced and sometimes competing focus on economic transformation in specific sectoral policies and implementation, potentially at the expense of attention to social inclusion and environmental objectives. In Indonesia, for example, energy transition policies are found to be focusing predominantly on economic targets to meet electricity demand and generate public revenues (Inayah et al., 2023). This focus supports the continued dominance of coal among energy sources for Indonesia's electricity

31 BETA's key focus on environment and climate change is the provision of a clean, healthy, safe and sustainably managed environment. Planned interventions include raising the country's tree cover, plastic waste management and pollution control, implementation of the National Climate Change Action Plan 2023–2027, establishing Country Climate Change Funds in 47 counties, training small-scale gold miners and geological mapping and mineral exploration (Parliamentary Budget Office, 2023).

sector and the continued commitment to problematic coal subsidies. The focus does not appear to align much with achieving Indonesia's climate change commitments, or with social inclusion. Even when some aspects of social inclusion are considered, such as affordability of access to electricity, other aspects, such as job security for affected local communities (e.g. those near renewable projects and retiring coal power plants) and the gendered impacts of a transition to more sustainable energy, are often neglected.

In Bangladesh, the Bangladesh Delta Plan (BDP) 2100, launched in 2018, is a long-term strategic plan dedicated towards economic growth and climate resilience, focusing primarily on multidimensional water investments and water management (General Economics Division, 2018a). The long-term orientation of the BDP is to address the limitation of short-term sectoral plans, which are implemented independently by formulating ministries despite covering issues such as food security, water demand and climate change, which require multisectoral coordinated policy management (ibid.). Other related medium-term plans, such as the MCPP (see Box 12), the National Adaptation Plan (NAP) 2023–2050 (NAP) and the 8th Five-Year Plan (8FYP) 2020–2025 are aligned with the BDP. However, there is no integrated planning on how specifically to meet the water demand of the growing industry and population, nor how to address water price discrimination between the bottom and top income groups (Khatun et al., 2023).

Similarly in Kenya, KIIs revealed that policies generally focus on economic transformation, at both the national and the county level (Nyukuri et al., 2024). For example, Kenya Vision 2030 barely mentions environmental goals. Kenya's National Industrialisation Policy Framework 2012–2030 highlights the leading role of the industrial sector as a driver of growth. It does give some consideration to inclusion and environmental aspects through the promotion of micro, small and medium enterprises (MSMEs), as well as sustainable industrial development that focuses on environmental protection, management and efficient resource utilisation (Ministry of Industrialisation, 2012).

At the county level in Kenya, KIIs found that county integrated development plans (CIDPs) tended to focus on economic and social development rather than environmental sustainability (Nyukuri et al., 2024).

5.3 Enabling conditions for ISET policy-making and implementation

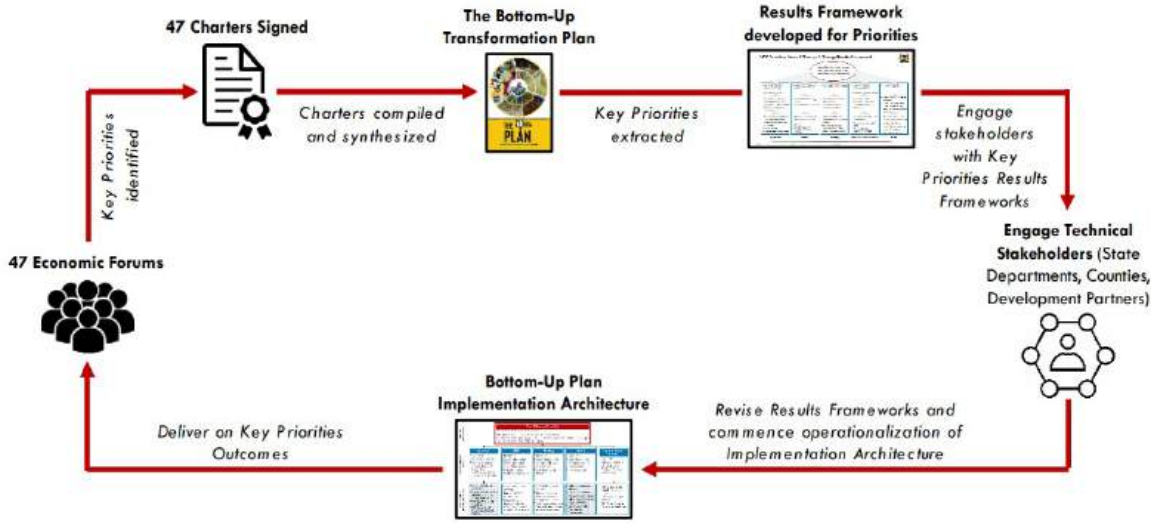
This section highlights the enabling conditions in place where joined-up ISET thinking was accommodated in the design and implementation of Bangladesh's water management policies, Indonesia's energy transition policies and Kenya's national and county-level development policies.

Bangladesh and Kenya's cases demonstrate the benefits of including a participatory framework within the policy design process. Kenya's devolution policy under the 2010 Constitution

decentralised power and resources and took active steps to 'promote social and economic development and the provision of proximate, easily accessible services throughout Kenya and to enhance government responsiveness to the needs of the citizens' (MDP, 2016). In this context, the Constitution mandates that the drafting of CIDPs be participatory, which requires citizens (e.g. relevant local and national government agencies, private sector, civil society organisations (CSOs) and communities) to fill out templates to explore and capture local perspectives (Nyukuri et al., 2024). There is evidence that the devolution has enabled counties to maintain and, in some cases, significantly expand the provision of basic social services (e.g. health, education, water) (Muwonge et al., 2022). However, KIIs indicated that the inclusive policy design of CIDPs had been compromised at times during implementation: the National Treasury allocated and disbursed budgets only against CIDP policies that it assessed to be aligned with national vision/development plans (Nyukuri et al., 2024).

Another example from Kenya is the rigorous consultation process involved in the development of BETA, launched in 2022 (Figure 19). BETA aims to stimulate Kenya's economic recovery from recent crises and bolster resilience but highlights household welfare as well (Parliamentary Budget Office, 2023). This suggests that more attention was given to the social inclusion aspect of economic transformation goals. This is reflected in its five pillars: agricultural transformation; MSME economy; healthcare; housing and settlement; and digital superhighway and creative industry. Given its bottom-up character, it will be interesting to see whether a more positive orientation to Kenya's informal economies emerges. BETA considers environment and climate change interventions as an enabler to realise the five pillars/goals, representing some progress in the consideration accorded climate and environmental objectives. As BETA has only recently been launched, progress on (or challenges to) implementation is yet to be seen.

Figure 19 Consultative process for BETA design



Source: Office of the President (2023)

In Bangladesh, the long-term BDP 2100 was formulated following engagements with various stakeholders, development partners, economists, social scientist, researchers, academia and CSOs (General Economics Division, 2018b). The investment plan within the BDP is the result of a consultative process with 20 agencies that submitted their proposed priority projects, resulting in 133 candidate projects worth $47 billion (ibid.). Various studies highlight the success of the BDP in attracting private sector investment in river and delta development, facilitating efficient cargo handling, improving trade connectivity, promoting tourism, creating employment opportunities and stimulating economic growth in the surrounding areas (Khatun et al., 2021; Roome, 2021; Kabir et al., 2022).

Another example from Bangladesh is the systematic and participatory process of policy formulation of the NAP 2023–2050, initiated by the Ministry of Environment, Forest and Climate Change (MoEFCC, 2022a). The NAP is aligned with 52 climate adaptation projects in the BDP 2100. The policy design involved sectoral and cross-sectoral assessments, vulnerability assessments, cost–benefit analysis and the mainstreaming of the NAP into existing development policies and plans, as well as stakeholder engagements with government agencies, CSOs, academia, the private sector and affected communities. While ISET elements are demonstrated in the NAP's priority goal ('enhancing overall climate resilience through effective adaptation measures that minimize losses and damages and support natural resources management, strong economic

growth, resilient ecosystems and sustainable livelihoods'; MoEFCC, 2022a), effectiveness of implementation is yet to be seen as the NAP was only recently launched (in 2022).

SDG-focused capacity-building, coordination and implementation reinforce joined-up policy-making. In Kenya, CSO initiatives on SDG monitoring are contributing to awareness of a multidimensional approach to development. The CSO-led Kenya SDG Forum gathers data and produces an annual report on the progress of SDG implementation at the county level.[32] It shares this with the Ministry of Devolution and Planning (MDP). In addition, a dedicated SDG desk within the MDP facilitates government and non-government stakeholder engagements. The MDP utilises the Forum's report as an input for its county-level monitoring and evaluation of SDG implementation. Key informants in Busia county were positive about their inclusion in the SDG Forum (Nyukuri et al., 2024).

Donors and multilateral financing mobilisation may encourage embedding ISET objectives in national policies and project development. For instance, the Just Energy Transition Partnership (JETP)[33] provided a $20 billion financing deal to fund Indonesia's transition to a low-carbon economy, announced in 2022, during Indonesia's G20 presidency. The JETP's funding mechanism is aimed at addressing social inclusion aspects (e.g. training and alternative job creation for affected workers, new economic opportunities for affected communities), which may fill the gap in the national (presidential) regulation on energy transition policies, which focus heavily on economic transformation and environmental sustainability alone (Inayah et al., 2023). This gap is acknowledged in the JETP Comprehensive Investment and Policy Plan (CIPP), launched in November 2023 (JETP Secretariat, 2023). The CIPP is a strategic roadmap underlining the investment opportunities and challenges related to technical, financial, policy and just transition aspects that must be addressed to achieve Indonesia's energy transition targets (ibid.). It acknowledges that the decarbonisation of Indonesia's power sector will result in the simultaneous creation of new jobs in renewable energy development but also a loss of jobs as a result of the early retirement or phasing-down of coal-fired power plants (ibid.). However, the CIPP lacks a clear strategy for quantifying potential job losses and new jobs created and has no action plan for those who could lose their jobs during the energy transition.

The source of external financing may also matter in incorporating ISET objectives at the project level. KIIs in Indonesia

32 Launched in 2015, the SDGs Kenya Forum comprises 350 CSOs working across the 17 SDGs (https://sdgkenyaforum.org/).

33 This entails high-level international financing partnerships to support transitions to sustainable energy systems.

suggested that, in renewable energy projects, non-multilateral commercial lenders (including Chinese financiers) usually prioritise profits over social and environmental mitigation measures, while multilateral banks often adopt ISET objectives with high environmental and social standards (Inayah et al., 2023).

Potential mobilisation of international finance also encourages governments to adopt ISET policies, especially on climate. In Kenya, county climate change funds (CCCFs), piloted in five counties (Isiolo, Garissa, Kitui, Makueni and Wajir), aim to help identify, prioritise and finance investments to reduce climate risk and achieve adaptation priorities (NDC Partnership, 2019). CCCFs are also designed to reinforce Kenya's national climate change policies (e.g. the National Climate Change Action Plan 2018–2022). The government's commitment to allocating a budget to the CCCF has helped attract international climate finance (e.g. from Sweden and the UK) (ibid.).

An evaluation by Crick et al. (2019) found direct benefits from CCCF investment in terms of increased access to water equivalent to an 8% increase in household income, as well as indirect benefits in terms of improved livelihoods, incomes and food security; new economic opportunities; and fewer conflicts within households and communities and between neighbouring villages. The success of these pilots generated demand from other counties, and Kenya's National Treasury scaled up the approach to make it available to all 47 counties. This resulted in the launch in 2021 of the nationally scaled Financing Locally Led Climate Action (FLLoCA) programme, worth $49.7 million in county climate change investment grants. FLLoCA was emphasised during the inaugural Africa Climate Summit in September 2023 held in Nairobi, co-hosted by the Kenyan government and the AU. This generated $26 billion in investment commitments and announcements for Africa from the public sector, the private sector, multilateral development banks (MDBs), philanthropic foundations and other development financing partners (AU, 2023).

Other examples of multilateral climate funds (MCFs) that embeds objectives of climate change adaptation and mitigation while promoting ISET co-benefits in the projects it funds are the Green Climate Fund (GCF) and the Climate Investment Funds (CIF). GCF aims to support developing countries to raise and realise their Nationally Determined Contribution (NDC) ambitions towards low-emission, climate-resilient pathways. CIF aims to enable climate-smart planning and climate action in LICs and LMICs through large-scale, low-cost and long-term financial solutions.

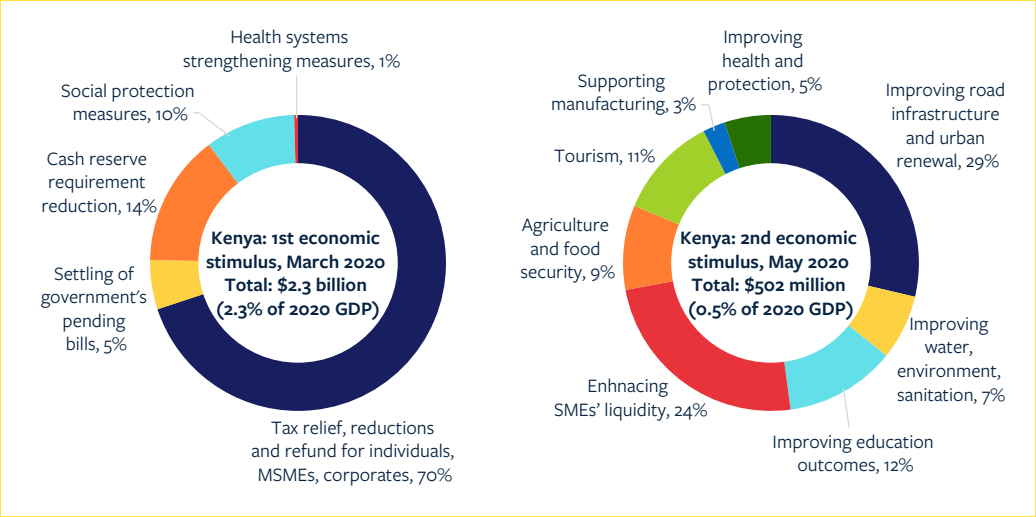
In Kenya, early evidence at the microeconomic level suggests that GCF projects implemented through equity finance represent an effective way of securing economic and social benefits (Bird, 2022). For instance, GCF's equity capital in KawiSafi Ventures Fund was used to leverage larger amounts of investments for off-grid solar power. Among surveyed customers, 87% indicated that their quality of life had improved significantly as a result of access to a KawiSafi-supported solar home system (ibid.). At the macroeconomic level, CIF jointly prepared a national investment plan with Kenya's government in 2011 on three priority areas: geothermal energy supply, hybrid mini-grids and solar water heaters. The first area was supported by a $25 million project that proved to be a catalytic investment in the initial stages of the growth of Kenya's geothermal sector. Bird suggests that, as the increasing use of renewables since 2008 has happened with the support of development partners, it is plausible that it will also be conducted in a more inclusive manner than may have happened through a solely private sector-led model.

The pandemic shifted policy priorities towards economic recovery and social inclusion, with some consideration given to increasing environmental resilience to 'build back better' from Covid-19. In Kenya, the pandemic renewed policies towards economic growth and reallocated budget funds to the health sector and the expansion of social protection (OPM and ITAD, 2022, in Nyukuri et al., 2024). The rescue packages reflect priority fiscal measures for health and social protection, and started introducing medium- to long-term spending plans, including on the environment, as part of economic recovery beyond the pandemic (Box 11). **However, key informants suggested that investment in the environment, perceived to be long term in nature, was given less priority during the crisis period** (Nyukuri et al., 2024).

Box 11 ISET considerations in Kenya's Covid-19 response

During the pandemic, Kenya announced initial rescue packages that focused heavily on spending on social protection (e.g. cash transfers, healthcare system strengthening) and mitigating economic impacts (e.g. tax relief for MSMEs and corporates) in March 2020 (see Figure 20). In December 2020, however, the government announced a post-Covid-19 Economic Recovery Strategy. This set policy priorities to recover from and go beyond the pandemic, particularly including medium- to long-term investment in environment and disaster management, digital infrastructure and governance reforms (Raga and te Velde, 2022).

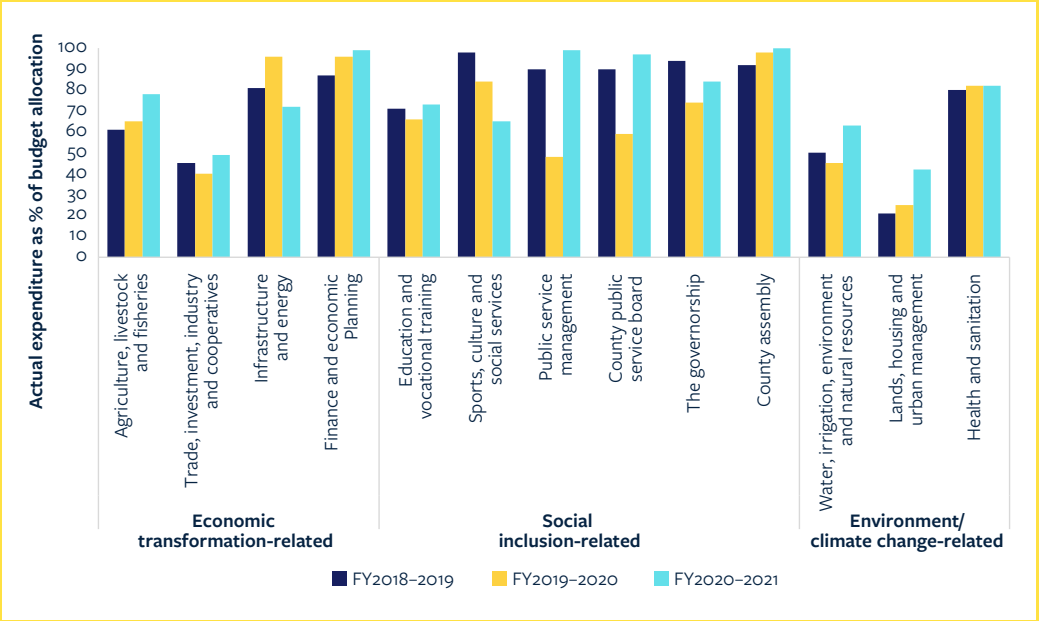
Figure 20 Kenya's economic stimulus packages during Covid-19 by sectoral spending (% share to total package)



Source: Raga and te Velde (2022)

However, on the ground, KIIs indicated that the pandemic led to a reduction in and the diversion of resources to mitigate the impact of the pandemic (Nyukuri et al., 2024). In addition, mobility restrictions stalled ongoing projects and programmes, with less priority on environmental investment, perceived to be long term in nature (ibid.). This is somewhat reflected in the increase in the absorption rate of the budget allocated to health and sanitation and economic planning – areas mostly related to mitigating the health and economic impact of Covid-19. Meanwhile, the absorption rate declined for public service management (i.e. public-facing activities that may have been restricted during Covid-19) and water, irrigation, environment and natural resources (Figure 21).

Figure 21 Busia county, Kenya – budget allocation absorption rate (actual expenditure as % of budget allocation)



Source: Data based on Busia County Fiscal Strategy Paper, at https://repository.kippra.or.ke/

Similarly, the Bangladeshi government's response to the pandemic included an economic recovery plan that featured expanded social safety nets (e.g. cash transfers to the poor, subsidies to farmers and workers in the industry and services sectors) and promotion of agricultural production and job creation (Khatun et al., 2023). However, the pandemic further strained Bangladesh's pre-existing financial strategy to achieve the environmental sustainability aspect of the economic recovery plan (ibid.). For instance, 8FYP, published in July 2020, proposed a significant increase in the budget allocation to the MoEFCC. Although the MoEFCC bears direct responsibility for climate and environmental governance, its allocations are considerably lower than those to other ministries. Meanwhile, in practice, budgets to the MoEFCC have been falling behind the 8FYP's proposed allocation. Based on Ministry of Finance reports, between FY2021 and FY2024, the share of the proposed budget allocation to the ministry represented only between 0.2% and 0.3% of the pledged allocations in the 8FYP.[34] However, the government has initiated the publication of a climate budget starting from fiscal year 2016/17, incorporating multiple ministries. As of 2023, this encompassed 25 ministries.

34 Personal communication from Foquruddin al Kabir, Research Associate, CPD, Bangladesh.

The pandemic provided a window of opportunity to create a competitive market environment for renewables in Indonesia, although it was halted. Indonesia's subsidy for coal was temporarily stopped in 2021, amid renewed global demand and higher global prices for coal after the peak of Covid-19. Inayah et al. (2023) found that, with higher global coal prices in 2021, Indonesian coal producers preferred to export at international prices rather than fulfil their domestic market obligation (DMO) to sell 25% of their production at a subsidised price for domestic consumption. This resulted in a temporary export ban in January 2022 and required the state electricity company (Perusahaan Listrik Negara (PLN)) to purchase coal at market prices. The ban, introduced on 1 January, lasted just 11 days, as supplies from domestic power plants fell to critically low levels (IESR, 2023), raising the risk of widespread blackouts across the country. In August 2022, PLN also warned of insufficient coal for domestic power generation as a result of the non-compliance of coal-producing companies regarding the DMO (JETP Secretariat, 2023). This indicates that DMO policy enforcement has been ineffective. In response to this, the JETP CIPP aims to establish an institutional setup and transitional policies to prepare for domestic price obligation removal – shifting towards a more market-based system that sees the DMO maintained but the price ceiling removed, incentivising domestic supply. This is expected to allow PLN to buy coal at market prices, resulting in PLN transitioning to lower-carbon energy as the least-cost source of generation in many instances, which also helps with energy security concerns.

Firms adopting ISET objectives and related standards that are aligned with or go beyond government regulations are driven by pressures from international buyers or headquarter standards. In Bangladesh, growing numbers of readymade garment (RMG) firms are getting the Leadership in Energy and Environmental Design (LEED) certificate, issued by the US Green Building Council.[35] As of December 2023, 9 out of the top 10 highest-rated LEED factories globally are in Bangladesh (Textile Focus, 2023). To achieve LEED certification, factories have to adhere to carbon, energy, water, waste, transportation, materials, health and indoor environment quality. Globally, there were 2,004 LEED certified factories by 2023, against just 3 in 2014. The shift towards improved worker health and indoor environment quality has been pushed for since the Rana Plaza incident in 2013,[36] with international buyers seeking

35 https://www.usgbc.org/leed

36 On 24 April 2013, the Rana Plaza factory in the outskirts of Dhaka collapsed, killing over 1,100 people (mostly garment workers). Following the incident, global brands and retailers created two major private initiatives: the Accord on Fire and Building Safety, which transitioned to International Accord in 2021 (https://bangladeshaccord.org/; https://internationalaccord.org/), and the Alliance for Bangladesh Worker Safety, which operated until 2018 (https://bangladeshworksafety.org/).

out more climate-friendly factories to meet their environmental commitments (Hossain, 2023; Keane and Calabrese, 2024).

In Kenya, Base Titanium rehabilitated mining sites in an environmentally sustainable manner that preserved biodiversity, and established grievance redress mechanisms with the potential to help promote inclusive outcomes (Nyukuri et al., 2024). In addition, on top of the required royalty that Base Titanium is extending to Kwale county government, the company also provided $1 million to Kwale as part of its corporate social responsibility activities in 2020 (Gatheru, 2024). These efforts seem to go beyond government regulation, and may have been motivated by internal policy on sustainability governance and reporting imposed by the company's headquarters.[37]

Environmental sustainability and climate change-related policies seem to be a space where economic transformation and social inclusion are considered simultaneously. Kenya has several initiatives that allow policy design of, and coordination within and across agencies on, ISET objectives and implementation. One example is the CCCF, which aims to reinforce national climate change policies while delivering local adaptation priorities. Another is the Inter-Governmental Water Sector Coordination Framework, which allows dialogue and engagement among the Ministry of Water, the Council of Governors, county governments and key stakeholders to deliver 'water for all.' Meanwhile, county climate change units support county sectoral agencies in mainstreaming climate and gender. Kenya's Climate Change Act of 2016 (Sections 15 and 19) also requires the integration of climate change in the strategies and plans of state departments and national and county governments.

Another example is Bangladesh's MCPP 2022–2041, which aims to support economic growth and transformation by maximising environmental resilience and strengthening employment in the green economy in a socially inclusive and gender-responsive way (Box 12). The MCPP was launched in 2022, during Bangladesh's presidency of the Climate Vulnerability Forum (CVF) and the Vulnerable 20 Group of Finance Ministers (V20). The MCPP embeds investment plans and financing strategies designed to align and strengthen actions into other major national planning documents, including Vision 2041, the BDP 2100, the 8FYP 2020–2025, the Climate Change Strategy and Action Plan, the NAP 2023–2050, the NDC 2021, the Climate Change and Gender Action Plan, and the SDGs (MoEFCC, 2022b).

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37 Base Titanium is the local subsidiary of the Base Resources Group, an Australian-based mineral sands producer and developer. Base Resources follows a sustainability governance framework (e.g. internal policies/standards on sustainability, environment, community) and reporting of sustainability activities and performance against goals (https://baseresources.com.au/sustainability/sustainability-policies-and-standards/; https://baseresources.com.au/sustainability/sustainability-reporting/).

Box 12 ISET considerations in Local Government Initiative on Climate Change projects within Bangladesh's MCPP

The main goal of the MCPP is to secure green economic growth for the country through resilience to climate change. It is aligned with the long-term strategic plan of the BDP 2100. The MCPP promotes locally led adaptations through government projects such as the Local Government Initiative on Climate Change (LoGIC). This initiative includes activities that focus on climate-proofing investments and on community-based adaptation schemes to make local infrastructure, including drinking water, irrigation, water management systems and watersheds, more resilient and gender-responsive. The plan also provides conditional grants directly to vulnerable households to support resilient livelihoods on and off the farm: under the MCPP, the 225 most climate-vulnerable wards have been identified, from which the most vulnerable 35,000 households and moderately vulnerable 10,000 households are selected for skills development on climate-resilient livelihoods. In this way, the plan promotes social inclusion in its attempt to strengthen environmentally sustainable economic growth in Bangladesh.

Specific activities under LoGIC suggest the implementation of ISET approaches. For example, when farmers in Bagerhat district of south-western Bangladesh experienced lower crop yields as a result of harsh climate change effects (e.g. heatwaves, desertification, lack of rainfall), LoGIC facilitated the implementation of a solar-based agricultural irrigation plant to redirect water from nearby natural canals. This water irrigation system has solar-based pumps that bring water to the surface and disperse it through valves distributed across the 2,000 acres of agricultural land. The solar panels gave more consistent power for better crop cultivation, and are reported to have contributed to increased diversification, higher yields and an increase in profits, and so an overall improvement in the socioeconomic situation of farmers.

Sources: CVF and V20 Presidency of Bangladesh (2021); MPTFO (2021)

While social inclusion is considered in environmental policies, social justice is often overlooked. In Bangladesh, there are challenges related to enforcing environmental laws over groups with high political influence, and price discrimination between the bottom and the top quintile income groups (Khatun et al., 2024). For instance, in terms of water access, those in the bottom 40% of the wealth distribution almost always fare worse than those in the top 60%, meaning the poor are likely to rely on unimproved water sources (World Bank, 2018). Another example was when tannery factories were relocated

upstream to mitigate pollution in the Buriganga River, raising governance issues related to the effective use of chemical effluent treatment plants and the wellbeing of workers and local communities in the new location (Khatun et al., 2024).

In Indonesia, the social aspect considered in energy transition policies is geared more towards affordability for consumers. Environmental justice in terms of job security and gender equality (e.g. displaced jobs, upskilling, developing the capacities of local suppliers to create 'backward linkages') is often overlooked (Inayah et al., 2023).

In Kenya, efforts to promote a green economy in the transport sector – through the Bus Rapid Transit system – pose risks of job losses among young people working in the public transport system: no transition plan has been developed. Financial instruments to support green manufacturing practices are often extended to large businesses but not to small and medium enterprises (SMEs) (Nyukuri et al., 2024).

5.4 Barriers to ISET policy-making and implementation

The case studies highlight the presence of multiple but at times inconsistent policies on ISET. In Indonesia, for example, strategies contain conflicting environmental and economic (profit) objectives: the government aims to diversify sources of electrical power by increasing the share of renewable energy but, at the same time, developing value addition in coal production (e.g. coal liquification and gasification) (Inayah et al., 2023). As part of this strategy, a coal gasification plant in Sumatra is set to produce 1.4 million tonnes of dimethyl ether annually, intended as a more cost-effective alternative for Indonesian households, replacing 1 million tonnes of liquefied petroleum gas imports (Peh, 2023).

Kenya's devolution policies are envisioned as a driver of inclusive growth and development, by setting up institutional structures and financing flows at the county level and enabling spending in line with more local priorities. In practice, however, there are conflicting development plans and some duplication of effort at national and county levels (Nyukuri et al., 2024).

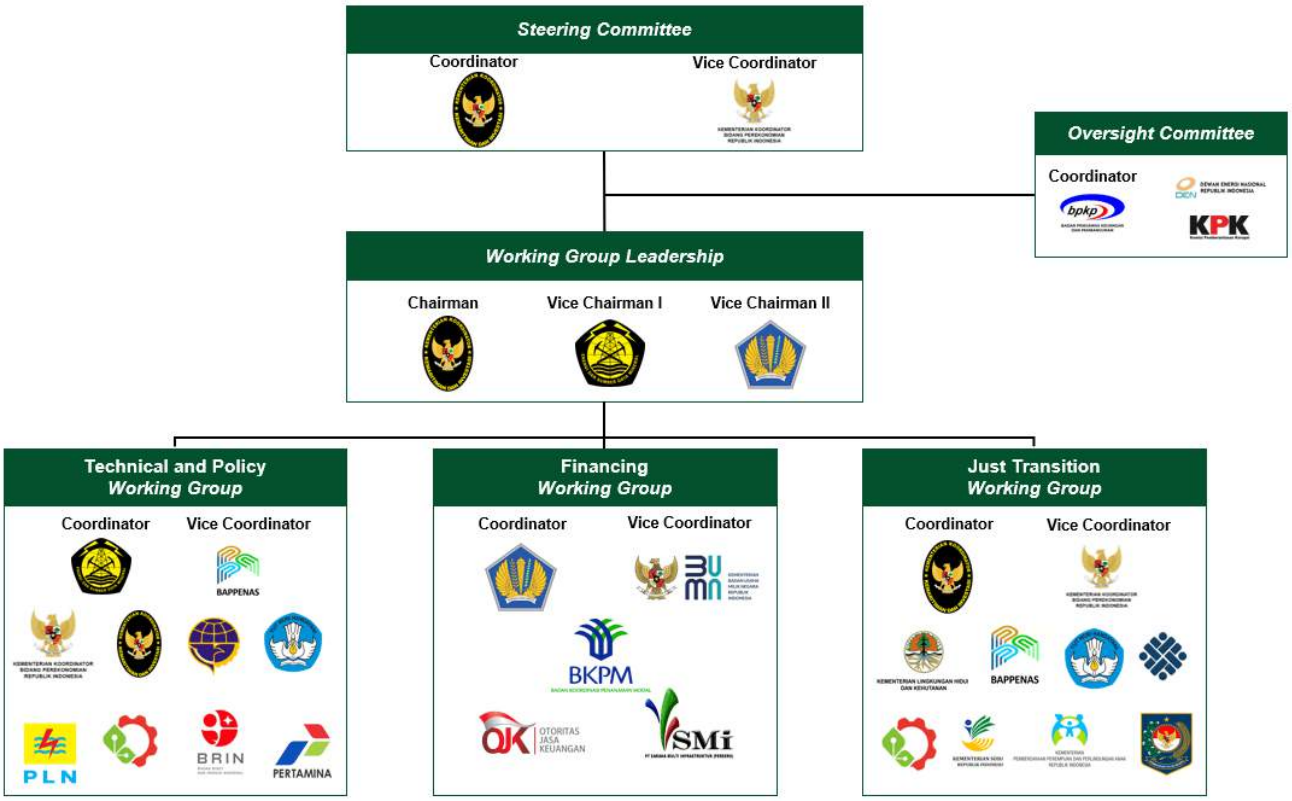
Inconsistent ISET policies can be attributed to lack of cross-agency coordination in formulating development agendas. This is demonstrated in Indonesia's energy transition policies. Here, target shares for renewable energy by 2030 at the ministerial level[38] and the national level[39] differ, being at 19.5% and 23%, respectively (Inayah et al., 2023). Contrasting mandates and expectations imposed by ministries on the implementing electricity operator

38 In strategic planning (Kementerian ESDM, 2020),

39 By Presidential Regulation, through the National Energy General Plan (Rencana Umum Energi Nasional (RUEN)) (Republic of Indonesia, 2017).

(the state-owned PLN) also result in less incentive to shift power generation towards more renewable energy (Box 13). Further confusion arises with the JETP CIPP, which has introduced a new renewable share target of 44% by 2030 to accelerate deployment in the on-grid power sector. Despite the establishment of the National Energy Transition Task Force,[40] involving multiple stakeholders (Figure 22), the CIPP lacks a feasible roadmap and timeline to achieve this higher target and a coordination mechanism among Task Force stakeholders (AEER Communications et al., 2023).

Figure 22 Indonesia's National Energy Transition Task Force



Source: JETP Secretariat (2023)

Another example is the lack of clarity between the roles and priorities of national and county governments in the case of water service provision in Kenya. Water services are the responsibility of counties, which typically spend more than 75% of their water budget on water services infrastructure and neglect maintenance

40 The third point of Coordinating Ministerial Decree 144 of 2023, signed by the Coordinating Ministry of Maritime Affairs and Investments, stipulates that the National Energy Transition Task Force is mandated to provide direction, guidance and oversight to the national energy transition acceleration programmes in Indonesia (JETP Secretariat, 2023).

provision. In addition, not all counties acknowledge their responsibility for the basic human right to water (i.e. everyone is entitled to sufficient, safe, acceptable, physically accessible and affordable water) (Nyukuri et al., 2024). Such conditions potentially undermine national social inclusion goals in health and water services provision at local level.

There are problematic incentives and subsidies that may reinforce imbalance among ISET priorities. In Bangladesh, institutions responsible for water infrastructure[41] are largely rewarded for capital expenditure on new constructions, with diminished incentives to maintain and manage existing infrastructure (World Bank, 2020). This may compromise social inclusion objectives related to delivering functional and sustainable water access for all.

In Indonesia, the Ministry of Energy and Mineral Resources (Kementerian Energi dan Sumber Daya Mineral (Kementerian ESDM)) has simultaneous objectives to reduce emissions and create jobs in coal mines. This creates conflicting incentives for civil servants within this agency in achieving energy transition goals (Inayah et al., 2023). At the operator level, PLN is also given the right to purchase domestic coal at below market rates, effectively creating coal subsidies (Inayah et al., 2023; Box 13).

Box 13 Inconsistent ISET policies, mandates and incentives for PLN

There has been inconsistency in Indonesia between the policy direction for the transition to increase the renewable energy portion in the national energy mix and the continued extensive utilisation of coal. Coordination between national stakeholders, local governments, operators and project developers is poor in terms of transition planning and governance, owing to complex political economy issues.

In particular, the state-owed electricity company PLN has experienced multifaceted principal-agent problems, whereby PLN (the agent) is accountable to three different ministries (principals) regarding electricity provision in the country. The ministries in charge of state-owned enterprises, energy and mineral resources, and finance all exert significant influence over PLN and issue it with mandates determining how to accommodate ISET objectives. PLN accepts these but, as a business, must make a profit that contributes to the country's revenue. As such, it prioritises mandates that focus on increasing economic profit through expanding electricity generation to meet demand and increase consumption.

41 The Bangladesh Water Development Board, the Bangladesh Agricultural Development Corporation and the Local Government Engineering Department.

The PLN mandate to prioritise renewable energy in the energy transition for the electricity sector seems unlikely to be realised. The country's 35,000 MW electricity infrastructure development acceleration programme, implemented to meet growing electricity demand, still uses coal as the dominant energy source. As of 2022, coal fuelled over 51% of Indonesia's electricity, with renewables comprising 12.8% of the power mix.

In interviews, PLN actors viewed the electricity system in Indonesia as not ready for the transition because of its instability, marked by unpredictable power outages and unstable connections. Despite the country achieving a 99.8% electrification rate by the end of 2022, the current definition of the electrification ratio focuses solely on the number of electrified households rather than the quality of the supply. This makes it challenging to prioritise renewable energy.

In addition, it is unclear whether increasing electrification through the diversification of energy sources, especially towards cost-effective renewables, is aimed primarily at meeting the electricity demand for economic transformation or at driving revenue. From PLN's perspective, sourcing electricity from coal may be more attractive, given its relatively low production costs, the availability of familiar technology and its historic contribution to the operator's revenue targets compared with renewable energy sources. When the price ceiling for domestic coal is enforced, PLN benefits from cost savings, despite reduced revenue for coal producers. This price ceiling also enables more efficient investment planning for PLN, as coal-fired power plants offer cheaper electricity compared with, for example, renewable energy. Moreover, capping domestic coal prices reduces government subsidy payments to PLN and stabilises coal prices, simplifying fiscal management. However, the progressive coal royalty scheme will increase state revenues, particularly amid rising coal prices. If PLN is still expected to contribute to government revenues through coal subsidies, there may be less motivation for it to transition to renewable energy sources.

Source: Inayah et al. (2023)

There are siloed approaches and a lack of capacity for joined-up policy-making. In Kenya, for example, the concept of an ISET approach is rather new, and policy development capacity-building activities for civil servants have a sectoral focus rather than taking a multisectoral or disciplinary approach (Nyukuri et al., 2024). Similarly, Indonesia's greater focus on economic aspects of energy transition policies may be attributed to a lack of capacity to involve, integrate or quantify social and environmental aspects in national policies. This results in less priority being given to the joined-up thinking of ISET objectives for decision-

making, planning, implementation and evaluation of strategies for the transition (Inayah et al., 2023).

Even with the presence of ISET policies, implementation is challenging – one reason for this being lack of or conflicting implementation mechanisms. This is demonstrated in Bangladesh water sector management. Here, decentralised government agencies (e.g. the Bangladesh Water Development Board, city corporations and city development authorities) are involved in urban flood management, but by law (i.e. the Local Government Act 2009) only local governments have the legal mandate to introduce water management interventions (Khatun et al., 2023). Similarly, in Kenya, KIIs pointed to tensions emerging from the national government taking on specific responsibilities (e.g. procurement of health equipment and medical supplies) that are devolved to counties by law; this prevents the counties from performing and accessing budget allocations on such activities (Nyukuri et al., 2024).

ISET policy implementation is also hampered by inadequate or imbalanced financing for specific policy objectives. For instance, in Kenya, national policies have at times been approved without securing the resources needed to implement them, leaving implementing agencies without the funding to cover necessary capital or operational expenses (Nyukuri et al., 2024). A case in point has been the 2016 Climate-Smart Agriculture Policy, which remained unfunded through at least 2023 (Lenhardt et al., 2024). Disbursement of funds to counties had also been below allocations mandated by law for the past six fiscal years (2016/17 to 2021/22) (National Treasury and Economic Planning, 2023). In Indonesia, budget allocations remain in favour of fossil fuels (Inayah et al., 2023), even though Indonesia's enabling law (Law 30/2007 on Energy) stipulates that the government must offer facilities as well as capital, tax or fiscal incentives for developing renewable energy until renewables become economically competitive (ADB, 2020, in Inayah et al., 2023).

In addition, **special interest groups may weaken the implementation of ISET policies**. In Indonesia, as indicated in KIIs, regulations tend to contain loopholes that allow financial and business interests, typically big firms in the extractive industries, to implement social and environmental standards less rigorously (Inayah et al., 2023). In Bangladesh, law enforcement is inadequate, as demonstrated by the continued discharge by industries of untreated industrial wastewater and effluent waste into water bodies (e.g. textiles, leather). This, in turn, reduces usable water resources, undermining the social inclusion objectives (e.g. access to safe water for all) of water sector management policies (Khatun et al., 2023).

Special attention is needed to mitigate trade-offs while implementing ISET policies, as demonstrated by specific examples in the case studies. For instance, in Bangladesh, the tannery industry is the second largest contributor to export earnings in the country but has faced criticisms for its lack of compliance with environmental regulations. To address

environmental concerns, the tanneries were relocated away from the cities, but this entailed unplanned urbanisation resulting from the conversion of arable lands and from construction without approval from the Department of Environment, in accommodating the rising demand for housing for industrial workers (Khatun et al., 2023).

In Indonesia, the establishment of a renewable energy project shrank the catch radius for fisheries communities. As compensation, the project developer conducted MSME skills training for those affected. Nevertheless, based on KIIs with the local contractor and communities, concerns remain around the direct short-term impact on incomes among those who were forced to shift livelihoods based on new and immature skills gained from a few weeks of training (Inayah et al., 2023).

Kenya has promoted green energy and has a high level of renewables in its energy mix (see Table 8 above), but users still face high energy costs. In addition, the water sector is moving away from using pump fuels to windmills and solar power, but unfavourable climatic conditions have reduced supplies of water and electricity for industries. These conditions translate into higher production costs, which may affect profitability, investment and the rate of industrial growth (Nyukuri et al., 2024).

Significant support is needed at the local and community level to realise national ISET goals. In Kenya, KIIs suggested the need for capacity-building support for members of county assemblies, as they often find it challenging to participate in formulation and implementation of national legislation (Nyukuri et al., 2024). Where national policies integrate measures to maximise local benefits, absorptive capacities at the local level may sometimes be a constraint. For instance, in Indonesia, a 'local content regulation' aims to ensure inclusiveness of energy projects by requiring projects to source at least 40% of construction materials and 30% of labour locally. However, domestic manufacturers are often unable to produce the components, do not meet the required technology standards or sell at a price higher than market average (Inayah et al., 2023).

Lack of or inadequate accountability or monitoring mechanisms contribute to weak implementation of ISET objectives. Weak capacity for joined-up thinking translates to implementation and impact assessments that focus heavily on one aspect of policy-making that is relatively more mainstreamed and well understood (economic transformation targets) than the others (social and environmental targets), as is the case in Indonesia (Inayah et al., 2023). At the other extreme, there are enacted laws in Kenya without implementation mechanisms, and approved development plans that do not embed monitoring and evaluation indicators and frameworks (Nyukuri et al., 2024).

5.5 Conclusions and policy implications

The case study analysis above suggests that **policy design tends to**

favour economic transformation objectives at the expense of social and environmental goals.

From a political economy perspective, the above coordination and implementation challenges in Bangladesh, Kenya and Indonesia are common in countries with 'competitive clientelist' or 'broad-dispersed' political settlements. Typically, in these kinds of settlements, there is an elite bargain that involves a cut-throat competition for rent-earning opportunities in government and business. Elites will typically look for areas with the highest (sometimes illicit) returns, unconstrained by social or environmental niceties. This process fuels elite accumulation and the cost of political campaigning. Even where regulations exist, they are usually easily flouted. However, such situations can change, for example if coalitions of interested stakeholders mobilise for reform, or if influential sections of the electorate come to eschew clientelist policies and demand more impersonal administration from their rulers.

Recent policy developments point to a shift in policy thinking that favours multidimensional ISET priorities, driven by domestic and external developments and facilitated by participatory policy design. For instance, domestic events that have triggered more social inclusion policies include the post-electoral violence in Kenya in 2008, which shaped the 2010 Constitution, which established the devolution policy; and the Rana Plaza incident in 2013 in Bangladesh, which prompted improvements in worker health, safety and welfare. New leadership may also enhance pre-existing development plans, giving wider scope for inclusion measures and more explicit recognition of the role of climate change. An example is the new Kenyan administration's launching of BETA after the 2022 elections, as an improvement on the Kenya Vision 2030, which barely mentioned climate change goals. Other joined-up policies are triggered by climate change threats to a major natural resource (such as the Bangladesh Delta) that makes a significant economic and social contribution to the country. In all three case studies, the resulting development plans and policies with ISET elements have been the result of a participatory process.

Recent **mainstreaming of environmental and climate change objectives in national and sectoral policies appears to have been encouraged by external factors**, such as Paris Agreement commitments; leadership in international forums; a focus on a resilient ('build

back better'[42]) post-Covid recovery; external/multilateral climate financing; and international standards and buyer pressures. Such international factors may be countered by domestic interests, incentive patterns and constraints.

The case studies point to **specific enabling conditions that have the potential to 'positively lock in' joined-up ISET policy-making, but also specific barriers that may 'negatively lock in' countries to siloed development approaches.**

The positive lock-in sources identified lie in laws and long-term development plans and promoting ISET agenda in external financing opportunities (Table 9). These sources are demonstrated in Kenya's devolution policy, which 'locks in' inclusion in development policy design and budgeting; the long-term BDP 2100, which 'locks in' ISET goals in aligned medium-term development, financing and investment plans; and the use of available multilateral financing (e.g. GCF, CIF), which embeds ISET goals in project implementation, or launching ISET-oriented development plans and/or financing mechanisms (leadership by Bangladesh in in V20 and CVF, Indonesia in the G20 and Kenya in the Africa Climate Summit).

Meanwhile, **negative lock-in sources may emerge from long-term investment in and institutionalisation of subsidies for fossil fuels** (Table 9). This is demonstrated in Indonesia's energy transition policies and implementation, where coal value addition is promoted and new coal power plants are still being constructed, with long-term implications for the structure of domestic production and demand. Subsidies are also locking in institutional incentives and processes (e.g. procurement, changes in energy mix based on lower fuel cost rather than transition objectives) that may satisfy certain economic objectives (e.g. revenue generation, meeting electricity demand at lower cost) that are not aligned with climate change goals and commitments.

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42 For instance, the World Bank's 2018 'Building Back Better' report discusses building back stronger (more productive, more resilient), faster (limiting the impact of shocks) and more inclusively (ensuring nobody is left behind). In the context of the pandemic, for the Organisation for Economic Co-operation and Development (OECD), a central dimension of building back better is the need for people-centred recovery that focuses on wellbeing, improves inclusiveness and reduces inequality, together with long-term emission reduction goals, resilience to climate impacts, slowing biodiversity loss and increasing circularity of supply chains (see Box 1 in IDA, 2020).

Table 9 Positive (negative) lock-ins towards joined-up ISET (siloed) policy-making

Lock-in source	Lock-in source (details)	Possible root cause
Positive lock-in: Kenyan laws mandating social inclusion and funding mechanisms for climate change		
1. Inclusive process of formulating development plans	The devolution policy under the 2010 Constitution decentralises power and resources to promote social and economic development and enhance government responsiveness to the needs of the citizens. In this regard, CIDPs have to be participatory, which requires capturing perspectives of citizens (e.g. relevant local and national government agencies, the private sector, civil society and communities). A minimum of 15% of revenue is also to be earmarked for the counties.	Institutional: mandated by the Constitution
2. County-level financing mechanism for climate change	CCCFs rolled out in 47 counties consist of climate legislation enacted by county governments and a county-controlled fund that finances climate projects identified and prioritised by local communities.	• Institutional: legislation on financing mechanism for climate change at the county level • Financial: leveraging government initiative/legislation to attract external climate finance
Positive lock in: Long-term Bangladesh Delta Plan 2100 with ISET objectives, locking in subsequent ISET considerations in complementary medium-term plans		
1. ISET considerations in long- and medium-term plans	The BDP 2100, launched in 2018, is designed to overcome challenges related to the siloed approach to development – particularly the short-term orientation of sectoral plans, as implemented independently by formulating ministries despite issues (e.g. food insecurity, water demand, climate change) that require multisectoral coordinated policy management. Medium-term plans developed after the BDP (e.g. MCPP, NAP) are aligned with it and demonstrate ISET elements as well.	Institutional/financial: a long-term development plan for the Bangladesh Delta to ensure cross-agency coordination and financing strategies for short-, medium- and long-term investment needs

Lock-in source	Lock-in source (details)	Possible root cause
Positive lock-in: International leadership resulting in development plans, funding mobilisation mechanisms		
1. International leaderships in climate change pursuing ISET (especially inclusion) elements	Indonesia: Launch of JETP during Indonesia's G20 Presidency in 2022 Bangladesh: Commencement of MCPP in 2022 within Bangladesh's presidency of CVF and V20 in 2020–2022 Kenya: Launch of FLLoCA with a $50 million country climate change investment grant and $20 million in county own-resource allocations.	Institutional/external factors: showcasing commitments during international fora leadership through the launch of concrete development/ climate change plans or laws or funding mechanisms
Negative lock-in (Indonesia's energy transition policies and potential coal lock-in)		
1. Developing value-added in coal production	At the policy level, the strategic plan of the Ministry of Energy and Mineral Resources (Kementerian ESDM, 2020) contains a downstream coal programme for value-added creation of coal production (e.g. coal gas, liquid coal and other coal derivatives).	Institutional: inconsistent targets among national policies related to climate goals, reflecting weak commitment. The strategic plan's target for renewable energy share by 2030 is 19.5%, lower than that in the National Energy General Plan (Rencana Umum Energi Nasional (RUEN)) of 23%
2. Building new coal plants	Institutional: inconsistent targets among national policies related to climate goals, reflecting weak commitment. The strategic plan's target for renewable energy share by 2030 is 19.5%, lower than that in the National Energy General Plan (Rencana Umum Energi Nasional (RUEN)) of 23%	Financial: from PLN's perspective, sourcing electricity from coal may be more attractive, given its relatively low production costs, the availability of familiar technology and its historic contribution to PLN's revenue targets compared with renewable energy sources
3. Subsidies for fossil fuels	A ministerial decree in 2021 established a DMO on coal suppliers, obliging them to sell 25% of their Indonesian production for domestic consumption. This decree also set the price of coal used to supply power to the public at $70 per tonne.	Distortions/problematic incentives for fossil fuels

In all three cases, countries struggle at the implementation stage (even in the presence of ISET policy design), mostly because of institutional arrangement and capacity challenges. These include a lack of coordination among agencies, siloed sectoral agendas, limited technical capacity for joined-up thinking, inadequate or imbalanced allocation of financing, weak enforcement of laws (especially among groups with political/social influence) and a lack of the monitoring and evaluation frameworks necessary to foster transparent and accountable policy implementation. In certain cases, shocks (e.g. Covid-19, elections) may lead to the reprioritisation of plans and financing measures to preserve economic growth or protect vulnerable groups, which often involve delays in environmental investment.

The analysis suggests the following policy recommendations, in three main areas:

1. Promote 'positive lock-ins' that will enable ISET joined-up policy-making and institutional mechanisms in the long term. This can be in the form of laws, long-term development and financing plans, and policy with participatory design, which effectively push medium-term and sectoral development plans to embed ISET elements as well.
2. Confront and unwind 'negative lock-ins' (e.g. fuel subsidies, new coal power plants) that reinforce siloed approaches and uncoordinated institutional arrangements.
3. Ensure international financing and technical support address institutional/capacity gaps related to ISET joined-up policy design and implementation at national and local levels. This support should be strengthened during episodes of significant external shock (e.g. pandemics, natural disasters, economic crisis), when government resources are stretched and policy-makers are forced to reprioritise only certain ISET elements to mitigate impacts.

Indonesia's and other JETPs represent opportunities to create positive lock-ins. However, politically articulated vested interests can get in the way, as described in this chapter. In addition, there may be an underemphasis on the 'just' part of the transition, as those who lose out may not have a strong political voice. Domestic reformers and international partners looking for a just outcome for workers losing jobs, or regions losing investment as coal or other fossil fuel industries close, may have to advocate for or provide technical and financial support to groups that the transition would otherwise marginalise (Kelsall et al., 2024).

6 Sectors and sectoral policies

6.1 The role of sectors and sectoral policies in achieving ISET

Accompanying the analysis of ISET progress and policies at the national, country-wide level, this chapter focuses on transformation in key sectors. Although sectoral decisions are often centrally managed, we look at ministerial (rather than whole-of-government) efforts in this area, for four main reasons.

First, we aim to look behind the flattening effect of national averages to search for examples of ISET within sectors that could provide learnings both for other sectors and for other economies. Our hypothesis here is that, within an economy, sectors are differently positioned in terms of their potential for ISET. For example, where a line ministry and a coalition of actors (including the private sector, labour unions and international donors) are more aligned with ISET principles, we could expect greater progress towards ISET outcomes than in sectors where there are powerful interests that stand to lose out if ISET is achieved.

Second, a focus on individual sectors is useful because, unfortunately, despite the intended joined-up approach of global frameworks like the SDGs, policies often remain siloed. In some cases, steps towards ISET from one ministry/agency may even be seen as a threat to others if it limits their control over scarce resources. Integration is also time-consuming. Thus, although centralised collaboration between ministries or coalitions on common goals could in theory move both closer to achieving their common objectives, even where there is strong political backing its practical execution can be tricky to arrange.

Third, sectoral policy is often where the ideas underpinning ISET and are operationalised (or not). Traditionally, the promotion of economic activities such as agriculture or manufacturing is mainly underpinned by economic development objectives. However, in recent years, social and environmental concerns have started to become prominent, as we will see.

Previous chapters showed that there is ample evidence of national-scale ISET-aligned frameworks and policies but these have not yet translated into the desired ISET outcomes. Alongside considering whole-of-government issues that work against ISET, we consider how multisectoral roadmaps are translated into real policies in sectors that disproportionately affect these national-level indicators.

Finally, political settlements theory suggests that it is in concentrated political settlements that ISET policies are most likely to be implemented – yet many developing countries have dispersed power configurations, where the central government is less able to enforce its political agenda. Thus, given the various challenges in aligning national-level/

centralised policies with efforts in individual sectors (such as institutional inertia, inter- and intra-ministry power struggles, lack of capacity), we seek alternative pathways to change, by trying to understand where powerful individuals or coalitions aligned with and opposed to ISET are situated.

6.2 ISET themes in key sectors

Having laid out the rationale for disaggregating country-level analysis to try to understand policies and actions that realise ISET at a sectoral level, the obvious question to ask is 'Which sectors or value chains to focus on?' While ISET will – or should – affect all value chains to some extent, some are more important to achieving national ISET outcomes because of their individual impact on key indicators (such as economic growth, jobs, GHG emissions, productivity). The extent to which ISET has occurred to date also varies between sectors within countries, as well as between countries for the same sectors, depending on historical development pathways and goals, and a government's ability to exercise control over sector-specific value chains.

This chapter therefore summarises recent work that explores ISET principles in sectors, or even subsectors, that are particularly important for economic transformation. This includes foundational and omnipresent economic sectors (agriculture: specifically smallholder agriculture, given its key role in inclusion, poverty reduction and food security; and energy: specifically electricity, which is key to economic development and environmental sustainability); and a core example of a labour-intensive and transformative value chain (manufacturing: specifically, textiles and clothing, an important creator of employment). These sectors also cross with other ISET themes such as climate action (manufacturing, energy and, to a lesser extent, agriculture) and employment and poverty reduction (smallholder agriculture and labour-intensive manufacturing). Although not a sector per se, we also highlight the links between ISET and the informal economy, which is hugely important for escaping poverty, given how many people rely on it for their livelihoods, as well as for its contribution to GDP. Despite this importance, understanding and policy here is much less developed, and thus we include a short section summarising the relative paucity of research available.

Although each sector makes an outsized contribution to a single ISET component, we analyse all ISET themes for each sector to understand whether the types of joined-up policy desired at a national level between line ministries are already present within sectors. Choosing these sectors also allows us to begin to explore the differences between value chains that are organised internationally (e.g. export-led manufacturing), those that – potentially, at least, in LICs and LMICs – are more locally organised (agriculture and the informal sector) and those that are a hybrid (energy).

Stark differences in societal pressures and dynamics between these sectors add richness to the analysis and allow us to look for trends and lessons to learn. For

example, norms related to improving social and environmental performance have been established longer in agricultural and manufacturing value chains, but a similar change of perspective is now rapidly occurring in energy. Despite the above reasoning, we note that we could equally have filled this chapter with studies of ISET policies in many other sectors of the economy (e.g. consumer electronics, transport, tourism) or of society (e.g. focusing on the lives of migrants or refugees). We hope our analysis sparks such future forays.

6.2.1 Manufacturing – textiles and clothing

Textiles and clothing: an ISET primer

The textiles and clothing (T&C) sector, also sometimes referred to as the textiles and RMG sector, is a fragmented series of global value chains (GVCs) serving domestic and export markets around the world. In this study, we focus on export-led T&C production, rather than on production for the international market. It should be noted that a focus on export-led manufacturing has implications for ISET. Activities geared at export markets and involving international brands face more scrutiny and pressure from international markets to comply with social and, increasingly, environmental standards, as this section shows. This scrutiny and pressure is generally absent in the case of manufacturing for the domestic market in LICs and LMICs.

Governed by a patchwork series of multilateral, bilateral, national and sector-specific agreements, applied to varying degrees in practice, the global expansion of the industry has also seen a relatively small number of firms consolidate their position in specific locations within the GVCs. Nonetheless, the formally organised value chains that have emerged as a stepping stone for countries to further develop 'modern' export sectors are underpinned by complex informal ecosystems comprising a multitude of subcontractors, intermediaries, homeworkers and non-factory workshops (ILO, 2017).

It can make sense to view the two main components separately, with different countries and firms specialising to different degrees in each. The textiles subsector is relatively capital-intensive and requires higher-skilled workers (Pickles et al., 2015) to produce the yarns and fabrics that are used as inputs for the clothing subsector. This includes both firms that specialise in low-value-added activities like stitching and those that fulfil more roles in the value chain (e.g. choosing or sourcing materials, finalising designs, etc.). The high-value-added activities are carried out mainly by a select group of lead firms, which then outsource the manufacturing to cascade through the GVCs. Producing textiles has environmental impacts (e.g. use of water and chemicals, production and consumption of crude oil for synthetic fibres), whereas environmental impacts during clothing manufacture relate mainly to energy use and the generation of waste fabric.

China dominates both the textiles and the clothing subsectors. In general, African

producers have struggled to compete on price with their Asian counterparts (and China in particular, but also other well-established producers such as Bangladesh and Cambodia), though direct comparisons are complicated by quota and tariff arrangements that form part of the global market. For example, although Bangladesh is a major exporter – with RMG trade dominating the country's exports – much of its export goes to the EU, thanks to the country's status under the Generalised System of Preference (GSP)/Everything But Arms framework. Similarly, many of Kenya's clothing exports are produced by Asian companies in free trade zones and destined for the US under the African Growth and Opportunity Act (AGOA) (see Box 17).

T&C and transformation

Arguably the archetypal sector for manufacturing transformation in lower-income countries in recent decades, T&C has followed a similar trend in incorporating ISET themes to that observed for countries and donors more broadly (Pickard and Lemma, 2022). That is, the industry first focused on reducing the unit price of garments to become more competitive and grow its market share (i.e. seeking greater economic output), then began to consider its social and – then later – its environmental impacts. As a result, social inclusion aspects[43] are further developed than those related to ecological sustainability.

Our analysis (drawing on Keane and Calabrese, 2024) sought to explore the T&C industry's economic transformation, inclusion and sustainability impacts. The markedly different contexts of the three case study countries (Bangladesh, Kenya and Vietnam) – which entered the industry at different times, specialise in different parts of the GVC and have integrated the T&C industry into their manufacturing sector to different extents – provide snapshots of progress towards social, economic and environmental objectives and the links between them. Progress under each of the individual ISET themes is discussed below, but the overall finding is that none of the three case study countries appears to have achieved the 'triple win' of socially inclusive, ecologically sustainable economic transformation in the sector.

Economic transformation in the T&C sector involves increasing either productivity (efficiency) or profitability (value-added) and can be achieved through improvements in products or processes, or through the diversification of firms into related but distinct higher-value activities (e.g. from simple assembly to include branding or sourcing of materials). These are examples of economic 'upgrading' in value chain terminology.

Economic transformation classically tends to require large capital investment (either foreign direct investment, such as that by Chinese firms in Kenya's garment sector, or via state-owned enterprises, as in Vietnam's) and technology transfer, though there are instances in which smaller, more diffuse, bottom-up investments from individual SMEs

43 Specifically, 'human rights protection' (Keane and Calabrese, 2024).

or collectives have facilitated gains in productivity and job creation, with social spillover impacts. For example, China's community-owned Township and Village Enterprises contributed substantially to rural productivity and development (ESCAP, nd), and did so more efficiently than state-owned enterprises (Fu and Balasubramanyam, 2003). Equally, much of Bangladesh's RMG sector rests on MSMEs that are credited with creating millions of livelihoods and slowing rural-to-urban economic migration (Islam and Jabber, 2018).

The initial success of upgrading relies on the broader enabling environment (especially whether the upgraded firms have equal or preferential access to markets). For export-led transformation, most transformation occurs within or around free trade zones and is generally governed by the terms of trade deals. Few lower-income countries have enough power to influence international agreements in their favour. For example, pressure from US exporters of second-hand clothes persuaded many East African governments (except for Rwanda) to back down on proposals to ban these imports to foster domestic demand for locally made garments (Dahir, 2020).

Domestic policy-makers can deepen initial transformation by encouraging domestic backward and forward linkages throughout the GVC, to allow countries to retain more of the value created. This is, however, difficult to achieve in practice. Consider backward linkages, for instance. For a garment manufacturer, increasing domestic backward linkages may entail sourcing fabrics domestically. Since the production of textiles is more capital-intensive, and requires more energy, this may not be easy to do in countries focusing on garment manufacturing. For this reason, many of the frameworks that facilitate exports of garment from LICs allow exports of clothes manufactured from imported inputs (e.g. 'single transformation' from fabric to garment). However, the lack of requirements on using domestic inputs (or performing a 'double transformation' from yarn to fabric and from fabric to garment) on the one hand allows LICs to export and on the other removes the pressure to develop backward linkages.

It is also important to consider the role of foreign investment in the sector. Many countries have relied on foreign capital to kickstart their T&C (Calabrese and Balchin, 2022). Foreign investment carries knowledge and technology that can help the T&C sector develop. While sharing this knowledge may be against the interests of foreign firms, there is evidence that, with sustained efforts, barriers like these may be overcome. For example, in Vietnam, foreign firms' reticence to transfer technology or knowledge for fear of losing their international competitive advantage has been partially compensated for by state-owned enterprise involvement in the industry, and the diversification of the export economy more generally. Although it is less in their interest, private sector initiatives can also facilitate deeper transformation. The Desh–Daewoo collaboration in Bangladesh (Box 14) is credited with skills and knowledge transfer that contributed to the country becoming a leading global exporter.

Box 14 The Desh–Daewoo collaboration and transformation in Bangladesh's garment sector

In the 1970s, between 130 and 150 Bangladeshi employees of the Desh startup company were trained at Daewoo's facilities in South Korea. The trainees returned to Bangladesh and helped transform Desh and the industry more broadly, as many of them then moved to managerial positions in other Bangladeshi companies, spreading their learnings and contacts. Analyses of the programme suggest that what began as a way for Daewoo to overcome restrictions in the Multi-Fibre Arrangement (a system of quotas to limit T&C exports from the largest producers) continued to develop into a mutually beneficial niche and forged the industry's nascent development in Bangladesh more broadly.

Sources: Mottaleb and Sonobe (2011); Khan (2012)

Inclusion in the sector focuses on improving working conditions on a day-to-day basis and broader enabling of labour rights as laid out in the International Labour Organization's (ILO's) Decent Work Agenda.[44] Among other steps, these goals can be achieved through safer and healthier working environments, increased job security, support for collective bargaining and non-discrimination practices.

The T&C sector employs many millions of people in mainly low-skilled roles, in many cases providing incomes to poorer urban and rural citizens, and often disproportionately employing women (ILO, 2022). In Bangladesh, where the sector employs over 4 million workers, a majority female, women routinely earn less than men and are far less likely to be managers (Menzel and Woodruff, 2021).

Although the sector supports livelihoods, it usually fails to alleviate intersectional inequalities, which are reflected in low wages and few alternatives for employees (Russell, 2020). For example, in Bangladesh, the sector employs an estimated 4 million people, with the typical employee being 'female, 23 years old, and an internal migrant from a rural area who lives with her family in inadequate housing near to work' (ILO, 2023). Women are systematically paid less than men (Menzel and Woodruff, 2021).

Indeed, where social upgrading has occurred, it has rarely been through initiatives led by domestic market forces per se. Instead, in addition to international pressure from those firms atop the GVCs (see below), within producer countries, labour groups and other social movements have been the driving

44 The ILO's Decent Work Agenda rests on four pillars – employment creation, social protection, rights at work and social dialogue – and is embedded in SDG 8.

force for social upgrading in the sector. Domestic governments have responded to these calls by implementing minimum wages, working hour restrictions and social protection policies. Nonetheless, the realisation of social upgrading transformation often lags behind the growth of the sector (it has barely begun in Kenya, where the sector is still considered nascent). For example, even where minimum wages are paid, they often fall well short of local living wages.

Addressing such issues is made more challenging by generally weak collective bargaining power for workers. For example, Vietnam's only permitted labour union is run by the state and – owing to its mandate to ensure harmonious industrial relations – does not support worker-led industrial action. This means wild cat strikes are workers' only alternative. Meanwhile, in Bangladesh, although labour unions are technically legal, they have historically been discouraged, and the engagement of the private sector in collective bargaining has led to agreements covering just 6% of workers.

Rich country firms and consumers have also contributed to social upgrading in producer countries in recent years. Major events like the Rana Plaza disaster in 2012, when inadequate fire safety caused the deaths of more than 1,130 people, shortly after 2 major factory fires in Pakistan that left nearly 300 people dead, focused the attention of some international lead buyers on the inadequate work conditions their brands were responsible for. This led to the creation of the Bangladesh Accord on factory safety. This sought to ensure building safety and improved working conditions for employees in factories connected to the GVCs and was signed by labour unions, global brands and retailers in 2013. It was expanded to cover more companies in 2021 and to Pakistan in 2023.

The disaster also helped accelerate the sector's social governance and strengthened grassroots organising (e.g. a change to Bangladesh's Labour Act permitted simpler registration of unions, the number of which grew from 152 in 2012 to more than 1,200 in 2023) (ILO, 2023). Although international agreements and domestic legislation have undoubtedly made some progress in addressing labour injustices (e.g. excessive working hours, prejudicial conditions and inadequate remuneration – especially for women, see Box 15), the myriad nature of SMEs and informal firms that constitute the RMG sector in particular limits (monitoring) progress in these areas (see Box 16).

Box 15 Social norms shaping livelihoods in Bangladesh

'Then I joined a hotel as cook. My salary was 4000 taka per month and three meals; I worked there for 3-4 months. Since many unknown people came there, my brothers said that it was a bad workplace and harm their social respect. So I quit. Respect means, village people were defaming them that their sister is working in a public place. Now I work in a factory for last six years. Initially I got 4500 taka per month, later they increased by 500 taka more. The working hour is quite long. I start working at 7am in the morning. I return home around 1pm to have lunch and then go again at 3pm and work till 7pm. Now I get 5000 taka per month.'

Source: In Diwakar et al. (2022)

Sustainability involves shifting the GVC and firms within it to products, processes and practices that either require fewer natural resources or produce fewer pollutants. Examples here include the adoption of washing and dyeing technologies that reduce freshwater use, installing renewable energy technologies to reduce upstream GHG emissions and shifting to circular economy principles that also seek to reduce waste (a considerable challenge given the 500 kt of textile waste – offcuts, scraps and fluff – produced annually in Bangladesh's factories alone; Schröder and Singhal, 2024). Such efforts are both essential and thus far woefully insufficient, given the scale of the industry's impacts and, in particular, fast fashion's continued quest for growth at almost any cost (Niinimäki et al., 2020).

Case study analysis suggests that pressure for environmental upgrading has come much more recently than it has for economic or social upgrading and that, in general, it has been led by international coalitions of private and third sector actors, or of governments seeking to drive the SDGs (Keane and Calabrese, 2024). For example, the rapid increase in major brands that have pledged to reduce their GHG emissions in line with the non-governmental organisation (NGO)-led Science-Based Targets Initiative[45] has forced Bangladeshi producers to engage with 'the green garment issue' and may be credited with accelerating the introduction of newer technologies and facilities (e.g. receiving environmentally progressive LEED certification from the US Green Building Council or requiring environmental impact assessments for new factories). Alongside a dedicated focus on GHG emissions, the industry is under pressure to shift from a linear production model to one based on a circular economy. Here, for example, the 2022 EU strategy for sustainable and

45 See https://sciencebasedtargets.org/. This initiative sets out to ensure that private sector decarbonisation plans are aligned with the Paris Agreement.

circular textiles requires that, by 2030, new textiles sold within the EU are made from long-lived, recyclable materials that are predominantly recycled (European Commission, nd). In concert, the industry in Vietnam has set the goal of achieving circularity between 2030 and 2045. Also in Vietnam, collaboration between the World Wildlife Fund and the Vietnam Textiles and Apparel Association has reportedly helped producers reduce freshwater usage and waste water pollution and thus maintain market access (Aoki, 2018).

On the surface, these are positive steps, though loopholes, limited monitoring and enforcement, and the voluntary nature of some initiatives can limit their impact (Keane and Calabrese, 2024). A key barrier to change is financial: few buyers are willing to pay a 'green premium' and, even where subsidies are offered to producers (e.g. the 2% tax rebate in Bangladesh), these are insufficient to cover required capital investment, retraining or skills development. Other factors are also beyond the hands of producers. For example, Bangladesh's national electricity development plans include new coal-fired power plants, meaning grid-connected factories may see their emissions increase in the coming years (see Box 16).

Box 16 Upgrading in the garments sector and its enablers and barriers

Our study of the textiles and clothing sector in Bangladesh, Kenya and Vietnam showed that the sector developed under specific international trading arrangements (such as the EU's Everything But Arms for Bangladesh and AGOA for Kenya). The table below summarises the types of upgrading we found evidence of, what each entails and the associated key challenges to overcome.

Type of upgrading	What it entails	Key challenges
Economic	Firms themselves pursuing increased productivity, value-added, diversification	Informality of many small firms
Social	Trade unions and key (distant) buyers pushing for minimum wage levels, improved health and safety conditions	Differentiated presence/ power of unions between countries, normalisation of gender pay gaps,
Environmental	Regulations in producer and final market countries driving reduce environmental footprints (supported by firms seeking to reduce energy costs)	National energy (electricity) mix, weak monitoring and enforcement mechanisms, fossil fuel subsidies

Source: Calabrese and Keane (2024)

Meanwhile, Kenya offers an example of the challenges the sector faces in transitioning to a circular economy. Here, there is an evolving disagreement over the country's importing of second-hand garments from rich countries. This is framed as recycling in the US and EU, but second-hand garments are often of such low quality that they immediately become waste upon arrival in Kenya (Changing Markets Foundation, 2023).

Potential pathways to achieving ISET

While economic upgrading has been driven by producers in concert with governments, the case studies found no direct market-led path to social or environmental upgrading within the countries or value chains (Keane and Calabrese, 2024). Instead, distant pressure from retailers and consumers in rich country markets, where many of the products end up, was the initial driving force behind reforms that better integrated social and environmental concerns in lower-income producers. Calls for social justice domestically and internationally, global policy agendas (like the SDGs) and private sector 'voluntary' agreements like the ILO-administered Rana Plaza Donors Trust Fund appear to have emboldened domestic policy-makers in producer countries to begin to integrate these themes, for example expanding the Bangladesh Accord to a wider group of international firms in 2021, and to cover factories in Pakistan in 2023 (Kuenneke and Remake, 2022). In another similarity to themes observed at national levels, the routes these more ISET-aligned policies have taken to become enforced today vary between contexts, with some being driven by local labour movements (e.g. the rapid increase in union registrations in Bangladesh) and others by external (international) consumer market preferences (e.g. the specific brands and lead buyers rather than the firms manufacturing the garments).

These pathways filled the void left by global trade agreements, which are widely seen to be 'in tension' with environmental protection (Paugam, 2024). Most lack implementing mechanisms that would further a balance of ISET goals; for example, the WTO general agreements include no consensus on the minimum social and environmental protections required but make it clear that members' priorities should be international trade. Other relevant international agreements exist, and more are being developed, but they are not universal. For example, none of the case study countries is a member of the nascent Agreement on Climate Change, Trade and Sustainability (ACCTS), or the WTO's Trade and Environmental Sustainability Structured Discussions (TESSD). Without further research, it is not clear why the case study countries have not joined these discussions, or what the impact might be if they did. However, given that the pressure to reduce unit prices has been particularly acute in recent years, as weaker global demand has seen firms in South Asia accepting near-zero margins (McKinsey and Co., 2023), high-level engagement in such fora could provide a bulwark against backsliding in social and environmental areas.

Despite the preponderance of economic concerns, the case studies suggest that value chain governance structures can help shape transformational change at the firm and industry level and that some multilateral trade agreements appear to be beginning to bear fruit (see Box 17).

Box 17 How EU and US trade rules may be driving ISET in the T&C sector

What can governments do to accelerate transformation when large multilateral agreements – like those under the WTO – have achieved little, and more specific voluntary ones – like ACCTS, TESSD and the Circular Fashion Initiative – are still nascent, with few members? Efforts by the EU and the US to align government trade policies with their donor goals suggest major buyers can use access to their markets as a tool to pursue social inclusion and environmental goals within the GVCs. For example:

- In the EU, the GSP grants LICs tariff-free access to EU markets if they meet minimum standards for human rights, labour rights, environmental protection and governance. In 2020, the EU removed preferences for Cambodia owing to repeated human rights violations and continued political repression. This reduced the competitiveness of all Cambodian exports to the EU, although it is particularly relevant in the textiles sector, and is also in line with other EU policy, like the Strategy for Sustainable and Circular Textiles (European Commission, 2022a) and efforts to promote decent work (European Commission, 2022b). Alongside these national-level measures, in 2024 the Corporate Sustainability Due Diligence Act is set to extend similar obligations to individual firms wishing to trade in the EU market, and has highlighted the T&C sector as at 'high risk' of non-compliance.
- Similar to the EU's GSP, the US AGOA provides preferential market access for African countries that comply with practices related to rule of law, commitment to democracy, and human and labour rights. In 2024, the US will remove access for Central African Republic, Gabon, Niger and Uganda owing to perceived failings in one or more of these areas (Aradi, 2023).

Whether these initiatives achieve their social and environmental upgrading goals depends on how deeply they can engage with producer countries' SMEs and informal sectors, given the way these firms often underpin the visible and formal parts of the GVCs. An example is where factories sign contracts with foreign firms to produce garments for export, and then subcontract the RMG production to informal cottage industries. Despite the obvious data challenges, indications from the case studies suggest the T&C sector is a particularly important source of

informal livelihoods, accounting for many jobs in the non-agricultural informal sector (Keane and Calabrese, 2024). As described below for the wider informal sector, informal T&C firms have been found to be less likely than their formal peers to adhere to labour, social and environmental regulations, creating 'parallel workforces' and broad inequalities within and between GVCs (ibid.). Nevertheless, these enterprises can provide important opportunities for low-income women and men escaping and attempting to stay out of poverty.

6.2.2 Smallholder agriculture

Agriculture: an ISET primer

For many lower-income countries, agriculture is a major source of livelihoods, plays an important role in food security and supports macroeconomic stability. Beyond these general aspects, its contribution to ISET-related themes varies considerably between countries, owing to their different economic structures, crop/enterprise mixes and socioeconomic dynamics. Equally, agriculture's sustainability impact is often a mixture of environmental goods and bads that are extremely context-specific (depending on location, crop and agricultural practices).

This section focuses on smallholder agriculture, the transformation of which was important in the overall economic transformation of late developing economies in East Asia (Japan, South Korea, Taiwan and particularly China) followed by parts of Southeast Asia (Indonesia, Malaysia, Thailand, Vietnam and latterly Cambodia). South Asian and sub-Saharan African countries have also seen a degree of agrarian transformation, though this has been more tentative, especially in the latter region.

Historically, agricultural transformation has been driven by rapid urbanisation and globalisation, and the consequent transmission of production incentives to smallholder farmers. This pressure to increase yields and output from limited land led to the widespread deployment of 'modern' agricultural technologies like engineered seeds, fertilisers and irrigation infrastructure. Increases in productivity then enabled savings of foreign exchange, and thus further investment in the development of 'modern' sectors of the economy, such as manufacturing, as seen in the case of East Asia's earliest industrialisers, Japan and South Korea (Studwell, 2013).

Today, technological upgrading continues to seek to apply science to improve agricultural yields in some cases, but the aims have also begun to shift to optimise inputs via digital solutions and precision agriculture, and to make agriculture more resistant – and less of a contributor – to climate change.

Economic transformation

In Asia, from the 1960s onwards, the 'Green Revolution' saw the development and deployment of modern seeds and agrochemicals alongside a massive extension of irrigation, drainage, markets, communications infrastructure and education campaigns. Beginning with and usually still underpinned by massive public investments, private sector actors

have also increasingly provided resources to achieve the productivity (yield) increases at the core of agricultural transformation. Over time, the gains have been extended to smaller and mid-size farms as well as the relatively larger landowners (which are typically still small in global terms) that were more able to implement the new technologies. In sub-Saharan Africa, more diverse agroecological conditions, less densely populated rural areas and lower per capita state investment have contributed to weaker agricultural infrastructure development. This has hampered the more universal agricultural technological development – and wider transformation – seen in Asia. Equally, Asian governments' multi-decade focus on state-supported agricultural development is far less evident in sub-Saharan Africa (Henley, 2015). These different approaches may partially explain the different patterns of transformation between the regions. In Asia, the combined application of labour and new technology has resulted in higher productivity increases being more common on smaller farms than on bigger ones. However, in sub-Saharan Africa, for example in Nigeria (Ahmad Rizal and Md Nordin, 2022), productivity (yields) on medium-size farms often increase in line with gains seen for small farms.

Despite these differences, transformation in the agriculture sector in general contributes to food security, exports and foreign exchange net earnings, positive trade balances and macroeconomic stability; generates individual incomes that support growing demand for domestically manufactured goods and services; and acts as a reserve of labour from which other sectors can draw and to which urban workers can return in a crisis. Although government and international donor support has been important, markets are also critical providers of incentives for farmers, and SMEs – including cooperatives – are important value chain actors that are close to small farmers, providing inputs, credit and (market) advice. These complementary services are more likely to be available for higher-value crops and livestock, which often makes them more remunerative for those who can gain access to them. Additional services, access to infrastructure and a conducive policy environment may influence positive outcomes from interactions between farmers and SMEs (Liverpool-Tasie et al., 2020).

Inclusion

Agriculture is extremely important for livelihoods, employing 29% of the labour force, on average, in MICs and 59% in LICs as of 2022.[46] The vast majority of farmers worldwide are smallholders, who grow about 36% of all food on just about 12% of total farmland.[47] Economic transformation in the sector has entailed boosting yields

46 See ILO estimates on the World Development Indicators site: https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=XM-XP-1W. In 2000, the shares were even larger: 48% in MICs and 70% in LICs.

47 'Small' farms are defined here as 2 hectares or less. In LICs and MICs, large majorities of smallholders actually cultivate 1 hectare or less. See Lowder et al., 2021).

through the use of irrigation, fertilisers, improved seeds and various technologies. In some MICs, it has also involved a shift towards large-scale commercial operations over time (Lowder et al., 2021). [48]

Rapid population growth has meant there is often an oversupply of labourers in the job market, which has kept wages low, slowing social inclusion aspects of economic transformation. Trade unions have made little headway in the agriculture sector of many agrarian LMICs. The development of standards and certification schemes has imposed costs but not generally resulted in income enhancement commensurate with the investment required to achieve certification.

Despite its importance, there has been relatively little work on the inclusion aspects of agricultural economic transformation. For example, few studies on transformation include poverty outcomes as a theme of analysis. Similarly for economic resilience, crop diversification was the main adaptation during Covid-19; however, few articles investigated the barriers to adaptation (Silici et al., 2022; Marsden et al., 2023).

Nonetheless, it is clear is that social transformation is often constrained by many factors that run along and thus exacerbate intersectional divides. For example, access to improved technologies and their associated services can depend on creditworthiness, farm size and gender, among many other factors. A failure to account for this has, in some Green Revolution-style transformations, led to unmanageable financial pressures on farmers, and dependence on increasingly large corporate providers of agro-chemicals and seeds. Similarly, attempts to introduce advanced technologies that are not attuned to existing inequalities between smallholders and larger firms are likely to exacerbate them. For example, because they lack measures to specifically support smallholders and agricultural SMEs, agricultural transformation projects as part of Thailand's Bio-Green Economy plans are likely to benefit the dominant large firms that have the resources to invest in upgrading measures and thus do little to alleviate poverty or reduce inequalities (Marks and Pickard, 2023).

Sustainability

The agriculture sector is noteworthy for the intensity with which it both depends on and affects the environment. Since 2000, awareness has grown that smallholder agriculture needs to adapt to climate change and that the Green Revolution approach can generate negative local environmental impacts (e.g. pollution of water bodies and soil depletion). More recently, since the Paris Agreement was signed, it has become widely known that agriculture is also a major source of GHG emissions, which arise from agriculture-led deforestation as well as farm production of methane and CO2 (IPCC, 2019).

Regarding improving agriculture's resilience, research has gradually shown increasing interest in farmers' own

48 As of 2010, farms of more than 500 hectares occupied about half the farmland in UMICs.

adaptations to climate change. A recent review identified crop diversification (51.5%), planting drought-tolerant varieties (45%), changing planting dates (42%) and planting early maturing crops (22%) as dominant strategies (Magesa et al., 2023). These are a welcome development and may be beneficial for responding to the impacts of climate change in the near term. However, it is unclear whether they will be sufficiently resilient to future climate change impacts. In some cases, market signals can also work against climate action, prioritising either crops that result in significant emissions (e.g. palm oil, from deforestation) or those that are not well adapted to the changing climate (e.g. maize in Southern Africa). Instead, more transformative changes – such as building more infrastructure for irrigation, promoting (ideally weather-indexed) crop and livestock insurance, using better-adapted crops and varieties, and increasing opportunities for livelihood diversification – may also be required (ibid.). Despite decades of research on boosting smallholder livelihoods, there is also still much research to be done on what works in terms of supporting adaptation and resilience for smallholders (Barooah et al., 2017). For example, as noted above, few articles investigate barriers to adaptation smallholders experienced under the Covid-19 pandemic (Silici et al., 2022; Marsden et al., 2023).

In parallel, concerns over agriculture's environmental impacts have led to a widespread interest among policy-makers and researchers in alternative, potentially more environmentally sensitive, farming systems and practices. These have various titles, including agro-forestry, regenerative agriculture, organic and biodynamic farming, conservation agriculture and agro-ecology. Some studies have found a positive link between agro-ecology, food security and resilience (Sachet et al., 2021; Dagunga et al., 2023). Sometimes, these alternatives are grouped under the heading 'sustainable intensification,' but this can be misleading as this term also includes Green Revolution technologies that tend to be evaluated only via yield and economic measures, and rarely in terms of environmental indicators like biodiversity and climate resilience (nor, for that matter, social inclusion ones like food security and equity). Nonetheless, although the data for sustainable intensification interventions is scattered, results have mostly been positive, especially where technologies are adapted to local agro-ecologies (Reich et al., 2021).

Potential pathways to achieving ISET in the agriculture sector

The guiding question here is how to retain the benefits of agricultural commercialisation for smallholder farmers without increasing negative impacts and while building resilience to climate change. We illustrate three complementary potential pathways that have been suggested to date.

Climate-smart agriculture

CSA has long been proposed as a solution to the sector's challenges. This refers to farming systems or practices that are adapted to climate change and also resilient to climate-related weather

and environmental shocks like drought, flooding and pest attacks. CSA may also reduce GHG emissions and should enhance productivity.

Many measures can be climate-smart, varying significantly by context, and often farmers are already implementing these, innovating, borrowing new practices and putting them in place to the best of their abilities. Public agencies sometimes support these business-as-usual efforts by farmers, either via specific measures or, rarely, via more generic support for CSA. Governments, international donors and private companies have long promised more support to upgrade agricultural practices, but various – often idiosyncratic – barriers continue to heavily constrain farmers' ability to implement CSA systems. This context-specificity makes the economics and practice of research and extension of agricultural practices more challenging, and in many cases the definition of these barriers lacks farmers' own perspectives, or they remain entirely unacknowledged. In sub-Saharan Africa in particular, it is key to ensure technologies are relevant and adapted to local contexts because of the considerable agroecological variation (Omotilewa, 2022).

Financing for smallholder support

How to deliver support to smallholder farmers to facilitate the introduction of climate-smart and certified practices and technologies is a further long-running challenge (IFC, 2014): where support has been provided (e.g. by the MDBs, through climate funds or via bilateral official development assistance), it has often failed to arrive to individual farmers. A review of research in Nigeria, for example, found that 'financial inclusion initiatives are not addressing the needs of smallholders in Nigeria due to difficulties in estimating their creditworthiness, low level of financial and digital literacy, inadequate infrastructure, amidst other factors' (Otitoju et al., 2023). Likewise, after interviewing agricultural microfinance institutions in several African countries, another study concluded that 'A strong commitment combined with sound in-house knowledge of agricultural value chains and the flexibility to adapt loan terms and lending procedures to the particularities of agriculture are needed to successfully develop and sustain agricultural microfinance' (Röttger, 2015).

Whether support arrives is related, but separate, to the contradictory findings on microfinance and financial inclusion in general. There is some recognition that its transformative effects have been exaggerated in evaluations and systematic reviews (Duvendack and Mader, 2019). Equally, evidence from research on poverty dynamics shows that financial service 'ladders' enabling people to graduate from simple savings and credit schemes, through microfinance and cooperatives to more formal financial institutions, can be a critical enabler of sustained escapes from poverty for smallholder and non-farm enterprises. Yet, even if support like that discussed above is provided, it remains challenging to include the poorest smallholder farmers in upgrading; here, a combination of social protection and ultra-poor programming may be needed. This challenge is magnified for

CSA (which may require new machinery, irrigation infrastructure or demanding soil and water practices), where the scale of resources needed is usually greater than that required to support Green Revolution technologies (and agro-chemicals, etc.).

Market support for agricultural transformation: sustainability accreditation

Sustainability accreditation seeks to drive agricultural transformation along ISET lines by ensuring that, among other things, the value chains for accredited products conform to minimum social inclusion and environmental norms, usually by passing an end-consumer price premium backwards through the value chain. One review of the effects of the certification of smallholder farmers against sustainability standards (such as Organic or Fairtrade) found that this had led to a price premium of 20–30%, and increased incomes by 16–22%, but saw varied impacts on other outcomes (yields, production costs, etc.) (Meemken, 2020). Other work found these price premiums had not been passed through to workers as intended and concluded such schemes did not alleviate poverty (Cramer et al., 2016). The findings differed between products, standards and regions, suggesting that the organisation of value chains may have an impact on outcomes. Other studies have found that standards and certification schemes, for example in coffee production (Ibanez and Blackman, 2016; Haggar et al., 2017; Behuria, 2018; Vanderhaegen et al., 2018; Gather and Wollni, 2022), require investments from farmers that may not be repaid with additional returns. A hypothesis would be that farmers will gain only when they have countervailing power that enables them to bargain with intermediaries, wholesalers and buyers in value chains. There is some evidence to support this in general, but not specifically in the case of CSA. This would be a topic for further research.

The lack of social and environmental analysis in most evaluations also makes it clear that future evaluations of agricultural interventions need to use a wide range of agronomic, economic, social and environmental indicators.

6.2.3 Energy

Energy (electricity): an ISET primer

The direct use of various energy sources is important in many sectors (e.g. oil products in transport and biomass in household cooking) but this section focuses on electricity. Electricity occupies much of the debate about sustainable and just energy transitions, or 'transformations,' as governments in LICs and LMICs contend with how to expand supply to satisfy currently unmet demand, to broaden access to all of society and to reduce climate and other environmental impacts while, in many cases, also trying to reform outdated subsidies that run counter to these aims. As explained in more detail below, the sector's dual role as both producer

and consumer means its contribution to ISET can be interpreted in different ways depending on the actors and the contexts in focus.[49]

As well as aligning with ISET themes more broadly, we focus on electricity specifically because it is a state-directed sector in many lower-income countries, with domestic decisions mainly governing policies and actions related to ISET themes (e.g. energy access, energy security or energy-related GHG emissions). The sector is also growing and transforming rapidly: in 2022, the International Energy Agency (IEA) forecast that the amount of electricity produced would rise by 25–30% by 2030, and by 75–150% by 2050 (IEA, 2022). Equally, alongside this growth in energy production, the SDGs include a goal on substantially increasing energy efficiency, which will directly impact how households and businesses use energy. Finally, there are more similarities between countries' electricity systems than there are between non-electricity energy systems. This may make any findings here more generalisable than, say, in the transport energy sector.

The electricity sector is both a means and an end in **economic transformation** processes. As a means, providing enough reliable and affordable energy is required for a shift to more and more productive economic activity (e.g. adopting electric machinery and digitisation). As well as electricity's clear causal links to overall economic output, firm-level evidence (albeit weaker) suggests access to reliable electricity has clear benefits for economic transformation (Jueland et al., 2021). This is more widely documented for large firms and large urban centres but there is also some evidence (e.g. Pachauri et al., 2013; Scott et al., 2016; Scott and Worrall, 2018) (and much political ambition) that SMEs and smaller, including rural, local economies can benefit if complementary activities also occur, such as business development.

As well as their indirect effect on economic activity, national electricity sectors are also themselves major items in government balance sheets: the degree to which the sector is subsidised by or provides revenue for the exchequer is also a key aspect that underpins broader ISET goals. In many cases, both subsidies and revenues affect the pace of transition in the sector. For example, Indonesia is a large coal producer, but the government has fixed the price coal producers can charge the domestic power sector to insulate it from the volatility of the international coal market (see Chapter 5). As work on fossil fuel subsidy reform over the past decade or so has shown, although the benefits of doing so are clear, governments often find it wickedly difficult to exit from both supply- and demand-side energy subsidies and the benefits they confer on powerful actors (Whitley and van der Burg, 2015; Timperley, 2021). For example, interviews with experts in Dominican Republic (which used subsidies to protect domestic markets from the volatility of imported fuels markets) revealed that economic

49 For example, as a producer of electricity, the electricity sector can create jobs, while electricity consumption can also satisfy the energy needs of other sectors, supporting economic output.

and business rationales dominated the discussions of the pacto eléctrico reform, despite including a diverse group of expert stakeholders (Pickard and Lemma, 2022).

Social inclusion in the energy sector can equally be interpreted in two main ways. The most established are attempts to alleviate energy poverty, or to provide universal energy access, as codified in SDG 7.1 (access to both electricity and modern cooking solutions), where inclusion is viewed in terms of consumption. Indeed, households are the largest consumption sector in many countries, with societal services also dependent on electricity (everything from hospitals to schools to communications infrastructure and water treatment).[50]

Transformation can also be viewed in terms of the social impact of the industry via jobs supported and the increased opportunities that access to energy provides. For example, by lowering the costs of doing business and allowing firms to set up shop and expand, 'energy as a means' can support job creation in other sectors of the economy, thus increasing social inclusion. In terms of direct jobs, much of the focus of the 'just transition' movement has been on ensuring alternative livelihoods for workers and communities that are currently supported by fossil fuel industries, via the production, transportation or retailing of energy products. However, this owes in part to rich country narratives shaping the idea of just transformation, and important voices are now emphasising that renewable electricity energy systems will generate millions of jobs. Although the jobs created in the energy sector of tomorrow will not be direct replacements for those lost in fossil fuel industries, net job creation may even occur in fossil fuel-dependent countries. For example, in Indonesia alone, one estimate suggests that renewables may provide more than 2 million direct jobs by 2030, and almost as many again in related sectors (GGGI, 2020). The scale and pace of the forecast change are noteworthy given that, globally, direct employment in renewables today is around 14 million (IRENA and ILO, 2023).

Limited data constrains analysis beyond these headline numbers. For example, it is unclear to whom these jobs will go – such as whether job creation can be combined with efforts to recognise and mitigate existing societal inequalities (not least in terms of gender) – and rarely is there information about transformative factors like job security or employee upskilling. Local resourcing quotas for both materials and labour can permit local communities to benefit from the expansion of the electricity sector. Yet, as noted in Chapter 5, in practice the demand for complex technologies and a skilled workforce have tended to hamper the development of

50 The pacto eléctrico task force received input from economic, social and environmental actors. However, interviewees suggested that, although all aspects were considered, economic voices (particularly those from the business community and the finance ministry) were more able to shape the debate than the voices of social or environmental actors.

new projects rather than foster equalising clusters of economic activity (Inayah et al., 2023).

Sustainability: Energy is fundamental to ISET, literally providing the raw power that supports economic activity and the means to better lives, while also being the largest contributor to climate change (Dhakal et al., 2023). The conversion of any energy source to useful work for society is intrinsically an extractive process. Such processes always create negative ecological impacts.[51] Transforming the global energy system from one based on fossil fuels to one based on renewables will greatly reduce its environmental footprint given that the environmental consequences of fossil fuels are orders of magnitude greater than those of renewables. The scale of the shift to low-carbon sources requires a simultaneous step-change towards using energy more efficiently. Lower-income countries where energy infrastructure is yet to be built can avoid lock-in to energy- and carbon-intensive futures via a range of interventions, from denser urban living that reduces space heating and transport energy requirements, to reducing food waste and changing diets to bring down emissions from food systems (UNEP, 2023).

The primary environmental consideration of ISET in the energy sector is that the consumption of fossil fuels and the associated production of GHGs are reduced as quickly as possible. However, there are also other negative ecosystem impacts, created by air, water and land-based pollution, that the production, use and disposal stages of the energy sector create. For example, while electricity generated from solar and wind power creates no pollution during use, similar to the machinery used in the fossil fuel industry, the raw materials in solar panels and wind turbines are often mined and can be difficult to dispose of after their working lifetime.

Overcoming barriers to achieving ISET in the energy sector

Despite the UN Secretary-General's (2012) framing of energy as 'the golden thread connecting economic growth, social equity [and] environmental sustainability,' researchers have since contested that 'the energy thread is not always golden: trade-offs are common between income and other development (e.g. health or environmental quality) outcomes' (Jueland et al., 2021: 3). In Chapter 5, we saw how there were significant barriers to shifting the energy mix towards renewables in a fossil fuel-producing economy. These included techno-economic aspects dominating discussions related to ISET themes (e.g. how to finance new energy infrastructure), the direct and indirect contribution of the sector to economic

51 Either stored energy resources like fossil fuels, radioactive material or biomass must be extracted (i.e. mined or cut down) from wherever they currently are, and burned or processed (releasing GHGs and other air pollutants in the case of fossil fuels and biomass, and creating radioactive waste in the case of nuclear), or transient energy sources like renewables must be harnessed using engineered materials (e.g. to transform silicon into photovoltaic panels that convert solar energy into electricity or rare earth metals that are used in the machinery in wind turbines) that are mined, processed and transported.

growth, conflicting interests within key ministries, insufficient capacities to monitor and implement change, and political economy issues.[52]

Some countries have made faster transitions than others towards less environmentally detrimental energy sectors, yet the metrics used to compare between countries can often cloud where progress is being made. Many countries have added significant amounts of renewable generation to their electricity grids in recent years (IEA , 2023), which is clearly more beneficial than adding more fossil fuel capacity. This may appear as a lower average GHG intensity per unit of electricity generated and a lower GHG intensity per unit of GDP, especially where an economy grows at a faster rate than the electricity sector. Yet, unless these countries are also simultaneously retiring fossil fuel-based generation, their overall emissions may remain relatively stable, as renewables are additional to the existing fossil fuel fleet. This is particularly the case in lower-income economies where electricity demand outstrips supply – that is, where there are strong economic and social pressures to retain fossil fuel capacity even when low-carbon alternatives are added to the grid. This additional rather than substitutional aspect is one of the reasons that a review of the implementation of 'green growth' policies found that the 'large rapid absolute reductions of resource use and GHG emissions cannot be achieved' by any existing models for decoupling economic activity (to which energy use is intrinsically linked) and environmental impact (Haberl et al., 2020; 1).

The energy transition clearly necessitates making visible and negotiating the trade-offs between ISET dimensions, which requires political champions and the investment of substantial resources (time, goodwill, mandate). For example, in Dominican Republic, agreeing the pacto eléctrico reforms took around a decade, even with a dedicated national task force.

Examples from rich and poor countries alike show that, often, the issues at stake in energy sector transition discussions are rarely entirely environmental: local procurement laws designed to boost socioeconomic equality can increase the overall costs of building renewable energy infrastructure, while fossil fuel-producing countries have often used energy security concerns as an additional reason to continue their extraction and use.

Financial investment planning for electricity generated by renewables and by fossil fuels is markedly different. Even though solar and wind have for several years been the lowest-cost option to make electricity (IRENA, 2024), renewables often involve larger upfront investment than fossil fuels, for which fuel costs and, if applicable, pollutant taxes mean they are more expensive during their operating phase. Efforts to finance renewable electricity developments have continued to evolve to reflect this, and

52 In increasing climate ambition, the IEA (2022) models the Stated Policies Scenario, the Announced Pledges Scenario and the Net Zero Emissions by 2050 Scenario.

public sector climate finance providers have increasingly included social inclusion aspects into their funding requirements (see Chapter 7) for individual projects, and – more recently – at the national level via JETPs (Box 18).

Box 18 Political power and Just Energy Transition Partnerships

JETPs are a relatively recent development in overcoming the financial challenges of the energy transition and recognising the role of non-market lenders in accelerating it. Essentially, they are partnerships between development finance institutions (DFIs) that are willing to financially support energy transition and recipient countries that have committed to decarbonising their energy systems but are challenged in doing so. As of 2023, JETPs had been announced for Indonesia, Senegal, South Africa and Vietnam, with discussions ongoing in several other countries, including Colombia, India, Kazakhstan and Mongolia.

Behind JETPs' financial aspects, political complexities strongly shape the likelihood of success. Indeed, how 'just' JETPs are often depends on the existing political settlement in the country. Analysing a country's overall political settlement and the dynamics within the energy sector could thus provide a cursory assessment of the potential for JETP success. An ideal JETP candidate would be a country with concentrated power and a broad social foundation, where the main political forces are in favour of transition, where the barriers to success are limited (e.g. where the current political settlement is not dependent on the existing energy system – through either generating revenues or political legitimacy) and where external financial or capacity resources can help tip the balance towards change.

In reality, barriers to energy transitions exist, and overcoming them requires deep understanding of the context and compensation to powerful actors that may lose out. This means transitions may align with improving social inclusion (e.g. if energy transition is bound to a political drive for improved energy access, as in Senegal, or livelihood protection for fossil fuel workers) but could also entrench inequalities (e.g. if the JETP involves buying out fossil-fuelled infrastructure owners who are key supporters of domestic regimes, as in Indonesia).

6.2.4 Informal economies[53]

Informal economies: an ISET primer

Most of this report focuses, by default, on the formal sector, as that is the arena in which almost all of the policy discussion about economic transformation and environmental sustainability takes place. Here, we focus briefly on informal economies, which employ a vast proportion (around 60%) of the global workforce, especially in LICs and LMICs, where they account for significant if varied proportions of GDP, and which – by current thinking – stand accused of contributing significantly to carbon emissions and other environmental bads. The major point is that the level of knowledge on the transformations going on in informal economies and their environmental sustainability is woefully low. Nonetheless, governments, the media, elites and the middle classes more broadly largely view them negatively, and national policy-making and local-level decision-making tend to include informal economy considerations, people and organisations only when these actors mobilise and protest.

Having said this, several other points can be made. First, the 'informal economy' or 'informal sector' is very heterogeneous, and so policies, investments and regulations need to be disaggregated or targeted, and avoid a blanket approach. There are multiple drivers of this heterogeneity, of which economic structure may be important, with the demand for capital, law enforcement and the cost of formalisation being other potential drivers (Chacaltana et al., 2022).

Informal economies rarely feature in discussions on **economic transformation** as economists and policy-makers tend to view them as unproductive and as needing to be formalised as rapidly as possible. This is compounded by a lack of data, which makes informal economies 'less tractable' with regard to economics analytical tools. Moreover, physical planners regard informal activities as something to be moved from any prime real estate sites they may be occupying in city centres and along roadsides. Such characterisations overlook the fact that many informal enterprises pay taxes and fees, apply for credit and submit to regulation (including environmental), and so are better viewed as somewhere in between formal and informal. The state defines what is formal and what is informal, and this varies from one context to another.

This binary view is further complicated as many informal workers/enterprises are also involved in formal value chains – garments (see above), waste, retail, water, energy, transport and food. Informal economies are important suppliers of (affordable) goods and services to the bottom half of the population, and to the middle classes also: informal workers include food vendors, domestic workers

53 This section is based on a literature review (Ward, 2024) and an October 2023 ODI workshop bringing together participants from Women in Informal Employment: Globalizing and Organizing; the Institute of Development Studies; ODI; and the International Institute for Environment and Development, with inputs from staff at ILO.

and other itinerant service providers. Some informal economies provide public services, such as by recycling waste (e.g. waste-pickers, the e-waste industry), and aligning these services may provide significant green growth potential.

Focusing then on **social inclusion**, there is little movement up the 'job ladder' within the informal sector and between informal and formal employment (Fields et al., 2023) – this aspiration may not be realistic for many. There is also little sign of increases in productivity for the majority of micro-businesses, while a few may be better capitalised and managed and be capable of achieving productivity increases. Policy support tends to focus on this top of the pyramid – the (typically male) employers, who are 1–3% of the total, and own-account workers, who are seen as fledgling entrepreneurs. Others, including outworkers, home workers and contributing family workers, as well as the majority of the self-employed, are not touched by supportive policies.

People in informal economies generally have limited agency in the face of policy initiatives. This is especially evident at the local level where physical planning considerations clash with the interests of informal firms. Where informal operators can organise themselves, they may be able to make some gains on urban decisions, but it may be difficult for informal businesses to contest policies, for example on the use of electronic devices for recording tax accounts, which has been introduced in many countries.

Certain groups are especially vulnerable to exploitative employment, and may be paid significantly less. Citizen status is often critical: refugees, internally displaced persons, economic migrants, people with disabilities, poor women and children out of school can all be exploited. It is important to note that, in some cases, formal regulations can be counterproductive – for example, the requirement for work permits is a major constraint on labour mobility. Where they are unavailable, migrants or refugees often have little option but to enter the informal economy.

The politics of policy-making is an important factor contributing to social inclusion in informal economies in particular: the national political settlement[54] provides a framework for understanding how politics works, and can be an important part of any process, while local day-to-day politics strongly influences outcomes. Social groups and trade associations involved in informal economies may be much less influential with policy-makers than will other professional, middle-class, elite groups. Sometimes, they have to take extreme measures (e.g. litigate or protest) before their voice is heard.

Conforming to the broader negative view of informal economies policy-makers often hold, new **environmental sustainability**

54 A broad social foundation is more likely to give informal workers more of a say, but this may not be replicated locally.

literature (see Ward, 2024 for a review) generally finds heterogenous effects of informal economies on carbon emissions, natural resource use and ecological footprint, largely in MICs. Environmental regulation may increase the cost of providing goods and services (e.g. transport, waste disposal or food delivery) yet little effort has thus far been invested in understanding how to overcome the potential trade-offs. Instead, the literature is generating a relatively negative and un-nuanced narrative, with similarly blunt policy prescriptions of regulation, taxation and incentives to improve environmental performance. Informal enterprises are seen not as 'plucky entrepreneurs' but as 'shady firms.' There are clearly powerful actors that exploit informality in ways that frustrate ISET (e.g. by avoiding progressive taxation, and social and environmental standards), but this is far from universal. Efforts to green urban informal economies pose substantial risks but also potentially interesting opportunities for vulnerable communities engaged in these economies. Opportunities to grow further informal (as well as formal) green jobs need identifying.

Overcoming barriers to achieving ISET for informal economies

Policy-makers first need to fundamentally adjust their conceptualisation of informal economies – for example to reject the belief that informal enterprises do not pay taxes. A first step towards this would be to fill in some of the data gaps. Data on informal economies is much better than it was, thanks to the ILO's expanding database, but still usually inadequate for policy-making. The ILO-curated detailed data on informal employment and self-employment for 120 countries is excellent, though little used by economists, who prefer World Bank sources, which include only formal sector employment and so have to rely on proxies for informality.

Policy development should also seek to build a solid understanding of the actual (heterogenous) barriers different informal businesses and workers experience. For example, for home-based workers, housing tenure and access to reliable critical infrastructure (e.g. electricity, water and sanitation) are important issues. Meanwhile, street vendors face restrictions on trading in public places, a lack of storage, police harassment, bribes and confiscation of working capital, among other barriers.

To reflect this heterogeneity, policy should be locally (or at least sectorally) made, targeted and consultative/participatory, and exercise the do-no-harm principle. The focus should be on getting rules and regulations right, which may require iteration and an openness to understanding why idealistic and even progressive measures may fail in practice. For example, policies that focus on providing support (business advice, credit) to those at the top of the pyramid, and those that promote formalisation (either increasing the costs of informality or enhancing benefits or reducing the costs of formalisation), are poorly matched to the realities of informal economies.

Instead, efforts to expand sectors that can generate top-of-the-ladder jobs need to be balanced with improving the

productivity of the majority of informal workers/enterprises. Practices to achieve this could include:

- involving informal workers much more in local urban planning and policy processes (there is a need for 'barefoot planners' who can interact with the thousands of informal economy operators and find a way to balance their interests alongside those of bigger businesses)
- rethinking urban planning paradigms, minimising demolition and developing locally appropriate infrastructure
- reforming government procurement policies to include informal providers wherever possible and
- extending producer responsibility for consumer goods and appliances, so that recycling work is better recognised, funded and valued.

There is also ample opportunity to broaden the use of social and technological innovation. This deserves a special focus in areas that need to be greener – transport, electricity and energy more broadly – but innovation is also needed to improve productivity and reduce environmental bads within the value chains involving informal economies. Again, the first step here is to gather data, collating information on existing innovations that can be taken to scale, employing both bottom-up processes – there are many examples of this – and those led by public bodies. Encouraging further innovation can benefit from bolstering innovation networks across public and private (including informal) sectors, for example to transfer the use of and experience with digital technologies. This should build on existing research and programmatic interest in innovation (see de Jong, 2022).

Finally, to support the above, it will be important to speed up access to tailored resources for cities and localities, a key part of which requires developing innovative finance sources (e.g. locally issued bonds or targeted climate finance).

6.3 Conclusions – enabling sectoral ISET

In summary, this chapter has found that markets promote economic transformation, usually guided in LICs and LMICs by state policies, but rarely promote social inclusion or environmental sustainability. State action, social movements and international standards and regulation are critical to achieving decent terms of inclusion and progress in environmental sustainability in formal sectors, but this is unlikely to work for informal economies. Specifically:

- T&C manufacturing has been a major pathway to economic transformation for many LICs and LMICs. Firms seeking unskilled labour have led to the employment of hundreds of thousands of women from rural areas in countries like Bangladesh and Cambodia, but, in general, few market-led mechanisms support social and environmental upgrading. Efforts here are led by domestic trade unions, or consumer pressure and government action in distant final markets.

- Smallholders are already adapting to environmental threats but struggle to take up CSA without – currently lacking – public and private sector support. As agriculture is a major GHG emitter in many LICs and LMICs, a transition in this sector is urgent, especially since agricultural commercialisation, irrigation and livestock development also commonly provide critical pathways out of poverty.
- Energy is fundamental to ISET, yet a gulf exists between the transformational potential of the sector and the reality. For manifold reasons, trade-offs are common between ISET dimensions. Technologies and practices that are ISET-aligned are readily available, but extensive political economy and financial barriers still loom large.
- Despite informal economies being critical to economic inclusion, they are neglected in debates about economic transformation and environmental sustainability. Their diversity and widespread nature limit standard approaches to policy development (which typically emphasise formalisation and regulation). Instead, heterogeneous, context- and activity- or sector-specific, localised and consultative efforts, based on thorough understanding of informal realities, are urgently needed.

Bringing these findings together, first, themes underlying the SDG 2030 Agenda, which play out at a national level, are a touchstone for ISET thinking within the sectors (except for informal economies). Nonetheless, in each sector, an economic rationale pervades policy development, with social inclusion secondary and environmental goals often further behind. This is compounded by outdated public budget allocations that appear as a key barrier to ISET (limiting the transition to renewable electricity systems, the upgrading of capital stock and the entrepreneurship of smallholders and MSMEs). We also find that there is a disconnect between high-level, often top-down, policy initiatives and the on-the-ground effects, though the reasons for this vary. For example, in the manufacturing sector, the web of informal economies that support formal enterprises is exploited to limit the implementation of policy. In the energy sector, as Chapter 5 illustrated, mixed messaging and institutional inertia in different arms of government create incoherent direction for project implementation.

Further distinctions between the way ISET themes are developed in each sector may be explained by considering their different characteristics (historical pathways and paradigms, degree of internationalisation, relative impact on different ISET outcomes). Perhaps the starkest normative difference is between the positive outlook for the broad development potential of formal sectors and the public disparaging of informal economies. However, the way that each sector is approaching ISET and the SDGs – and what has compelled it to do so – also varies.

To return to our original metaphor, these findings illustrate that, while in theory there exist the types of joined-up landing zones that ISET seeks, in practice for each sector to actually touch down in

these zones requires an understanding that they are approaching them from different directions, at different speeds and with different cross/head/tail winds. Further, each has a different pilot, with different skills, and each is flying a different type of aircraft.

With so much variance in mind, what suggestions can be made to accelerate the uptake of ISET themes within sectors, and who might be able to enact these? Some examples particularly geared towards governments operating in the dispersed power settings that are common in developing countries include:

- seeking ways to situate governments and the public sector in partnership with other societal stakeholders; governing by facilitating catalytic coalitions of the willing rather than mandating transformation
- changing the perspective and 'established wisdom' on key aspects, like the realities of informal economies and the potential for innovation in small and micro-scale enterprise
- reconsidering (again) how to effectively deliver financial resources and technical capabilities to those living and working at the bottom of the pyramid, and (perhaps more novelly) how to link them beneficially with more advanced producers, through contracts, skills development and arrangements for countervailing power in markets
- undertaking the preparatory work to reform budget allocations (especially untargeted subsidies that are environmentally damaging) so that government expenditure and tax policies at the sectoral level align with, rather than hamper, aggregate ISET goals; this will mean finding ways to compensate losers and keep powerful interest groups onside, without exacerbating existing inequalities
- experimenting and learning to better understand how gains in priority catalytic sectors can spill over into other sectors and scale up to national policy; recognising that:
  - this may require capacity-building/ external expertise (e.g. to include social inclusion and environmental considerations in value chain assessments)
  - there is limited 'bandwidth' to engage on all ISET issues at once, both across government and within ministries
  - atypical government actors (e.g. task forces) and support mechanisms (e.g. climate finance) may be best placed to lead (which may require empowering them vis-à-vis line ministries)
- broadening participation of the informal sector, perhaps in increasingly localised policy development, as a means of better including and supporting informal firms.

7 Tracking development finance for ISET[55]

Previous chapters have indicated that development finance, especially climate finance, and climate-targeted investments represent significant opportunities to integrate all three ISET objectives – environmental, social inclusion and economic transformation. This suggests that development agencies and funders wishing to back ISET should support the use of climate-related development finance.

This chapter examines how ISET objectives are intersecting with flows from the sources of global climate funds – the multilateral climate funds (MCFs) and the multilateral development banks (MDBs). It starts with an examination of climate finance projects and related flows from the two MCFs that are the most salient: the Green Climate Fund (GCF) and the Climate Investment Funds (CIF). These are global climate finance agencies specifically dedicated to addressing climate change. Section 7.1 looks at several themes that will influence the impact of climate-related development finance on ISET objectives. Specifically, it looks at ISET co-benefits in climate finance projects; challenges related to climate finance access and timelines; where ISET objectives are highlighted in project portfolios; and the use of/need for equity finance to catalyse private investment and help bring to scale clean energy and other resilient, sustainable practices (e.g. in agriculture).

Section 7.2 looks at how the World Bank targets ISET. The World Bank is the single biggest provider of climate finance globally, as well as the biggest provider of development finance for poverty reduction and long-term development generally. Similar to Section 7.1, the section discusses several themes relating to ISET objectives, including the design and monitoring of climate-related development finance portfolios to achieve ISET co-benefits. Other issues discussed include the ISET portfolio as a share of the total Bank project portfolio; climate change objectives within the ISET portfolio; and the geography of project allocations. The analysis differs from that on the MCFs because of differences in data structures and availability.

This chapter also briefly considers the role the private sector could play in augmenting climate-related development finance while promoting ISET objectives (Section 7.3). This includes how the private sector could catalyse transformative change across climate and ISET objectives. This section does not present a detailed analysis – partly because data availability is weaker – but a more generic discussion on

55 This chapter was prepared by Tony Kamninga, Research Officer, ODI, and Andrew Shepherd, Senior Research Associate, ODI, and is based partly on Bird (2022).

private climate financing. Private climate finance discussed in this section includes private climate finance that is 'mobilised' – by leveraging[56] public climate finance – and private funds from funders such as private philanthropic organisations, charities, campaigners and CSOs.

7.1 Multilateral climate funds

MCFs have received considerable attention, particularly since GCF became operational in 2015. GCF, together with CIF and the Global Environment Facility (GEF), are the three most prominent MCFs. GCF was launched in 2010 and is part of the Financial Mechanism of the UNFCCC and the Paris Agreement. CIF was established in 2008 by the G7. Combined, these two funds represent the largest source of dedicated multilateral climate finance, and account for a major share of disbursements to date.

GCF is answerable to the UNFCCC Conference of the Parties (COP) and accepts contributions in the form of grants, capital or loans from developed countries that are party to the UNFCCC as well as public, non-public and alternative sources, such as philanthropy (Leys and Anderson, 2023; GCF, 2024a, 2024b). The largest of the dedicated multilateral funds, it reports project funding for 154 developing countries, to implement projects, programmes, policies and other activities to address climate change (GCF, 2024c). Developing countries have either direct access via accredited national institutions or intermediate access via international and multilateral organisations (Antimiami et al., 2017).

CIF comprises two umbrella funds – the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) – and operates in partnership with six MDBs (CIF, 2024b).[57] Since its establishment in 2008 and by the end of 2023, over 15 developed countries had contributed $10–12 billion to CIF; with this, CIF estimates that it has leveraged a total of $62 billion in co-financing for adaptation and mitigation projects in 72 developing countries. The majority of this CIF funding was committed between 2012 and 2014 (OECD, 2024).

Data from the Climate Funds Update shows that overall funding channelled through all the MCFs grew between 2015 and 2021 (Figure 23). GCF has rapidly become the single largest source of grants and funds since it began to approve projects in 2015, overtaking CIF in 2016 (Carbon Brief, 2017; Caldwell and Larsen, 2021). An observed decline in funds going through MCFs in 2022 is linked to GCF replenishment cycles (with the new one starting in 2023). Through 2022, the GCF Board, in four

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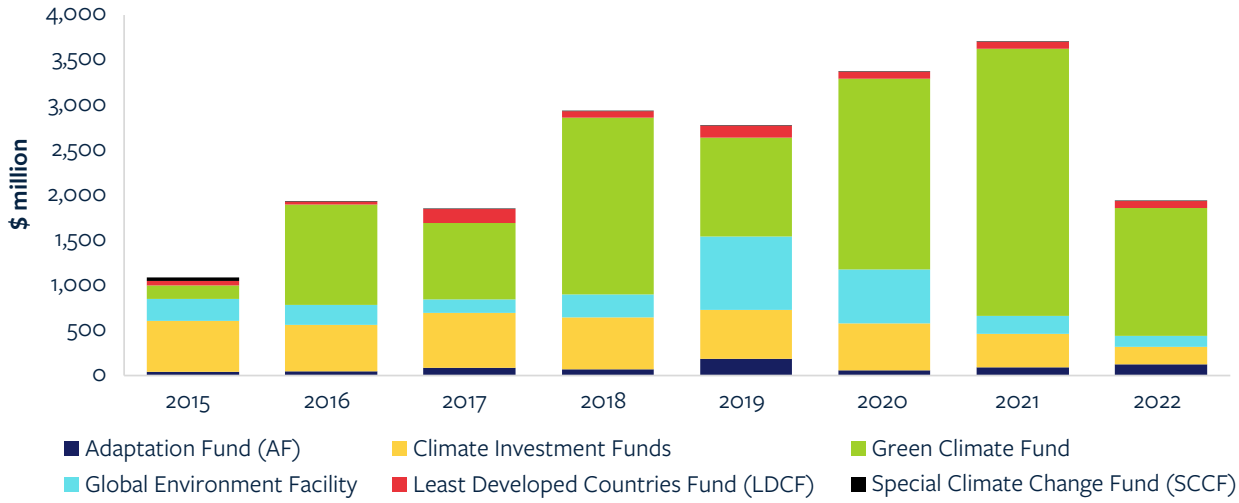
56 There is potential for the limited public funding available to catalyse private climate finance to help scale up access to resources for the ambitious climate action in developing countries.

57 The World Bank Group, including the International Finance Corporation, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the Inter-American Development Bank, is the implementing partner of CIF's investments (CIF, 2023a).

Board meetings,[58] approved 19 funding proposals worth $1.42 billion in GCF resources (GCF, 2023). This was less than in previous years, as GCF was facing financial constraints to its commitment authority in the third year of its first replenishment period (ibid.), and left a number of approval-ready proposals lingering (Schalatek, 2023).

CIF, on the other hand, has been a significant source of funding for global climate action since it was established in 2008 by a small number of donor countries. The CIF annual report for 2022 shows approved funding of $7.5 billion from inception to 2022, which is expected to secure an additional $64.3 billion in co-financing (CIF, 2023b). Sources of this co-financing include private capital, MDBs, bilateral agencies and national governments. While approved funding of $7.5 billion is reported, cumulative disbursements as of 31 December 2022 were $4.4 billion (ibid.), with many CIF investments at various stages of implementation. Compared with GCF, CIF was established earlier, with higher levels of committed funds in earlier years (OECD, 2024).

Figure 23 Multilateral climate funds committed, 2015–2022 ($ million)



Note: The figure shows all MCFs that come under the Financial Mechanism of the COP Standing Committee and one large non-UNFCCC MCF (CIF). For more on the financial architecture, see https://climatefundsupdate.org/wp-content/uploads/2024/04/Global-Climate-Finance-Architecture-2024-1024x792.png

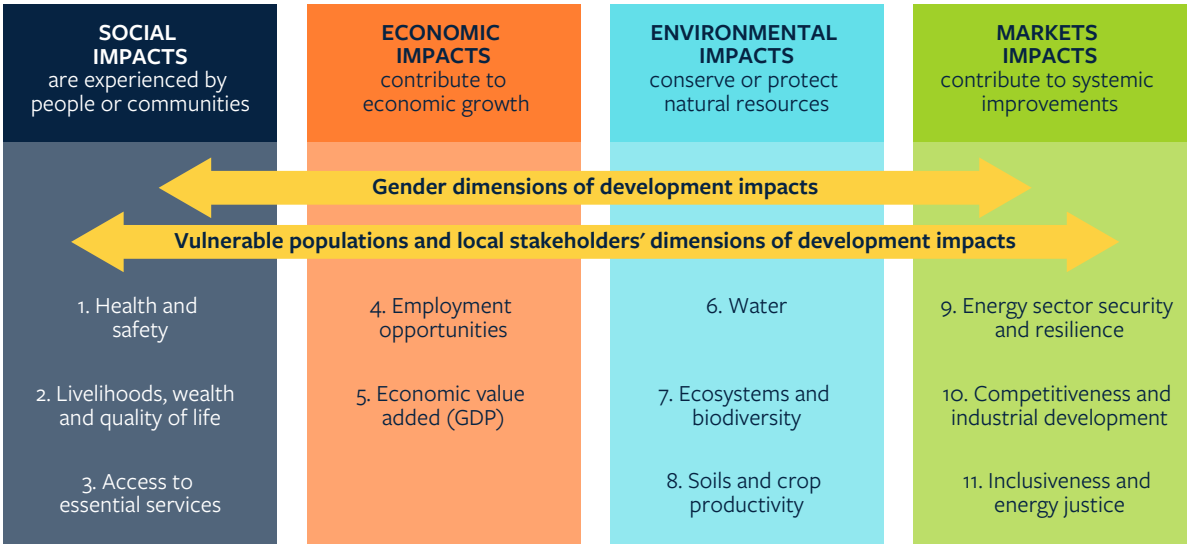
Source: Authors based on data as of December 2022 from Climate Funds Update (https://climatefundsupdate.org/the-funds/), accessed September 2024

58 See www.greenclimate.fund/boardroom/meetings?f[]=field_date_content:2022

7.1.1 CIF and GCF policies targeting ISET

Both CIF and GCF recognise the importance of co-benefits for ISET objectives at project level. Such co-benefits can be achieved while promoting climate-related outcomes. CIF specifically measures a variety of economic and social benefits along with environmental benefits and what it calls market impacts. These 4 primary areas of development impact categorisation are further subdivided into 11 subsidiary categories and 2 crosscutting themes (see Figure 24). Using this categorisation, CIF has evaluated two of its programmes aimed at supporting climate mitigation through energy transition actions. The estimates show that these CIF programmes generate significant employment (about 42,502 person-years in direct employment in construction – temporary – and 3,562 person-years[59] in direct employment in operations – full time) and other benefits (see Figure 24 and Bird, 2022, for details). In addition, Pasricha and Selvakumar (2021) establish that investment of $1.9 million per year in the construction industry under renewable energy projects could create 76,000 recurring jobs, representing that, for every $1 invested, 25 temporary jobs could be created.

Figure 24 CIF development impacts categorisation



Source: CIF (2021)

59 One person-year (or job-year) of employment is a unit that stands for one person employed full time for one year or two people for half a year, etc. (CIF, 2021).

All CIF programmes and activities share a common goal that is articulated in the impact statement. This emphasises adaptation, resilience and social inclusivity in delivering its climate objectives (CIF, 2022). Through this impact statement, CIF has been able to track co-benefits across its portfolio, through support to 55.4 million people (50.3% women) to cope with the effects of climate change and enhancing the livelihoods of 3.1 million people (44% women) (CIF, 2024c).[60]

CIF recognised that the transition to a green economy was expected to create new economic and social development opportunities. It has been mainstreaming just transition principals in its new investment, and has developed a Just Transition Planning Toolbox that provides a practical guide to planning transitions that are equitable and inclusive (Atteridge et al., 2023). In addition, CIF is providing funding to its MDB partners to pilot tools and methods featured in the Just Transition Planning Toolbox.

CIF has also supported some critical transition processes. Box 19 illustrates its programmatic contribution over the years to Kenya's shift into renewable energy sources.

Box 19 CIF contribution to Kenya's renewable energy

CIF is increasingly acknowledging that significant co-benefits can be delivered through climate action. It has launched a dedicated workstream to quantify these impacts, called the Social and Economic Development Impact of Climate Finance (SEDICI) learning working stream. This is now part of a large body of evaluative work that CIF has conducted since Evaluation and Learning Initiatives were launched in 2015. A first phase of the SEDICI workstream has examined the expected economic impacts of two out of the four original CIF programmes: the CTF and the Scaling Up Renewable Energy in Low Income Countries Program (SREP). In 2011, Kenya became one of the pilot countries for the SREP. This aims to demonstrate the economic, social and environmental viability of low-carbon development pathways to increasing energy access using renewable energy and creating new economic opportunities. It is therefore rooted in the ISET goals.

60 Each CIF programme is governed by a single integrated results framework that describes the key results the programme intends to achieve and the indicators to measure these, along with integrated evaluation, learning and gender considerations at every level of results (CIF, 2024c).

SREP engagement with Kenya began with a jointly prepared national investment plan (CIF and Republic of Kenya, 2011). This identified three priority interventions, in geothermal energy supply, hybrid mini-grids and solar water heaters. The first was subsequently supported by a $25 million project that proved to be a catalytic investment in the initial stages of the growth of Kenya's geothermal sector. The project began in 2011, at a time when there was national policy intent to grow the renewable energy supply in the country.

Significant changes in the national energy supply have since taken place. In 2009, geothermal energy capacity in Kenya stood at 35 MW; by 2022, this had increased to 828 MW. Kenya also has one of the largest solar power plants – the Kopere Solar project (see Solar Financed, 2020) – supported with $11.6 million in funds from CIF (Takouleu, 2018) – in Africa, with an installed capacity of 51 MW. In total, Kenya now has approximately 2.8 GW in renewables, making up over 70% of the country's installed power (Power Africa, 2024).

The SREP investment plan has supported the national energy strategy by promoting renewable energy. This occurs in a context where the country continues to rely on imported fossil fuels to meet its baseline energy requirements, and spends close to half of its yearly foreign exchange on petroleum and oil imports. The provision of clean energy supplies under such circumstances for both individual households and businesses advances climate, economic and social goals in a mutually reinforcing manner.

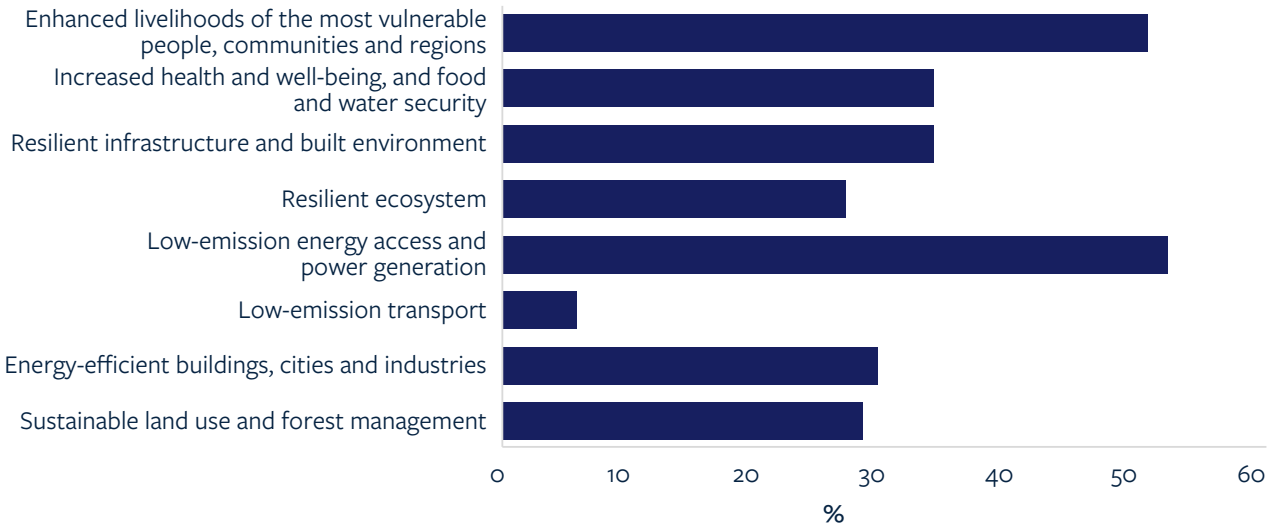
In a more recent example, Kenya's county climate change funds are pioneering a mechanism to facilitate climate finance to devolved county government while raising the need to work with local communities to build capacity for enterprise/business development. This is a practical example of how climate finance can support climate-resilient development and effective participation as set out in the Paris Agreement. This emphasises the need to support local engagement and tailored disbursement of climate finance, which is important to just transition outcomes. In addition, working with local partners and on the ground with SMEs or smallholders (private sector actors) will enable rapid learning from success stories and make it possible to take them to scale.

Source: Bird (2022) based on CIF and Republic of Kenya (2011) and Power Africa (2024). The last paragraph is sourced from CIF (2023a)

Similar to CIF, GCF also has a mandate to promote 'environmental, social, economic and development co-benefits' (GCF, 2011). These include enhanced livelihoods of the most vulnerable people, communities and regions and increased health and wellbeing and food and water security. Each GCF project proposal goes through an intensive review process prior to Board approval, including an in-depth assessment by an independent technical advisory panel. This latter includes an analysis of the environmental, social and economic co-benefits the intervention is expected to deliver, in addition to the climate rationale of the investment.

Figure 25 shows allocated funding to the results areas of environmental, social and economic co-benefits. Over half of the total GCF funding has the explicit aim of enhancing the livelihoods of the most vulnerable, indicating a clear commitment to furthering ISET objectives.

Figure 25 GCF funding by results areas for least developed countries, small island developing states and African countries



Source: Bird (2022), based on an analysis of GCF projects from 2025 to 2021 as of April 2022

Box 20 Examples of GCF projects promoting co-benefits

A GCF project[61] implemented in southwest Bangladesh highlights how social inclusion can be prioritised in climate-related projects. The project – Enhancing Adaptive Capacities of Coastal Communities, Especially Women, to Cope with Climate Change-Induced Salinity – whose value is $33 million, is implemented through the Ministry of Women and Children Affairs to address livelihood and health outcomes. It is working to deliver drinking water solutions in areas where there are increasing levels of salinity brought about climate change. Social inclusion is being secured through a delivery strategy that targets the most vulnerable households as the primary beneficiaries (GCF, 2021b). The project is also investing in communities, especially women, as 'change agents' to ensure ownership and sustained engagements.

A different GCF project is implemented in Kenya and Senegal: Promotion of Climate-Friendly Cooking.[62] It is implemented in partnership with the German government and the NGOs Energy for Impact and Practical Action. The project is helping address the linkages between climate change mitigation – reducing carbon emissions – and broader sustainable development impacts, including improved health outcomes.

Another project – Strengthening Climate Resilience of Rural Communities in Northern Rwanda[63] – focuses on restoring and enhancing ecosystems in degraded watersheds and increasing the capacity of communities to sustainably manage forest resources. This $33.2 million project follows an integrated landscape management model and reports on a number of social and environmental benefits.

Source: Bird (2022) using project examples from the GCF website

However, an independent evaluation by GCF of its environmental and social management system in 2020 identified weaknesses, including the need for reporting guidelines and guidelines to identify social and environmental outcomes. The evaluation found that GCF's key processes did not meet the needs of its mandate to realise environmental and social performance and co-benefits; and GCF's results framework did not require reporting on environmental and social compliance/ safeguards or on co-benefit indicators

61 www.greenclimate.fund/project/fp069
62 www.greenclimate.fund/project/fp103
63 www.greenclimate.fund/video/gcf-rwanda-supporting-green-gicumbi-project

at the impact or outcome level. GCF has been working to improve the quality of its management system operations with respect to monitoring social and environmental co-benefit outcomes.[64]

7.1.2 Project implementation: delay and access challenges

Implementation delays in MCF investments are a key challenge and have led to much frustration among developing country partners. Such delays have also limited the scope for ex-post analysis of impacts on co-benefits and, in particular, on ISET. This is because, sometimes, co-benefits take time to be observed, hence delays in implementation imply further delays in understanding co-benefits.

A related frustration relates to access challenges. For GCF, direct accreditation by national organisations is very demanding, and the most vulnerable and lowest-income countries are often unable to meet the requirements. Even after accreditation, project proposal processes can be quite lengthy and resource-intensive. Intermediated access through multilaterals is not appreciated by national organisations, as (i) these agencies take a big cut, with only a small share of the money then reaching the ground, (ii) agencies have capacity limits in terms of how many projects they can manage at any one time (Soanes et al., 2017) and (iii) partnerships for multidimensional operations take time to build, which prolongs the design and early implementation phases (NDC Partnership, 2019). CIF's country plan may also take a long time to complete. Also, CIF works only with a certain number of countries, initially identified for their high potential[65] (Alcayna and Cao, 2022).

It will be critical to increase the efficiency of project preparation and approval processes, as well as to streamline access by national entities, so they can scale up the useful contribution they are already making to ISET through climate-related transitions.

7.1.3 Lessons from MCFs

The following are some of the main lessons on how MCFs can work towards ISET drawn from this analysis and rapid review of portfolio tools and projects of CIF and GCF.

- MCFs are developing conceptual frameworks that are relevant to understanding how ISET can be achieved. Such frameworks, which build on early characterisations of the

64 The GCF Secretariat 'moved ahead with efforts to speed up the development and approval of proposals and disbursement of approved funding. It also issued guidelines and improved operational procedures intended to drive up the overall quality of GCF projects and programmes, both approved and in the pipeline' (GCF, 2020).

65 Potential for transformation change to demonstrate and replicate large-scale, potential for climate resilience and potential for low-carbon development (Australian Government, 2012).

relationship between economic, social and environmental goals, are necessary if progress is to be made in designing effective interventions that address all ISET concerns in a balanced way.

- Climate actions supported by MCFs such as GCF and CIF align with environmental, economic and social goals. However, securing these goals requires action at many levels, from the household to the national economy. Any action or activity that does not provide for linkages across these scales is unlikely to bring about sustainable change.
- Diverse partnerships and strong analytical and implementation capacity are required to address ISET concerns, as these are embedded within complex and dynamic systems. It can take time to build the necessary partnerships and skillsets both in-country and within implementing organisations.
- MCFs are building experience on the optimal use of different financial instruments in responding to ISET concerns. Most economic activities in LICs and LMICs are led by the private sector (and, in agriculture, smallholder farmers). These private sector agents and farmers need financing to improve their efficiency and output.

7.2 Multilateral development banks: the World Bank

The World Bank's emphasis on environmental sustainability and climate has grown incrementally over the years (Núñez-Mujica et al., 2023). This follows the publication of the 2016 World Bank Group Climate Change Action Plan, which placed an emphasis on environmental action (World Bank et al., 2016). This increase in climate-related projects in the Bank's project portfolio has raised questions regarding sources of finance to meet the climate ambitions, and the extent to which social inclusion, sustainability and economic transformation are all prominent in the portfolio. While the former question is well addressed in Miller et al. (2023), it is the latter question that we pursue in this section.

Our analysis examines the World Bank's portfolio to understand how well the projects promote ISET objectives. It comes in the wake of recent criticism of the Bank for significant greenwashing. Núñez-Mujica et al. (2023), for example, conclude that only a small part of the projects claimed by the Bank to tackle climate change and promote environmental sustainability actually do so. The Bank's investments reflect the priorities of its client governments, which may lie elsewhere and may not be well aligned with climate objectives. Some observers argue that the internal model of the Bank needs reform to give more salience to climate and environmental issues (Alba et al., 2023).

This section starts with a descriptive analysis of the Bank's portfolio, then makes a quick dive into several big projects designed to contribute to ISET objectives. The aim of this analysis is to understand the extent to which these objectives are indeed being pursued. This section also provides reflections on whether climate and environmental objectives are being pursued effectively.

Box 21 Methodological approach to identifying and analysing World Bank projects

Our analysis uses project-level data provided by the World Bank in an Excel file on its website.[66] This provides data in five tabs. One tab covers all World Bank projects approved from 1947 to 2024 and a second all themes with which activities in each project are tagged. A project can be tagged with more than one theme, and these are the types of projects we looked to analyse – those that tag ISET objectives concurrently. The remaining three tabs contain information on sectors, geographic location and financers.

The 'World Bank Projects' tab contains information for each project as follows: project id, region of implementation, board approval date, borrower, country, environmental and social risk, environmental risk assessment, financing type (grants, International Development Association (IDA) concessional financing, International Bank for Reconstruction and Development (IBRD) loans and other financing –e.g. programming for results), grant amount (in US dollars), current total commitment (in US dollars), project closing date, project title, project development objective,[67] project URL, total IDA and IBRD commitment and current project cost.

Since 2016, the portfolio has been using a taxonomy of theme codes that reflect Bank corporate goals and priorities (World Bank, 2016b). The 'theme taxonomy and definitions' document lists eight main themes. We use these themes to select projects that report on ISET.[68] The 'Themes' tab in the Excel sheet contains information on project id, theme levels[69] and theme percentage. Since one project can have multiple themes, each theme is presented in a different row. For example, the project with id P000001 has 10 rows, each row on a distinct theme at different levels. Using information from these different theme levels – especially Level 3, which is more granular – we then filter projects that have ISET objectives. Once these

66 https://search.worldbank.org/api/v3/projects/all.xlsx

67 These are stated objectives framed as positive outcomes that the projects aim to achieve.

68 Under economic transformation, the following themes were selected: 132, 21 (all), 222, 241, 242, 243, 261, 323, 861. Under environmental sustainability: 811, 812, 82 (all), 83 (all), 851. Under social and economic inclusion: 221, 223, 324, 332, 434, 51 (all), 52 (all), 61, 632, 635, 636, 637, 651, 658, 661, 662, 663, 671, 672, 712, 713, 716, 721, 722, 723, 724, 751, 754, 863.

69 There are three levels. Level 1 represents more broad umbrella themes such as social development and protection. Level 2 represents a subsector of this broad theme to explain what kind of social development and protection is being tagged. The example of Level 2 in this case is a theme: social inclusion. Level 3 is the most granular theme, explaining the exact activities happening; examples include participation and civic engagement.

projects are identified, we use project id to merge with project-level data to add columns showing ISET themes.

It is worth noting that the World Bank tags projects with themes as well as the extent to which those themes are reflected and financed in each project. For instance, one project tags the economic transformation-related theme with 40%, sustainability with 20% and inclusion with 40%. To avoid the complication[70] of using different percentages, a project has been included in the list for analysis as long as it tags any of the ISET objectives, regardless of the percentage. While the values presented in our analysis show commitments to ISET, a more granular methodology tracking the percentage of each project and attributing it back project by project will provide slightly lower values.

From the list of projects identified as having all the three ISET objectives, we conducted a manual review of a selected number of projects to understand the extent to which and how they promoted these objectives. There were two main steps involved in selecting the projects for manual review. In the first step, a list of projects was sorted by project value, from those with the highest committed value to those with the lowest. Projects with a committed value above $250 million (large projects) and those between $250 million and $50 million (medium-sized projects) were considered for further review. From this list, only projects with full information on the project website, in LICs and LMICs in sub-Saharan Africa, South and Southeast Asia and Latin America, were included. The second step was carried out only when the first step did not yield or return a good number of projects; here, projects were selected where the approval date was 2018 or earlier, where there was full information and where the value was up to $200 million.

Between 2015 and 2024, the World Bank Board approved a total of 5,536 projects, committing a cumulative sum of $777.1 billion (Table 10). Our analysis shows that, of these projects, almost one in six (18%), for a total of 1,009 projects, target all three ISET objectives. About 67% of these projects (a total of 3,744) have an inclusion objective. Almost 60% have an environmental sustainability bjective. Intriguingly, just 30% (1,672) have an economic transformation objective.[71]

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70 Future research could focus on disaggregating funding for a project according to the percentages targeting each ISET objective. For example, if a project targets activities for inclusion by 40%, activities for economic transformation by 30% and activities by 30%, the total project funding should also be divided in such a way that 40% of the funding goes to inclusion as so on.

71 The percentages are not additive: one project may target at least two or more objectives.

In terms of value, 25% of the total commitment portfolio of the Bank has been committed to promote the three ISET objectives. At 65% of the total, commitment to environmental sustainability in World Bank objectives is bettered only by commitments to inclusion (72%), with both commitments significantly higher than commitments to economic transformation projects (34%).

Table 10 World Bank projects containing ISET objectives

ISET objective	No. of projects	% of projects to total number of projects	Total committed value ($ million)	% of commitments to total value of commitment
Economic transformation	1,672	30	263	34
Inclusion	3,744	67	561	72
Environmental sustainability	3,296	60	505	65
All 3 ISET objectives	1,009	18	195	25
Total (not the sum of the previous lines)	**5,536 (B)**	**100**	**771 (E)**	**100**

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024)

This indicates that the World Bank's predominant focus is on inclusion and poverty reduction, with environmental sustainability a close second; economic transformation, surprisingly, is lagging behind. However, questions can be raised about the tagging of commitment to environmental sustainability.

7.2.1 Geographical commitments

As noted above, the World Bank approved 1,009 projects with ISET objectives between 2015 and 2024. These projects have a combined value of $195 billion. In terms of geographical commitments, the largest commitment by the World Bank across all years between 2015 and 2024 went to Eastern and Southern Africa, with a total of 210 projects approved (21% of the total ISET projects). These projects have a cumulative value of $43 billion, which is nearly one-quarter (22%) of the total ISET project portfolio value of $195 billion (see Table 11). Western and Central Africa is the second largest region in terms of number as well as value of ISET projects. Here, 202 projects (20% of all ISET projects) were approved between 2015 and 2024, with a cumulative commitment value of $31 billion, representing 18% of the total ISET project value. Cumulatively, almost 41% of ISET projects are implemented in these two regions, to take 38% of the total ISET project value. With this analysis, we illustrate that the World Bank has a large commitment to supporting ISET action

in Africa, which has the highest poverty levels and the highest climate vulnerability of all world regions (Beasley, 2022).

Regarding other regions, 15% of total approved projects with ISET objectives were for Europe and Central Asia, 12% for Latin America and the Caribbean, 12% for South Asia, 11% for East Asia and the Pacific and only 9% for the Middle East and North Africa. In terms of value, although ISET projects going to Latin America and the Caribbean represent only 12% of the total number of projects, the total value is 16% of total ISET project values – joint second in terms of project value. This means there are relatively larger – in terms of size – projects going to this region.

Table 11 World Bank commitments to ISET projects, by region

Subregion	No. of ISET projects approved	% of ISET projects	Value of ISET projects ($ billion)	% of value of ISET projects
Africa	1	0	0	0
East Asia and Pacific	109	11	18	9
Eastern and Southern Africa	210	21	43	22
Europe and Central Asia	155	15	23	12
Latin America and Caribbean	126	12	31	16
Middle East and North Africa	86	9	23	12
Other	1	0	0	0
South Asia	119	12	24	13
Western and Central Africa	202	20	31	16
Total	1009	100	195	100

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024)

7.2.2 Climate-related finance

The Bank historically focused on poverty reduction and other social inclusion objectives as part of its development objectives, up until around 2015, when environmental action started gaining traction. We undertake this analysis to underscore the Bank's commitments to such environmental action. As noted above, the Bank has approved 3,296 projects on environmental sustainability between 2015 and 2024. Thus, 60% of the total portfolio within this timeframe has had an environment-related objective. These projects have a cumulative value

of $131.4 billion, or 17% of the total Bank project value ($771 billion) within that period (see Table 11 on World Bank projects with ISET objectives).

Similar to ISET projects, the majority of Bank projects targeting environmental sustainability (3,296 in total) are in Eastern and Southern Africa (20%), followed by Western and Central Africa (19%), with these two regions having a cumulative share of 39%. Following this, 15% are in Latin America and the Caribbean, 14% in East Asia and the Pacific, 12% in South Asia and 12% in Europe and Central Asia.

A large number of environment-related projects are in the African region, and this is reflected in the cumulative values of the project portfolio. Table 12 shows that, at $236 billion over the period 2015–2024, the African portfolio dwarfs that of Asia,[72] which comes second at $201 billion – by $35 billion. Only $67 billion of the Bank's funds has supported environmental sustainability projects in Latin America and the Caribbean between 2015 and 2024.

From this analysis we notice two things. First, the African region continues to benefit from the Bank's support, but initially for poverty reduction and social inclusion and more recently for environmental action. This could mean the continent is fighting multiple crises at the same time. While it grapples with poverty reduction, climate change and environmental crisis represent another source of vulnerability and protracted crisis. Specifically, Eastern and Southern African has received the largest number of projects as well as the highest value of projects compared with any other sub-regions.

Table 12 Regional commitments of climate-related finance by the World Bank

Region	Commitment ($ billion)	% of commitment in combined regions	Subregion	Commitment ($ billion)	% of commitment in disaggregated regions
Africa	236	47	Africa	0.7	0.0
			Eastern and Southern Africa	106	21
			Middle East and North Africa	52	10
			Western and Central Africa	77	15

72 Projects in Asia also include projects in Europe and Central Asia, as shown in Table 12.

Region	Commitment ($ billion)	% of commitment in combined regions	Subregion	Commitment ($ billion)	% of commitment in disaggregated regions
Asia	201	40	Europe and Central Asia	50	10
			East Asia and Pacific	65	13
			South Asia	86	17
LAC	67	13%	LAC	68	13
Other	0.1	0.0	Other	0.1	0.0
Total	505	100%	Total	505	100

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024), using methodology explained in Box 21

Second, the amount of investment going to the African region warrants an understanding of the mechanism used to finance these environment actions. The World Bank uses different types of financing for its projects, including concessional loans and grants to LICs (IDA); market-based lending to MICs and other LICs based on creditworthiness (IBRD); grants (funds that do not need to be paid back); and other financing instruments. Table 13 shows that, cumulatively, the majority of financing to Africa has been through the IDA window, followed by the grant window. Asia and Latin America and the Caribbean have received mainly through the IBRD window, tapping into their higher-income status and creditworthiness.

Table 13 World Bank projects for environment-related activities and their lending instruments

	Not reported		Grants		IBRD		IDA		Other		Total	
Region	No.	Value ($ bn)	No.	Value ($ bn)	No.	Value ($ bn)	No.	Value ($ bn)	No.	Value ($ bn)	No.	Value ($ bn)
Africa	3	0	317	24	184	57	849	121	172	34	1,525	236
Asia	8	0	219	19	468	107	471	54	112	22	1,278	201
LAC	1	0	89	3	260	57	99	4	35	3	484	68
Other	0	0	8	0	0	0	1	0	0	0	9	0
Total	12	0	633	46	912	221	1,420	179	319	59	3,296	505

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024), using methodology explained in Box 21

7.2.3 ISET project size and implementation

To conduct a more in-depth analysis of the extent to which projects promote all the three ISET objectives, and how this is being implemented, we selected a few projects and reviewed their project documentation. We chose projects based on their size and whether they had sufficient documentation regarding their implementation, performance and evaluation. For projects to have sufficient documentation, they should have been in the implementation stage for quite some time: three or four years should have passed since approval date. Thus, we limited our search for projects to be included in the in-depth analysis to those approved between 2015 and 2020, to give sufficient time for implementation and perhaps some progress on evaluation. We also considered only projects implemented in LICs and LMICs according to the World Bank classification.[73] To that end, we first highlighted the distribution of projects by size across all ISET objectives. Then we selected projects for review of their implementation and promotion of ISET objectives.

We categorise projects as micro (up to $10 million), small (more than $10 million up to $50 million), medium (more than $50 million up to $250 million) and large (more than $250 million). Table 14 shows this project categorisation across various ISET objectives. It shows that, for projects targeting ISET objectives, the majority are medium to large projects. This may highlight that bigger projects tend to have budgetary space to target broader objectives, making it easier to cover the ISET objectives. Smaller projects tend to be more focused and face resource/financial trade-offs, allowing them to target fewer objectives rather than full ISET.

Table 14 Number and percentage of projects targeting different ISET objectives

Project size	Social inclusion	Environmental sustainability	Economic transformation	ISET (3 objectives)
Large (above $250 million)	652 (17%)	613 (19%)	337 (20%)	255 (25%)
Medium (up to $250 million)	1,466 (39%)	1,339 (41%)	627 (38%)	437 (43%)
Small (up to $50 million)	987(26%)	861(26%)	443 (26%)	235 (23%)
Micro (up to $10 million)	639 (17%)	483(15%)	265 (16%)	82 (8%)

73 See https://datatopics.worldbank.org/world-development-indicators/the-world-by-income-and-region.html (accessed 18 September 2024).

Project size	Social inclusion	Environmental sustainability	Economic transformation	ISET (3 objectives)
Total	3,744 (100%)	3,296 (100%)	1,672 (100%)	1,009 (100%)

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024)

Table 15 ISET projects selected for further investigation

ISET projects	Size ($ million)
Ethiopia Rural Productive Safety Net Project	1,145.1
Accelerating Transport and Trade Connectivity in Eastern South Asia – Bangladesh Phase 1 Project	753.45
Electricity Access Scale-up Project – Uganda	608
Côte d'Ivoire Agrifood Sector Development Project	250
First National Transmission Modernization Project for Pakistan	425
Nigeria Electrification Project	765
Electricity Transmission and Reform Project- Cameroon	325
Strengthening Markets for Agriculture and Rural Transformation – Pakistan	300
National Agricultural and Rural Inclusive Growth Project – Kenya	200

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024)

Project documentation for these seven large and two medium-sized projects revealed investments in energy, agriculture and trade (two in LICs, five in MICs). Of these, three (Ethiopia safety net, Côte d'Ivoire agrifood and Pakistan markets for agriculture) were clearly intended to be well balanced across the three ISET objectives. The others were energy infrastructure projects and usually hit two of the three objectives substantially.

Only one project measured and reported related co-benefits.

Boxes 22 and 23 give an agrifood sector example from Côte d'Ivoire and an energy infrastructure example from Pakistan, respectively. Both are examples of ISET finance, with the Côte d'Ivoire project positive across the three objectives while the Pakistan example is positive for environmental sustainability and economic transformation but less clearly so on social inclusion.

Box 22 Côte d'Ivoire Agrifood Sector Development Project (2021–2027, $250 million)

The intention of this project is to develop commercial enterprises and create jobs (economic transformation), promote climate-smart agriculture (environmental sustainability) and integrate food crop agriculture in regional value chains and markets, while addressing the barriers women face in accessing resources for agriculture (social inclusion). By June 2023, little had been implemented (World Bank, 2023c).

Box 23 Pakistan First National Transmission Project (2017–2025, $425 million)

This project has increased access to electricity by developing hydropower to reduce GHGs as a basis for expanding the grid to include more customers (a weak basis for arguing that the project is inclusive) and reducing power outages to support economic transformation. This was the only project that calculated climate co-benefits.

Implementation was assessed as moderately satisfactory in December 2023, although only 16% of the budget had been disbursed by then (World Bank, 2017).

7.3 Private financing to support ISET

The private sector is increasingly being recognised as a potential player in financing for climate action and other objective (more broadly ISET), given the limited size of available public resources. There are two ways of looking at private finance for ISET and climate action. First, are direct financing flows from private actors, including philanthropic institutions, charities and CSOs as well as commercial banks and corporations, among others. Second, there is private financing that is mobilised by using public resources. More generally, the methodology for calculating climate finance has not been well established. As a result, it is not easy to monitor the flows to climate action, whether for public or private flows. A key challenge is data availability, especially on the latter. However, in recent years there has been some progress on tracking mobilised private climate finance.

Box 24 How can private climate finance help achieve ISET?

Private finance can be used to support implementation of development projects with specific ISET objectives by providing additional financing. Governments can strategically leverage public financing through systemic change and policy reforms to stimulate and unlock more private investment. Additionally, governments can take advantage of international, national and subnational development finance institutions (DFIs) with local knowledge and networks (including multilateral, bilateral, national and regional development banks) to catalyse private investment.

These DFIs, can set precedents and provide new business models to attract private sector interest in investing in low- and middle-income countries, as they have demonstrated successful approaches. Moreover, these DFIs have in-depth understanding of the markets, policies and regulations affecting investment in sustainable development, and this can be lent to private investors to promote ISET outcomes. Some multilateral organisations are already using equity or blended finance to catalyse more private finance. Such projects include Kenya's KawiSafi Ventures Fund, a universal, green energy access programme, and the Acumen Resilient Agriculture Fund (GFC, 2021; Bird, 2022).

Box 25 Recent trends in mobilised private climate finance

Data from the OECD shows an increasing trend in the volume of mobilised private climate finance (OECD, 2024). The OECD estimates that private finance mobilised for climate action reached $21.9 billion in 2022 (ibid.), representing a 52% ($7.4 billion) increase on the 2021 figures. There are generally more climate finance investments in mitigation than in adaptation, and this is also the case with mobilised private climate finance. Much evidence suggests that mitigation-related investments offer measurable climate benefits and a greater financial return to investors. However, recent analyses show private investors also have a willingness to invest in climate adaptation, though it may be hindered by risk profiles and lack of bankable projects associated with adaptation (Adhikari et al., 2021; OECD, 2023).

The 2024 OECD climate finance report indicates some sectors, such as energy, have benefited the most from the growth in mobilised private finance. About 48% of total mobilised finance is estimated to be in energy projects, which significantly dwarfs the second sector (banking and financial services), at 14%. The majority of the mobilised private finance is concentrated in UMICs (41%) and LMICs (27%). There is a limited number of private projects in LICs (3%).

7.4 Conclusion

Climate finance, as part of development finance, is a major opportunity to contribute to ISET objectives. MCFs have made strides in this direction through their focus on co-benefits, and through their use of integrated conceptual and results frameworks and tools such as CIF's Just Transition Toolbox.

The slow speed of programme or project design and implementation as well as access challenges need to be urgently addressed. Complex and time-consuming processes are slowing project preparation and the flow of climate finance, causing much stakeholder frustration. This is a generic problem of development finance where existing access barriers to MCFs are progressively removed. Some lesson learning shows that multilevel operations take time to build, and that readiness grants and direct access funds can play an important role. This, in turn, may help speed up future financial flows.

The World Bank is leveraging its well-established portfolio focused on inclusion and economic growth to incrementally promote ISET objectives. This includes action through its Green, Resilient Inclusive Development approach (World Bank, 2021) (see Chapter 2), which focuses significantly on climate change and sustainability.

The Bank is demand-led, so what it finances depends on what its client governments want it to support. This analysis, as well as other work cited in this chapter, suggests the Bank could be more careful in allocating climate or environmental sustainability tags to its projects, to avoid accusations of greenwashing. Additional technical oversight of the process of categorising projects, perhaps by an independent body or evaluator, could help ensure better outcomes.

The Bank has assumed the role as the donors' favourite climate financing organisation, but it has not yet succeeded in supporting climate adaptation or mitigation to justify this, despite being able to build on its more traditional focus on poverty reduction and economic development. This is coupled with lingering questions about the legitimacy of some of its climate-related funding. However, it has in recent years developed an integrated approach to achieving environmental as well as social and economic objectives in a significant proportion of its projects. This analysis suggests that about a third of its projects are designed to achieve ISET objectives of some kind. Based on the limited investigation carried out for this report, this integration across objectives may be especially effective in agricultural projects but more difficult to achieve in energy infrastructure projects.

Climate finance from the private sector has the potential to complement public finance efforts to promote ISET objectives. More effort to unlock private finance is needed. This can be done through strategically leveraging public financing; improving coordinated private sector efforts, including harmonisation of data collection; and taking advantage of DFIs to

catalyse private sector investment and to test innovative ways of working, and also to gather evidence and illustrate good practices that successfully attract private sector investment in lower-income countries.

8 Key findings and implications for policy and programming

Inclusive, sustainable economic transformation represents a way forward for the planet and its people, including for LICs and LMICs. Economic transformation refers to increasing productivity and incomes; inclusion refers to progressively less adverse and impoverishing participation in the economy and society; and environmental sustainability refers especially to reducing the environmental bads generated by economic output, and to the progressive inclusion of more and more people in those processes. These environmental bads include GHG emissions but also other pollutants and biodiversity loss.

8.1 Conceptual progress

ISET is a straightforward concept, with straightforward outcomes to aim at and measure. The 'landing zone' is clear, and measures to indicate when it is reached are available. However, achieving it requires not only shifts of power and organisational changes but also innovation: previous technological methods of achieving economic transformation cannot be copied where they will not lead to social inclusion and poverty reduction within planetary boundaries. Institutional change is needed to achieve more joined-up and balanced policies and outcomes: organisations need to provide incentives to individuals to think outside their comfort zones to achieve joining-up, and to design monitoring systems capable of focusing on several results areas simultaneously. There are now many international and regional strategies in place providing frameworks for achieving ISET to some degree or other. However, implementation is subject to the politics prevalent in client states. Chief among the barriers to implementation are outdated budget allocations, especially those supporting politically sensitive subsidies that send negative signals to markets and individuals.

There is a history of previous conceptual attempts to join up the development objectives inherent in the SDGs, usually between two rather than three objectives. Inclusive growth and climate-resilient development are examples, and ISET builds on these. While there has been some convergence in thinking between economists, social inclusion specialists and environmentalists, priorities for the short, medium and long term are much debated. This report argues that, given both urgent needs and planetary boundaries, these must vary by country-income context, with priorities for LICs and LMICs distinct from those for UMICs and HICs.

Some aspects of the ISET 'landing zone' are significantly better understood than others. Policy-makers and researchers have generated a vast and expanding literature focused on economic development's relationships with environmental sustainability and with

poverty reduction. Synergies and trade-offs between economic development and environmental sustainability, and climate change specifically, are generally well identified. However, the solutions are often less well known than the problems, and how to implement them even less so.

Links between environmental sustainability and poverty reduction/social inclusion are much less understood and less documented. Here, the synergies can be difficult to identify. It is mathematically possible for poverty to be substantially eliminated within planetary boundaries. However, this would involve politically challenging reductions in especially energy and transport consumption by the world's most prosperous people. And, of course, finding less resource-intensive modes of production and consumption in future.

The difficulty in identifying synergies is partly because, with less access to resources like land, water and trees as well as capital, the poor are less able than wealthier people to generate the win-win inclusion–sustainability solutions that conservation-focused initiatives and organisations seek. Institutional and disciplinary incentives can also be misaligned; adjustments are needed here as well as with the monitoring and evaluation metrics used within and between countries (e.g. considering only total GHG emissions rather than per capita or income-disaggregated levels).

Implications: Countries need space and capacity (see below) to work out for themselves how they can bring in economic, social and environmental objectives. Ministries of finance and planning are critical arenas for levelling up the status accorded to different objectives in government policy and implementation.

Significant further thinking and policy-relevant research are needed on the synergies and trade-offs between environmental sustainability and inclusion or poverty reduction, with an eye on how economic diversification and environmentally sustainable productivity increases can also provide opportunities for people towards the bottom of the income distribution.

8.2 Progress in policy-making

Despite the substantial range of international strategies that now exist, and the supportive international environment created by the inclusive growth, carbon-compatible development and green growth narratives embedded in the SDGs, there is as yet no evidence that there is a big push towards joined-up decision-making and investment in ISET, nor towards achievement of balanced social, economic and environmental outcomes in general.

Although far from universal, there are ample examples of countries promulgating ISET-related policies or goals. However, the effective implementation of these policies – especially aligning disparate ministerial goals and rebalancing interministerial competition within governments – remains a significant political economic challenge to achieving

ISET outcomes. Overall, this means there is no evidence of a 'big push' to achieve ISET.

Countries or sectors that have achieved a degree of ISET in their operations have mostly done so driven by unique, context-specific factors, though some commonalities exist in terms of external pressures like standards or trade agreements, internal pressures from social movements or particular leaders, and crises, all of which are further explored below. As a result, there is strong variation in achievements, policies and implementation from country to country, even within countries, and from sector to sector. At a professional or disciplinary level, there are numerous examples of collaboration but also tension.

Implications: Governments should develop or retool central planning/finance units with an ISET mandate and expertise. This would probably mean bringing social and environmental expertise into what has been predominantly economists' territory, and would involve considerable institutional work to also update ways of working (e.g. for monitoring, auditing and goal-setting). This could be replicated at subnational levels of government.

Agencies and donors should increase technical assistance for ISET – especially focused on tackling and reframing the trade-offs. Synergies should be sought and exploited insofar as is possible, but a narrative that shifts away from focusing only on the 'triple wins' that are so hard to achieve would help direct the discussion towards seeking balance. This would require some retooling to create cadres of interdisciplinary specialists. This could explicitly focus on designing institutional arrangements and coordination mechanisms that align ministries and agencies that are currently on different trajectories, and that will work.

Beyond technical assistance, bilateral development cooperation agencies should support innovation and experimentation towards ISET. This might be a case of seeking to replicate successful efforts in new contexts, or finding ways of building capacity to learn from or spill over from more successfully ISET-achieving sectors, countries and subnational areas. This will be an important way of speeding up progress in years to come. It may also mean exploring new areas where ISET could play a key role, especially on neglected issues such as transport, informal economies and institutional incentives.

8.3 Progress in outcomes

Country analyses show there are key ingredients that support ISET but no magic formula. There is no single pathway countries should follow to achieve ISET – though, in general, effective states facing fewer risks, or better able to manage them, seem to have more political space to advance an ISET agenda. There are no political settlements that are consistently found in countries following more of an ISET path. This provides moderate grounds for optimism that, in many countries,

political constraints and contextual challenges will not be an insurmountable challenge to achieving ISET.

There is little evidence of strong 'triple wins,' with clear trade-offs between dimensions. Nevertheless, there is a small group of low- and middle-income countries that have achieved moderate balanced gains (the 'cluster B' countries). Cluster B countries experience lower levels of political, economic and environmental risk than others, and are characterised by strong state capacity and voice and accountability. However, it is positive that there is not a single factor or political settlement type that shapes ISET outcomes, which is not surprising given its multidimensionality; this suggests a need for context-specific approaches in moving to ISET, and that almost no political settlement type is a barrier to ISET.

That said, little ISET is achieved in political settlements where power in a regime's social foundation is narrow and where power is dispersed. Here, a large majority of the population lacks effective political power; where the population does have some power, it is fragmented or split into factions. This political settlement type often describes fragile and conflict-affected states, which are also – concerningly – often the smallest recipients of climate finance and aid (Oxfam, 2023). Conversely, states where ISET outcomes and policies were observed tended to have stronger voice and accountability scores.

In summary, there has been some progress in producing ISET policies but there is little evidence of strong ISET outcomes being generated – and no evidence yet of a universal shift to ISET thinking.

Implications: An important programming message emerges from this conclusion for the international community – that is, support countries to achieve all three goals in an ambitious but also realistic way given their income level, starting point and stated policy goals. In countries with high levels of risk, efforts to reduce and mitigate these would be a good entry point in support of ISET; in countries with low levels of risk but still poor ISET outcomes, it would be better to focus on government capacity.

Efforts to reduce risk and vulnerability provide a foundation for ISET to take root and should be given considerably more support. They are also criteria for graduation from the least developed country category, though they receive less attention than the national income criterion in that transition. More specifically, researchers and practitioners should consider if and how economic transformation (especially via diversification) could help reduce the occurrence of economic risks and limit their potential impacts. This is both in the aggregate and within high-risk sectors such as agriculture. Broader risks likely require investigation of and investment in more holistic solutions – such as through longer-term climate change adaptation efforts together with a focus on the quality of disaster risk prevention, management and reduction systems. Reducing conflict risks is critical in some countries, especially severely

conflict-affected poor states (SCAPS), which are mostly LICs where conflict is a major factor preventing development (Shepherd et al., 2019).[74]

Government effectiveness is a vital ingredient for intersectoral collaboration (and vice versa), and merits dedicated effort. This has long been a focus of development research and practice, but in the context of ISET the issue is especially about levelling up capacity across government departments and creating the mechanisms for coordinated action rather than further empowering and entrenching existing power imbalances. Nonetheless, efforts must support the governments in place today – whether this means helping progressive governments tweak or nudge 'top-down' power wielded by ministry of finance units that plan and allocate resources cross-sectorally, or whether it means establishing new, flatter, hierarchies in councils or committees that bring different sectors together for joint and coordinated action. Where government is decentralised or devolved, as this work has investigated in Kenya, levelling up capacities at local level is also important to also ensure different voices are heard.

While the major actions with respect to environmental sustainability are taken in the global North, permitting the global South the space to focus primarily on adapting to climate change while developing economically and inclusively such that poverty is rapidly reduced, the global South too needs to play its part as time goes on. This will involve shifting development strategies away from destructive, resource-hungry approaches, towards ISET.

Upgrading a government's capacity to foster different forms of innovation (technical, social, institutional) is therefore likely to be important in generating ISET outcomes. For example, Thailand's BGCE initiative benefits from the country's strong public and private sector innovation networks. However, in Thailand and beyond, technical or commercial innovation alone appears insufficient: public investment in R&D does not directly correlate with ISET outcomes. Here, further research is needed to unpick what other factors mediate this relationship, in order to enable an understanding of how to support innovation-led ISET.

8.4 Trade-offs and synergies

Overall, this report finds in practice a hierarchy of policy objectives in place, with economic growth (sometime transformation) privileged over social inclusion, poverty reduction and environmental sustainability – though there can be synergies, usually across two dimensions, as where transformation through market-led labour-intensive manufacturing can produce a strong degree of inclusion. The report explores how a landing zone

74 In 2017/18, the SCAPS were Afghanistan, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Guinea, Guinea-Bissau, Haiti, Liberia, Mali, Sierra Leone, Somalia, South Sudan, and Timor-Leste.

of greater equality among these three objective areas could be set up, and how integrated policy-making may replace siloed actions.

Implications: Trade-offs and synergies between the three objectives need to be actively managed (minimised or maximised), and this can best be done through frameworks for action, implementation and monitoring that bring the objectives together rather than keeping them separate. While frameworks and policies do now exist at international and, less consistently, national level, follow-through with implementation is more hesitant and faces significant obstacles.

The 'how' of implementing ISET needs more visibility and dedicated efforts – hence the inclusion of country and sector case studies, and an analysis of development finance for ISET in this report. The next section draws out findings and implications on this issue.

8.5 Political economy issues

One of the underlying findings that has slowly crystallised during this project is the way in which much work in ISET-related areas often neglects to create enough space for the political economy dimensions that are essential for transforming ISET-related ideas to implementable and implemented policies. The power of different actors shapes both the goals set in ISET-related policies and the speed of travel towards them. The most obvious barriers arise from opposition from powerful vested interests that stand to lose from a shift to ISET-aligned futures; these are sometimes acknowledged.

Mentioned less often is a more passive opposition by political actors and powerful decision-making bodies such as ministries of finance, many of which are focused on economic growth and transformation and, to a lesser extent, the distribution of opportunities, benefits and costs from economic development. Even within institutions that are nominally aligned with ISET, there may be institutional structures that create an implementation gap for policies – which may have cross-sectoral content and balance. This is because resource allocation may be outdated (as in persistent subsidies sending obsolete signals) and because actors' incentives or their near-term priorities may not be well aligned with policies, especially those focused on further-away time horizons.

Implications: Achieving ISET outcomes is clearly a mixture of strategy to set longer-term targets and tactics to overcome latent institutional barriers and more outright opposition from vested interests. This major aspect of achieving ISET in the real world should be more widely acknowledged. Policy proposals, frameworks and research efforts that fail to highlight this should be openly questioned on ***how*** they envisage transformation will be realised. Efforts to overcome political barriers can learn from previous economic, social and environmental transformations; more research efforts here would be welcome. Ways of handling powerful vested interests include compensation, public–private partnerships to push

investment in progressive directions and building systems that require compliance with regulations or accountability (see Box 26, which illustrates the power of local community monitoring in holding agencies to account).

Within governments, the challenge for policy-makers interested in strengthening collaboration across social, economic and environmental objectives is often largely institutional rather than personal, professional or disciplinary. Success here is more about creating a coherent set of institutional arrangements and incentives, and a congruence between public and private roles and initiatives. Institutional arrangements and incentives that will simultaneously incentivise economic transformation, inclusion and sustainability are still rare, and will continue to need careful thought from institutional reformers. There will also often be vested interests in the status quo who have little incentive to see such institutions succeed. Thus, governments also need to consciously design institutional arrangements capable of withstanding pressures from vested interests antithetical to ISET. This is likely to involve a greater degree of thinking and working politically (TWP) than in typical technical capacity-building projects (Whaites et al., 2023). This may also be reflected in specific programmes that target those areas or sectors where there are greater chances of ISET-related changes being realised and where any wins may spill over into other sectors that are lagging behind.

8.6 Tackling implementation challenges

The coordination and implementation challenges noted in Bangladesh, Indonesia and Kenya are typical of those in countries with political settlements characterised by broad social foundations and dispersed power configurations, also known as competitive clientelist states. Change comes when there are coalitions of interested stakeholders mobilised for reform. Promising plans derive from the involvement of social movements or participatory decision-making processes. Institutional arrangements need to be promoted that avoid negative 'lock-ins' and foster positive 'lock-ins'.

The **market** can promote economic transformation, though the state needs to enable this. Beyond the useful development of standards in particular value chains, the substantial potential for mandatory and voluntary trade agreements to support ISET is not yet being fully realised.

There are clear indications that interventions in global value chains can be an important lever for facilitating ISET, yet their impact thus far has been limited and is only just starting to be felt. Interventions could occur via multilateral or bilateral government agreements or voluntary private sector actions. Multilateral agreements (e.g. at the WTO level) have not facilitated ISET. Emerging regulations in select consumer markets can be powerful drivers of change. These include initiatives under the umbrella of carbon border adjustment mechanisms

but can also include reporting standards. For example, the EU's 2024 Corporate Sustainability Due Diligence Act and California's pending Climate Corporate Data Accountability Act require large companies to interrogate and report on emissions along their supply chain.

Meanwhile, more directly involving the private sector, crises such as the Rana Plaza disaster in Bangladesh may push standards higher. This drew consumer and international attention to the poor conditions of safety and work in garment factories that domestic labour campaigners were already campaigning against, and eventually provided the impetus for actions by value chain actors and states to improve working conditions in Bangladesh and, more recently, in Pakistan. Our case studies did not include other trade agreements (e.g. Fairtrade, Better Cotton Initiative, B-Corp), though further research in this area may establish that these and mechanisms, like shareholder activism, can be another route to promoting change.

Implications: More work is required to understand the potential that trade agreements – at all levels – has for facilitating ISET. Approaches that fail to meaningfully consider social and environmental factors should be disregarded, as they may promote a 'race to the bottom'. Research is needed to provide the evidence to support what would be an overhaul of the global trade system, likely including perspectives from actors who have not typically contributed to this discussion previously. Governments and agencies should also recognise and adapt existing trading practices that promote environmental unsustainability or social inequality, and avoid similar pathways in future trade agreements.

The private sector needs to expand its corporate social responsibility efforts to facilitate and support trades unions and capacities for compliance with social and environmental standards up and down the value chain. Companies also need to continue to be required to assess social and environmental outcomes all along the value chain. This includes the informal economy units, which may be subcontracted by, or suppliers to, formal, small, medium and large companies. The latter's growing informal employment of casual workers should also be required to be assessed. Governments, advocates and consumers should amplify such efforts towards greater transparency and seek assurance from companies that they are doing so.

State action in interaction with social movements is needed to enable social inclusion on decent (as opposed to adverse) terms, poverty reduction and environmental sustainability. Key social movements include trades unions and consumer movements. International and national efforts to promote CSA need to be raised to the level achieved in the energy sector, where strategies are now in place, though implementation is often blocked by vested interests or outdated budget allocations (e.g. subsidies). There is a need to compensate powerful losers in reform processes.

It was not the focus of our work to investigate the correlation between the strength of democracy and ISET per se, though countries performing well on ISET themes also tended to score well on voice and accountability (often foundational to well-functioning democracies). Nonetheless, (western) ideals of democracy are far from universal, and thus we take it as a positive sign that our analysis found that countries that have most successfully balanced ISET goals include a range of political settlement types. This suggests that, even in less democratic states, there are mechanisms through which ISET ideas can be articulated, through which they can be included in policy and through which they can be implemented. Put another way, democracies with broad foundations are clearly one option to bring ISET themes into play but it appears that, even in some narrower political settlements, there are ways to include other voices alongside usual policy advocates, and to help shift narratives out of siloes and into more balanced ISET thinking.

Thus, there is clearly a need to promote different types of participation in different contexts by empowering different types of knowledge-holders, from subject or disciplinary 'experts' to social movements. The voices and perspectives of domestic actors are obviously most important – policy and ideas champions are particularly key to breaking with the status quo – but international actors can also play a role. Although far from being perfectly implemented, the SDGs are often well embedded in domestic policies, suggesting international policy frameworks can help with a shift towards ISET alongside voices within GVCs.

Implications: Whose voice needs to be heard to achieve ISET outcomes varies between contexts, and thus whose role it is to support it does too. Linked closely to the need to increase thinking and working politically to achieve ISET, the focus of those seeking to support ISET outcomes should be on seeking to empower those voices most likely to be able to achieve progressive action. In contexts where social movements have already made headway in bringing these ideas forward, it may be more effective to seek to empower more balanced decision-making structures. For example, this could be via cross-disciplinary and cross-ministry task forces or committees that can then also be held to account by stronger civil society (or perhaps even include it). In narrower political settlements, it may be better to seek out powerful coalitions of actors close to sources of power that are or could be aligned with ISET themes and attempt to support their efforts to promote change, while also supporting efforts for more inclusive decision-making more broadly.

8.7 More effective finance

There is significant potential in international climate finance as an entry point for ISET because the frameworks developed are relevant, and a degree of integration across objectives is already being achieved. Slow and bureaucratic implementation is a characteristic of development finance as a whole, and there

are undoubtedly barriers to remove that are currently cascading down to climate finance. More effort is also needed to unlock private climate finance.

Finance is a key stepping stone between policies and outcomes, and also currently a key barrier to the achievement of ISET. Finance (and other resources) for ISET can be provided by domestic governments, international public and private finance, and philanthropic sources.

Within countries with ISET-related goals, budget allocations have not changed sufficiently to achieve them. Countries without ISET policy mandates are likely continuing with, and perhaps entrenching, the status quo types of siloed development planning. The provision of climate (or ISET) finance alone does not correct for pre-existing social and economic inequalities (i.e., without counter efforts, powerful actors are more likely to capture the benefits from ISET-directed funding). It can help overcome the major constraints faced by actors seeking to promote ISET and thereby support the joining-up of decision-making across economic, social and environmental sectors. Some climate finance has been applied with recognition of the importance of economic transformation, inclusion and poverty reduction as well as mitigation of and adaptation to climate change.

However, the volume of climate finance has consistently fallen below necessary levels, and public finance in general post-pandemic is in short supply. If our analysis of the World Bank's portfolio reflects a wider trend, we see that climate finance is still largely being used to try to de-risk private finance for energy transitions. This is essential to limit climate change impacts but, given that private finance is much less attracted by climate adaptation compared with mitigation, allocating adequate climate adaptation finance remains a challenge, especially for agriculture and informal sectors, which are heavily impacted by climate change and are key poverty escape routes.

Implications: Governments, researchers and agencies should develop and implement mechanisms to regularly monitor whether budget allocations are aligned with ISET policy goals. Where they are not, efforts are needed to identify why not, and which levers can facilitate changing course in between medium-term policy announcements. Social movements, where they can, are well placed to continually push for such changes.

For multilaterals, there is a need to increase climate finance as rapidly as possible, and to develop new mechanisms as necessary to facilitate a change in the way climate finance is delivered. It is especially important to reach beyond national governments to local authorities, small and micro businesses, people's organisations and households, and to provide resources that may be less conditional, less complex and more rapidly planned and disbursed than they have been to date. It would be helpful if climate and other ISET-related finance providers recognise that the provision of new resources does not automatically rearrange existing economic power relationships within countries, hence

justifying more tailored efforts. In terms of specific sectors, agriculture and informal economies should be given significantly higher levels of attention and financing than they currently are.

All international finance (public and private) should of course become 'Paris-aligned';[75] however, a reasonable question is whether climate finance can be sufficiently reformed without reforming development finance in general. This is a big ask. Given that the MDBs are relied on as major providers of climate finance, significant reforms to development finance are likely to be required.

A philanthropist, or a development financing organisation wishing to pursue an ISET strategy, would invest heavily in existing climate finance mechanisms, both in terms of volume of funding and also in the quality of the funds' processes. They would also be interested in creating new climate financing mechanisms that are capable of reaching the people and local institutions most affected by climate change faster, and with significant and flexible resources that can help them adapt to climate change as well as develop systems that contribute to slowing GHG emissions. A faster process of accrediting national institutions to apply for climate finance is needed.

8.8 More attention to informal economies

Policy typically focuses largely on the formal sector, which employs a relatively small fraction of the workforce and accounts for probably a very substantial fraction of a country's environmental bads. Policy on the much larger and more inclusive informal economy tends to focus on formalisation, following the ILO's approach, through registration, regulation, taxation and social protection, but rarely on promotion or reducing vulnerability and precarity, except for a lucky few businesses.

The informal economies, which provide livelihoods to more than half the global labour force and account for significant proportions of GDP, have received relatively little attention both in research and in positive policy-making on ISET (or the SDGs more broadly). Within this relative vacuum of evidence, there is a tendency to take a negative view of informal economies. In some cases, criticism is valid; for example, value chain actors may use informal economies to avoid regulations and buyer-imposed standards to yield inequitable and unsustainable forms of economic transformation. Yet, at present, knowledge on the links between the economic, poverty and environmental impacts of informal economies is insufficient to come to any concrete conclusions. Nonetheless, we

75 he Paris Agreement (2016) is a legally binding international treaty to which all public financial flows between countries should comply.

can say with some certainty that such economies are at least heterogeneous and that broad-brush attempts to characterise them and make one-size-fits-all policies are unlikely to succeed.

One area of informal/less-formalised economies where some ISET-related knowledge exists is smallholder agriculture. Farmers throughout the world have been adapting their systems to climate and other changes in their environments. Equally, agriculture is a major GHG emitter in many LICs and LMICs, and an agricultural transition is arguably as urgent as an energy transition in those countries. This is especially the case as agricultural commercialisation, irrigation and livestock development also commonly provide critical pathways out of poverty. However, experience to date suggests that people living in and near extreme poverty may struggle to take up climate-smart and productivity-increasing agricultural practices without better public and private sector support. A key potential channel for this is additional climate financing though mainstream agricultural development agencies.

Other aspects of informal economies that are particularly important to ISET are the rural nonfarm economy and urban informal economies, which are critical for poverty reduction and major channels through which poor people are included in economic development. However, while quite a lot is known about how poor people obtain access to the informal economies, little is known about the extent of economic transformation and the degree of environmental sustainability achieved in these economies.

Implications: Closing knowledge gaps is essential to support the achievement of the SDGs and better integrate informal economies in strategies to pursue ISET. Fundamental to this is critically evaluating the currently dominant narrative that views informal economies negatively. If this view is valid, it should be robustly supported by evidence. If it is not, further effort will be required to change mindsets around informal economies. Three aspects could work towards achieving this.

1. There is clearly a strong need for more research into how ISET themes interact with informal economies. Given that, even with the paucity of evidence available today, it is clear there is enormous heterogeneity, these activities would need to cover contexts, scales, sectors and degrees of informality to provide the basis for a convincing and coherent narrative.
2. Decision-makers, policy-makers and other practitioners also need to pay more attention to informal economies in the context of ISET strategies (in some cases a good first step would be recognising their mandate also includes informal economies). The key sectors above (smallholder agriculture, rural nonfarm and informal urban economies) should be targets for action.
3. Both researchers and practitioners (especially the agencies) should invest time, effort and resources in exploring the data that is available today and data that could be available soon

that would support a more coherent view of the interactions of informal economies with ISET themes. For example, more could be done now to make use of readily available ILO labour data that includes proxies and estimations of impacts on the informal workforce. Looking further forward, it will be necessary to include informal economies in ISET-related goal-setting, monitoring and evaluation. This may be via including distinct informal economy indicators in broader suites of macroeconomic/social inclusion/environmental sustainability data analysis, or by tailoring existing indicators to be sensitive to informal economies and their impacts.

Box 26 Designing accountability into climate adaptation in Bangladesh

'Bangladesh is one of the world's most climate-vulnerable countries. The government and international development partners have committed billions of dollars in adaptation infrastructure to mitigate the effects of storms and flooding as a result of climate change. Unfortunately, corruption has severely impacted the implementation of these projects – estimates suggest that around 35% of project funds are embezzled and around 80% of projects are poorly constructed.

However, corruption has not affected all climate change projects equally or in the same way, even when implemented by the same agency, funded by the same funder, and therefore with identical formal governance arrangements. The effectiveness of monitoring by local communities plays an important role in explaining these differences. This effectiveness relates to the involvement of influential individuals, who can use informal power and networks to put pressure on contractors and officials, support wider community involvement, and this involvement can be encouraged through policy design.'

Source: Khan et al. (2020)

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Appendix 1 Definition of indicators used in this analysis

Table A1.1 Definition of indicators used in this analysis

Indicator	Short description	Coverage	Source
Social inclusion			
Poverty headcount ratio	Percentage of the population living on less than $1.90 a day in 2011 international prices	2000–2019 interpolation	PovcalNet (2021)
Multidimensional Poverty Index headcount	Percentage of population deprived in at least one-third of weighted indicators in health, education and living standards deprivations, with the three dimensions equally weighted	Two years (variable)	OPHI (2021)
Social Institutions and Gender Index	Laws/social norms/ practices on social institutions and gender, including factors such as discrimination in the family	2014, 2019	SIGI (2021)
Inequality in the bottom half	Measure of inequality in bottom half of distribution – ratio of income accruing to bottom 20% relative to bottom 50%	2000–2019, with missing values	Constructed from PovcalNet (2021)
Environmental sustainability			
GHG emissions per capita	Includes all sectors (including agriculture, bunker fuels, energy subsectors, industrial processes, land-use change and forestry, and waste) and gases (Kyoto GHGs)	2000–2018, with three-year lag	ClimateWatch (CAIT dataset)

Indicator	Short description	Coverage	Source
Material footprint per capita	Sum of domestically produced and imported raw materials (biomass, fossil fuels, metals and non-metallic ores) divided by population	2000–2019	materialflows.net
PM2.5 air pollution, mean annual exposure	Average level of exposure of nation's population to concentrations of suspended particles measuring <2.5 microns in aerodynamic diameter, capable of penetrating deep into respiratory tract causing severe health damage	2000, 2005, 2010–2017	WDI (2021)
Terrestrial and marine protected areas	(% of total area) Terrestrial: totally or partially protected areas of at least 1,000 ha Marine: intertidal or subtidal terrain – and overlying water and associated features – reserved to protect part/all of enclosed environment	2016–2018	WDI (2021)
Economic transformation			
GDP per capita	GDP per capita based on PPP, in constant 2017 international dollars	2000–2020	WDI (2021)
Diversification index	Indicates whether structure of exports or imports by product of given country differs from world pattern	2000–2019	UNCTAD (2021)
Labour productivity	GDP divided by total employment in economy, converted to 2017 constant international dollars using PPP rates	2000–2020	WDI (2021)

Indicator	Short description	Coverage	Source
Risk, governance and political settlement context			
INFORM risk	Three dimensions to assess risk: hazard and exposure, vulnerability and lack of coping capacity – concepts related to needs of humanitarian and resilience actors	2012–2021	INFORM (2021)
ND-GAIN Readiness	A measure to reflect countries' abilities to leverage investments and convert them to adaptation actions, with three components: economic readiness, governance readiness and social readiness	2000–2018	ND-GAIN
Government effectiveness	A measure to reflect perceptions of quality of public services, quality of civil service and degree of its independence from political pressures, quality of policy formulation and implementation, and credibility of government's commitment to such policies	2000–2019	WGI (2021)
Power concentration	Degree to which de facto political leader's loyal followers are strong vis-à-vis other political factions in ruling coalition and opposition factions	2000–2018	Kelsall et al. (2022)
Social foundations	Potentially disruptive groups that are co-opted by political ruling leadership, which can range from broad and deep to narrow and shallow	2000–2018	Kelsall et al. (2022)

Source: Summarised in Kelsall et al. (2022) and Diwakar (2023)

Table A1.2 Country categorisation into clusters over time

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Algeria	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Angola	D	E	E	E	E	E	E	A	B	A	A	A	A	A	A	E	E	E	E
Armenia	D	B	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Azerbaijan	D	D	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Bangladesh	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Belarus	B	B	B	B	B	B	B	B	B	B	A	A	A	A	A	A	A	A	A
Benin	D	D	D	D	D	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Bolivia	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Bosnia and Herzegovina	B	B	B	B	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A
Botswana	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
Brazil	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Bulgaria	B	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Burkina Faso	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D	D	D	D
Burundi	D	D	D	D	D	D	D	D	D	D	E	E	E	E	E	E	E	E	E
Cameroon	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Central African Republic	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Chad	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
China	B	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Colombia	E	E	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Congo	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Congo, DR	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Costa Rica	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Côte d'Ivoire	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Dominican Republic	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Ecuador	E	E	E	E	E	E	B	B	B	B	B	B	B	B	B	B	B	B	B
Egypt	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
El Salvador	E	E	E	E	E	E	B	B	B	B	B	B	B	B	B	B	B	B	B
Eswatini	E	E	E	E	E	E	B	B	B	B	B	B	B	B	B	B	B	B	B
Ethiopia	E	D	D	E	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Gabon	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Gambia	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Georgia	D	D	D	D	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B
Ghana	E	E	E	E	E	E	E	D	E	E	D	D	D	D	D	D	D	D	D
Guatemala	B	D	B	B	B	B	B	B	B	B	B	D	B	B	B	B	D	D	B
Guinea	E	E	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D	D
Guinea-Bissau	D	D	D	D	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Haiti	E	E	E	E	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D
Honduras	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
India	E	E	E	E	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Indonesia	B	B	B	B	A	B	A	B	B	B	B	B	B	B	B	B	B	B	B
Iran	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Iraq	B	B	B	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Jamaica	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B

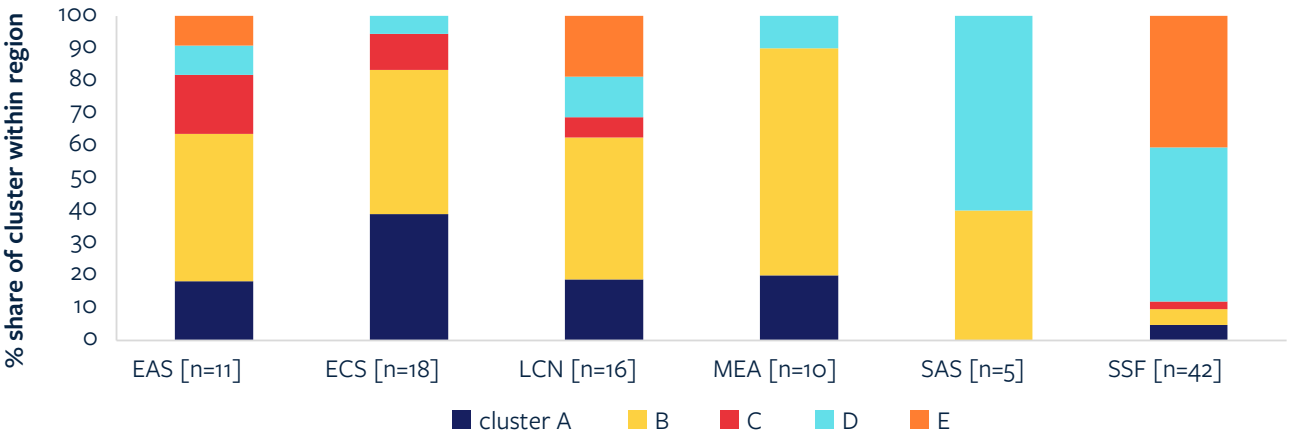
Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Jordan	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Kazakhstan	A	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
Kenya	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Kyrgyzstan	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Lao PDR	E	D	D	D	D	D	D	D	D	D	D	D	D	D	B	B	B	B	B
Lebanon	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Lesotho	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Liberia	E	E	E	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D
Madagascar	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Malawi	D	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Malaysia	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	C	C	C
Mali	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D	D	D	D	D
Mauritania	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Mexico	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Moldova	D	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Mongolia	D	D	D	D	D	D	D	B	B	C	B	C	C	C	C	C	C	C	C
Morocco	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Mozambique	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Myanmar	E	E	E	D	D	D	D	D	D	D	B	B	D	D	D	D	D	D	D
Namibia	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Nepal	D	D	D	D	D	D	B	B	B	D	D	D	D	D	D	D	D	D	D
Nicaragua	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Niger	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D	D	D	D
Nigeria	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	D

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Pakistan	D	D	D	D	D	D	D	D	D	D	B	B	D	B	D	D	D	D	D
Papua New Guinea	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Paraguay	E	E	E	C	D	C	C	C	C	C	C	C	C	C	C	C	C	C	C
Peru	E	E	E	D	E	E	E	E	E	E	D	B	B	B	B	B	B	B	B
Philippines	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Russian Federation	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Rwanda	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	D
Senegal	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Serbia	B	B	B	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A
Sierra Leone	D	E	D	E	E	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Somalia	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
South Africa	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
South Sudan												A	A	A	A	E	E	E	E
Sri Lanka	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Sudan	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Syrian Arab Republic	D	D	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Tajikistan	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Tanzania	E	E	E	E	E	E	E	E	E	E	E	D	D	D	D	D	D	D	D
Thailand	B	B	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Macedonia	A	A	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Timor-Leste	D	D	B	B	D	D	D	D	D	D	B	B	D	D	D	D	B	D	B
Togo	D	D	D	D	D	D	D	E	E	E	E	E	E	E	E	E	E	E	E

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tunisia	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Turkey	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Turkmenistan	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
Uganda	E	E	E	E	E	E	D	D	D	D	D	D	D	D	D	D	D	D	D
Ukraine	B	B	B	B	B	B	A	A	A	B	A	A	A	A	B	B	B	B	B
Uzbekistan	E	D	D	E	E	D	D	D	D	D	D	D	D	D	B	B	B	B	B
Venezuela	E	E	E	E	E	E	E	E	A	E	E	E	E	E	E	E	E	E	E
Viet Nam	D	D	D	D	D	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Yemen	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
Zambia	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
Zimbabwe	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D

Source: Authors using https://search.worldbank.org/api/v3/projects/all.xlsx (accessed 17 September 2024)

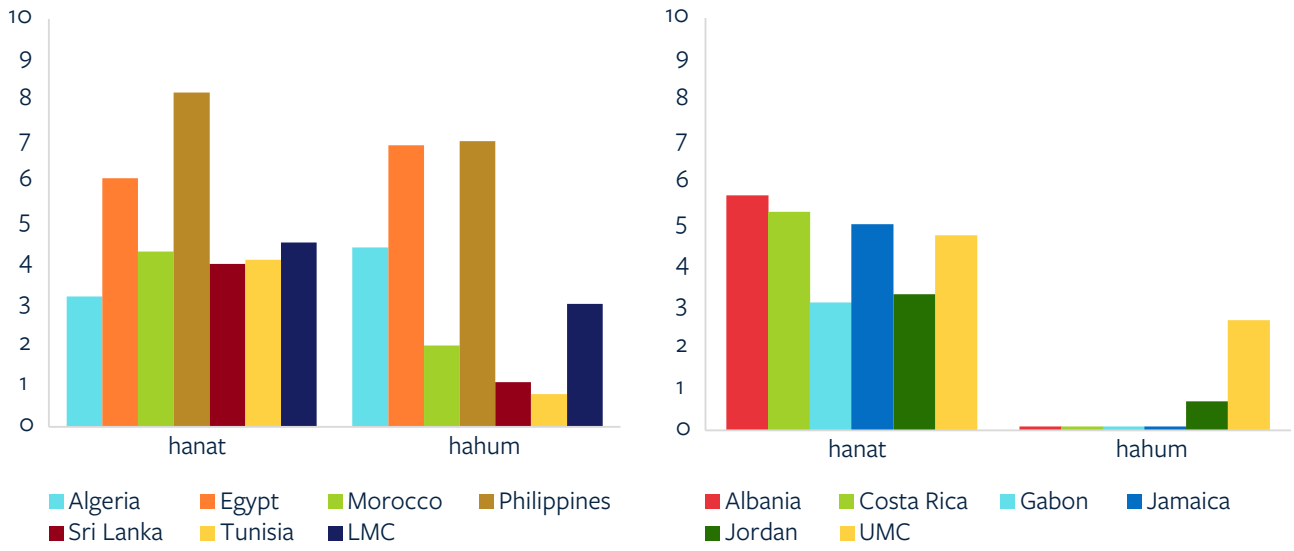
Figure A1.1 Country clusters by region



Note: EAS = East Asia & Pacific, ECS = Europe & Central Asia, LCN = Latin America & Caribbean, MEA = Middle East and North Africa, SAS = South Asia, SSF = Sub-Saharan Africa.

Source: Authors' analysis based on data sources mentioned in Tables A1.1 and A1.2, and World Bank regional groupings.

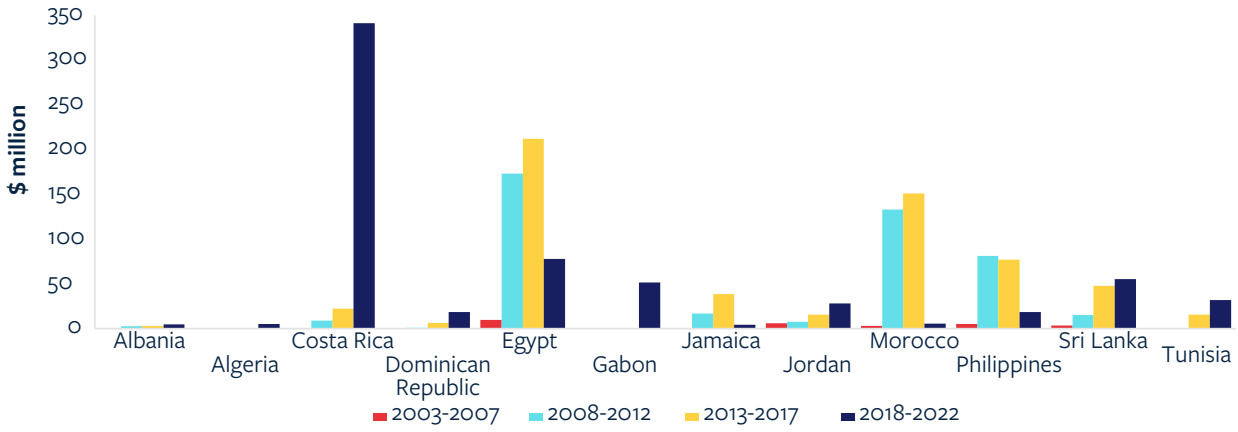
Figure A1.2 INFORM hazard dimensions, 2018



Note: hanat = natural hazard (e.g. climate-related disasters) and hahum = human hazard (e.g. violent conflict).

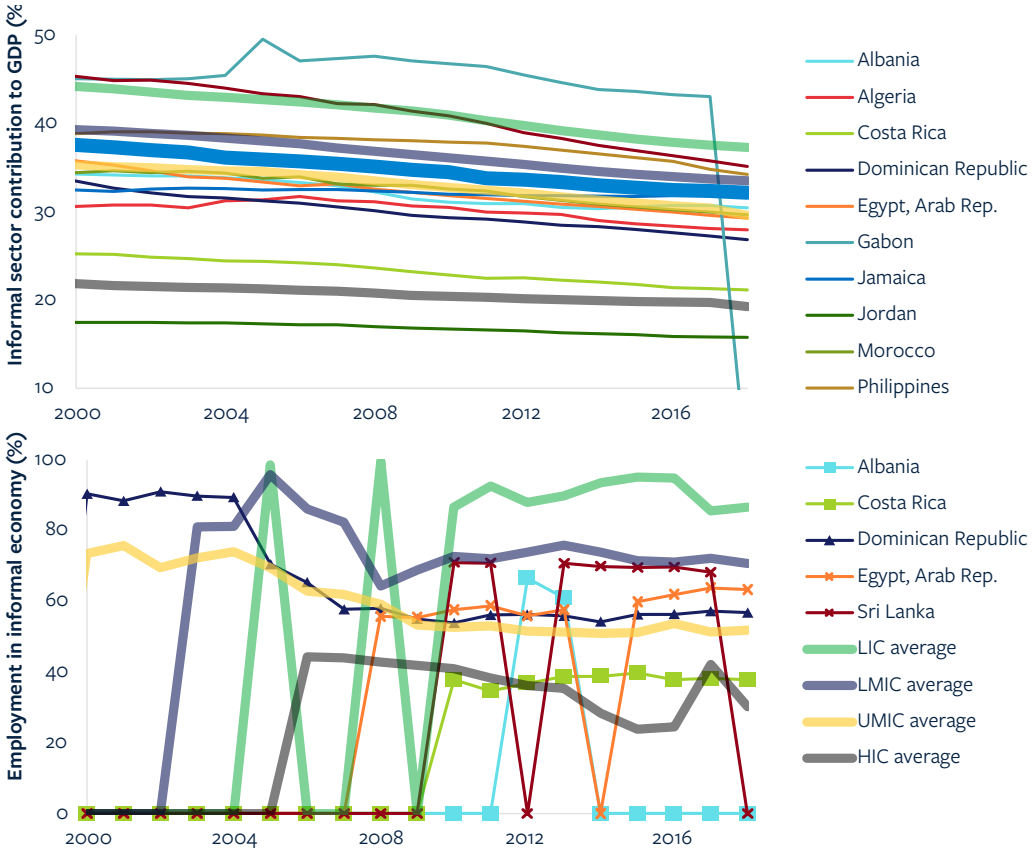
Source: Analysis of INFORM data

Figure A1.3 Climate finance by country



Source: https://climatefundsupdate.org/data-dashboard/

Figure A1.4 Informal sector contribution to GDP (left) and total employment (right)



Source: https://ilostat.ilo.org/topics/informality/

Appendix 2 Political settlements, an exploratory analysis

Political settlement types within cluster B

Given that we are particularly interested in the 'B constant' type, it is worth digging a little deeper here (Table A2.1). The 'B constant' countries fall into two main groups. The first comprises Egypt, Morocco and Tunisia: relatively economically and socially successful autocracies in North Africa disrupted or at least influenced by the Arab Spring, oscillating between concentrated and dispersed power configurations. The second group comprises Philippines and Sri Lanka, somewhat chaotic democracies with broad-dispersed power configurations – although Philippines became more concentrated in 2016 after Rodrigo Duterte took power, and Sri Lanka experienced a period between 2010 and 2014 when it became temporarily narrower and more concentrated following the defeat of the Tamil Tigers.

Table A2.1 Political settlement type of cluster B constant countries

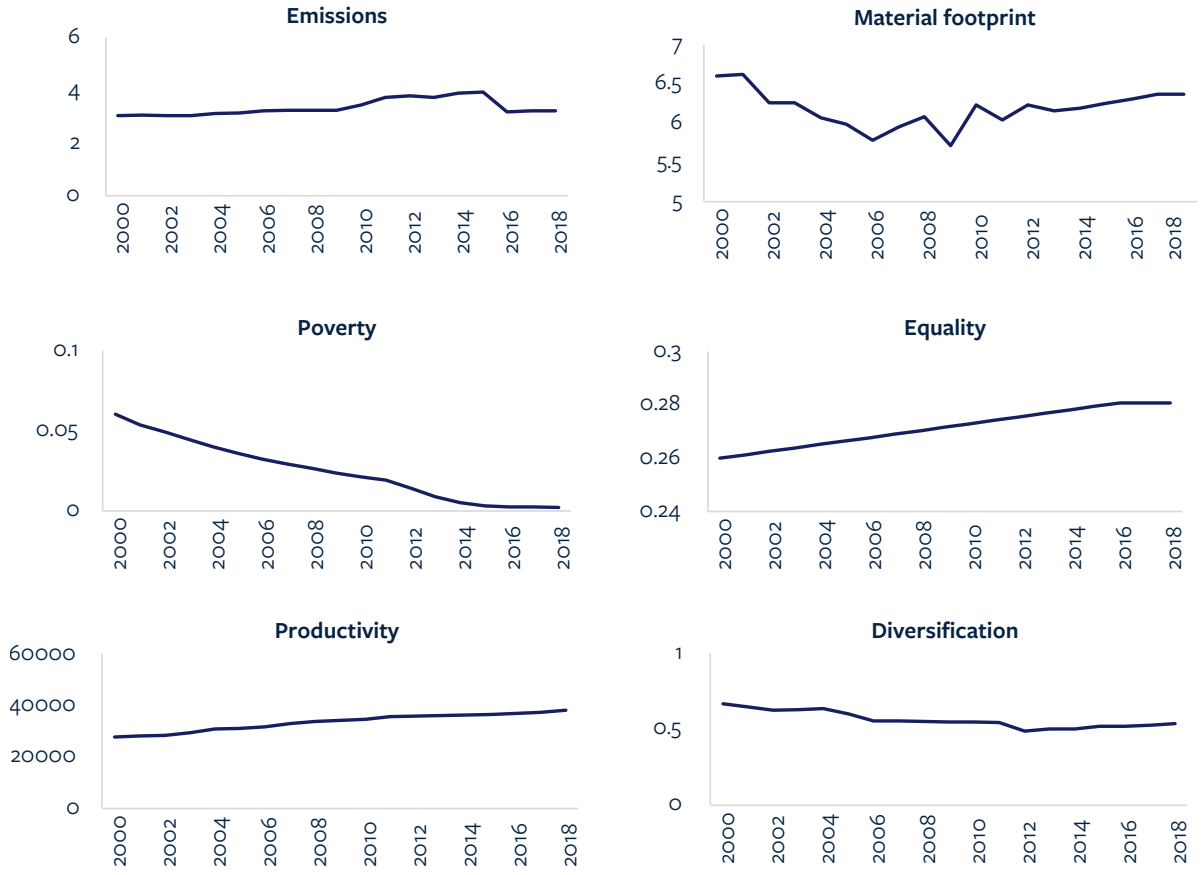
	Political settlement type
Egypt	NC 2001-04; BD 05-10; NC 2014-18
Morocco	NC 00-11; ND: 12-18
Philippines	BD: 01-04; BD: 05-09; BD: 10-15; BC: 16-18
Sri Lanka	BD: 02-05; BD: 06-09; NC/D: 10-14; BD: 15-18
Tunisia	NC: 02-10; BD: 12-14; 17-18

B = broad; N = narrow social foundation; D = dispersed; C = concentrated power.

If we take Tunisia as representative of the first group, it had a clear break with the old order after Ben Ali was toppled in 2011. Amid the political turbulence, there was a shift from narrow-concentrated to broad-dispersed, then an unsettled period before a broad-dispersed settlement was re-established, with Youssef Chahed becoming prime minister. If Tunisia were a typical case, we might expect to see a fairly aggressive growth policy under the narrow-concentrated regime of Ben Ali being tempered by more inclusive social policy with the creation of a broad-dispersed settlement (and with less clear effects on environmental policy). In fact,

it is difficult to discern a clear impact of the political settlement (Figure A2.1). There are no sharp breaks that coincide with or that could be easily explained by settlement changes. Data idiosyncrasies aside,[76] one possible explanation might be that the autocracies of the Middle East and North Africa region already depended for their legitimacy on a fairly strong social contract, expecting that their populations would not demand political rights so long as social and economic indicators were improving. Perhaps the political changes wrought by the Arab Spring did little to change the social contract side of the equation, even if populations demanded more in the way of constitutional rights.

Figure A2.1 ISET indicators for Tunisia, 2000–2018

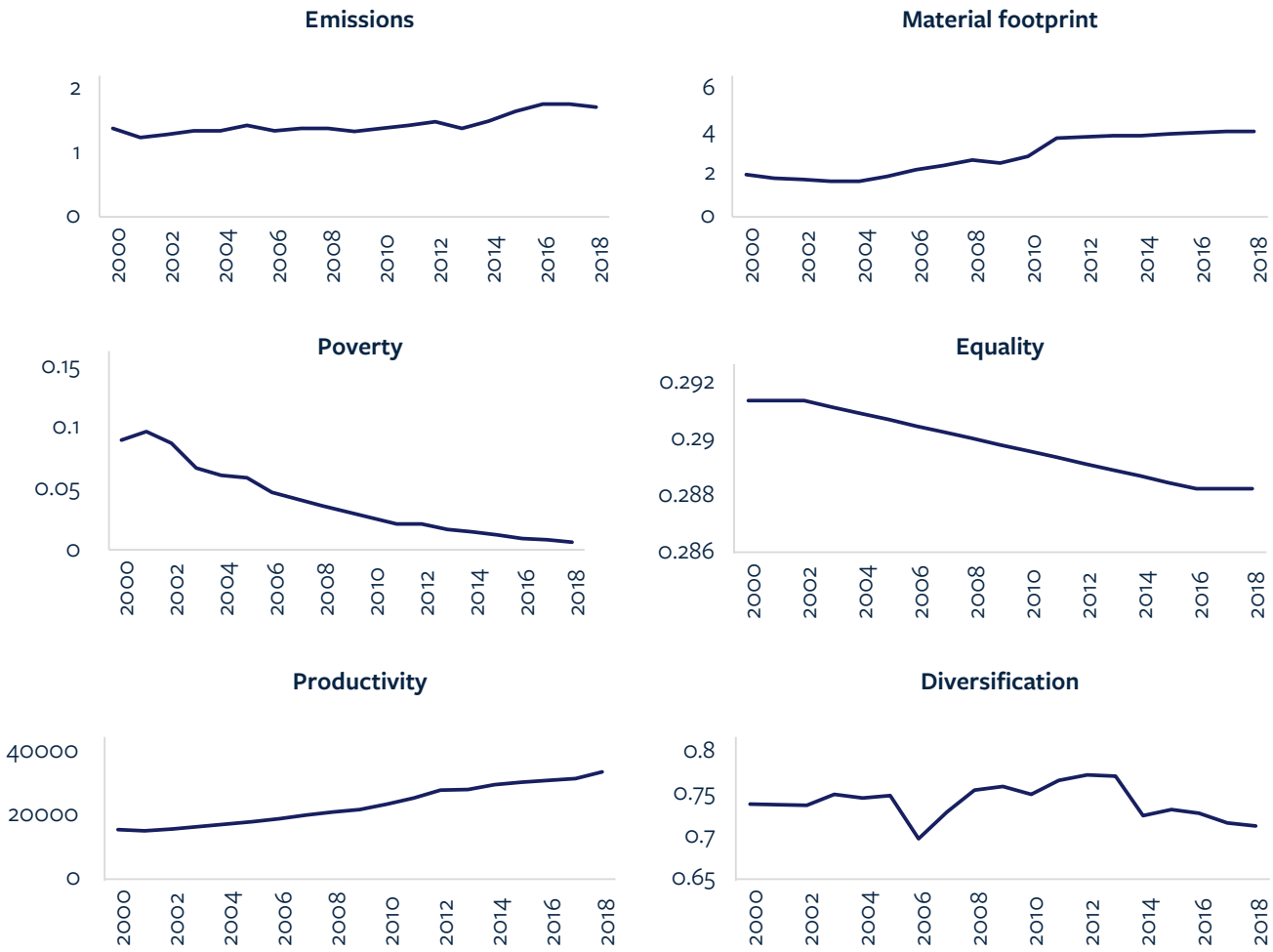


Note: Emissions gradually increase until 2015 and then fall. The country's material footprint declines in the early part of the period before growing again. Poverty and inequality decline steadily. Productivity increases gradually, while economic diversification falls a little.

76 Note that these figures include interpolated values for the poverty and equality measures so should be viewed with caution. For specific poverty or equality values for given years, refer to the Poverty and Inequality Platform original data (https://pip.worldbank.org/).

If we take Sri Lanka as representative of the other group, we see its material footprint increased rapidly following the election of Mahinda Rajapaksa in 2005 and the debt-fuelled infrastructure boom that occurred throughout the final years of the long-running conflict civil conflict (1983–2009). After decades of political disagreement on whether to liberalise the economy, his government ushered in a more domestically focused mixed-mode economy and a decade of policy that, although undoubtedly populist and nationalistic, included other inclusive and environmentally minded themes (Pickard and Lemma, 2022). Despite the policy aims, GHG emissions began increasing rapidly from the mid-2010s, when new fossil fuel power stations were brought online. While poverty appears to have declined quite rapidly, that household surveys were suspended in many of the poorest areas during the conflict and that many poor men escaped poverty through enlisting in the army complicates and cautions against reading too many positives from these figures, as does the fact that inequality is clearly worsening. Productivity is nonetheless increasing quite rapidly. Apart from a sharp decline in 2006 (perhaps as a result of Rajapaksa's election or perhaps because of increased conflict), diversification increased until 2013, since when it has been falling. In general, it is difficult to see a connection between these trends and our political settlement theory. However, the period witnessed steady growth in external trade, led by the garment industry – a trend we observe in some other broad-dispersed settlements, for example Bangladesh, though this trend is not confined to them.

Figure A2.2 ISET indicators for Sri Lanka, 2000–2018



Note: Emissions gradually increase until 2015 and then fall. The country's material footprint declines in the early part of the period before growing again. Poverty and inequality decline steadily. Productivity increases gradually, while economic diversification falls a little.

Political settlements as a lens to learn from sustained movements into cluster B

We also examine political settlement types among countries transitioning into and remaining within cluster B.

- Ecuador moved from cluster E to cluster B in 2006 and remained there. In the early 2000s, Ecuador had a broad-dispersed political settlement, but it moved to broad-concentrated under Rafael Correa in 2007 after a semi-settled period in 2005–2006. Correa survived an attempted coup in 2010 to further consolidate his power.
- India made a similar transition in 2005. However, in this case, although there was a change in leadership from Atal Bihari Vajpayee to Manmohan Singh, there was not a change in

political settlement type, though the country did become somewhat broader and more dispersed. The settlement then became more concentrated post-2014 under Narendra.

- Indonesia has spent all but two years in cluster B and for all of that period it was broad-dispersed.
- Finally, Vietnam moved from cluster D to cluster B in 2006. Although Vietnam has spent most of its post-unification history in the narrow-concentrated category, this was a period when the settlement was more dispersed, probably signifying intense rivalry within the ruling Communist Party coalition between Prime Minister Nguyen Tan Dung and General Secretary Nong Duc Manh.

Reviewing sustained movements into cluster B (Section 4.5), we can make a number of observations. First, movement into cluster B has often coincided with changes in the political settlement in the shape of changes in leadership (and hence also potentially ideology), but not necessarily with changes in political settlement type. Next, a variety of political settlement types, or even not having a political settlement, have been associated with both transition to and maintenance of cluster B outcomes. The same can be said of risk profiles and voice and accountability dimensions, which are varied across the set.

A few interpretations are possible. One is that there are different pathways to cluster B outcomes: in some (admittedly rare) cases in our data, tripartite outcomes might be achieved by design, and enabled by a particular political settlement type, most likely the broad-concentrated variety. Broad because this potentially influences the degree of inclusion achieved, as well as the degree of policy focus on sustainability. Concentrated because implementation is more likely to happen than where power is dispersed.

On other occasions, tripartite outcomes might be achieved by default, for example through pro-growth policies that underdeliver (and are consequently comparatively 'green') because of weak-implementation capacities, as we might expect in broad-dispersed settlements. In other cases, the economic decline caused by disruption may have a levelling effect, and also reducing economic activity may lower pollution.

The final possibility is that political settlements, at least as we have conceived of them, are just not particularly important to this question, though our earlier work on growth and social inclusion strongly suggests that they should be. Our own correlational analysis for this study shows at best weak correlations between political settlement type and ISET outcomes, with the correlations mostly not in the direction predicted by political settlement theory. Perhaps more in-depth qualitative study would help reveal the complex interactions between the political settlement and a host of other variables, but for the time being it appears that political settlement

type is not a major driver of outcomes. The positive message for policy-makers is that, although government effectiveness matters, ISET outcomes can be achieved under diverse political arrangements, with political settlement type not, apparently, a binding constraint.

Appendix 3 Possible intermediate outcomes

Monitoring intermediate outcomes for ISET is advisable, as the final outcomes may take many years or even decades to achieve after policies, programmes or private sector initiatives have begun. There is a range of possibilities. Below is a selection, representing very initial thinking on this issue.

There is a growing number of global and national indices of **producers producing to social and environmental standards**. Many, though not by any means all, of these are in agriculture and originate from the Food and Agriculture Organization of the United Nations (FAO), or from social movements/NGOs. Some are from private sector alliances. A significant proportion of some traded crops (coffee, cocoa, tea, palm oil) are included in one or another set of standards, though standards vary significantly in terms of the strictness of their demands. The advantage of these standards is that both social and environmental standards are considered.

See: https://en.wikipedia.org/wiki/Sustainability_standards_and_certification

Number of standards per country could be an indicator. There is a compendium of eco-labels by country: www.ecolabelindex.com/ecolabel/fairtrade

Interestingly, there is a United Nations Forum on Sustainability Standards (UNFSS, 2012) with regular reports but no index of adoption of voluntary standards (UNFSS, 2022).

On **other aspects of environmental decision-making**, there is an environmental democracy index (Worker, 2015).

There are also eco-innovation indices (e.g. Park, 2016; LexisNexis, 2023; https://green-business.ec.europa.eu/eco-innovation_en).

On **social inclusion**, we could also look for adoption of decent work standards in legislation and practice. The International Labour Organization is the custodian for numerous relevant indicators (ILO, nd).

One could also look for cases brought to court in a more qualitative assessment of implementation.

The Social Institutions and Gender Index could also be used: this measures discrimination in the family, restricted physical integrity, restricted access to productive and financial resources and restricted civil liberties. It includes information about legislation passed, outcomes and attitudes:

www.oecd.org/stories/gender/social-norms-and-gender-discrimination/sigi/dashboard A further indicator of inclusion could be the share of business

development support (including credit) going to micro, small and medium enterprises, and especially to micro and women-owned businesses.

However, not enough is known about the impact of different forms of business development support, and the effects can be small (Cravio and Piza, 2016; Piza et al., 2016; Jayachandran, 2020).

On **economic transformation**, there is a review of progress on policy instruments (UN-OHRLLS, 2019).

And Gelb et al. (2019) propose 13 indicators, including some intermediate indicators, that DFIs could use to assess the transformational potential of their investments.

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ODI Global
203 Blackfriars Road
London SE1 8NJ, UK
+44 (0)20 7922 0300
info@odi.org

odi.org
LinkedIn: ODI Trade and Economic Development
BlueSky: @odi-trade