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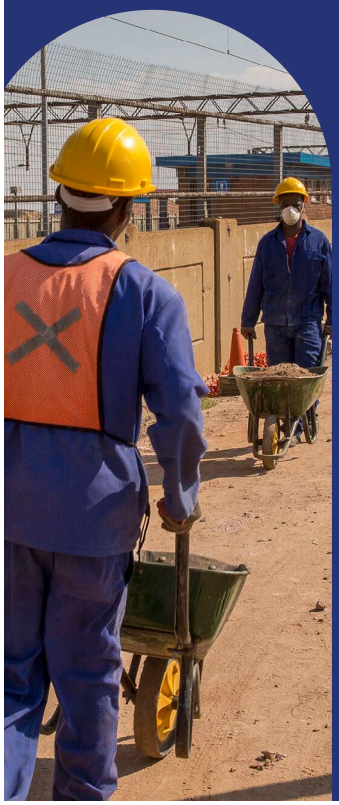
AFD
AGENCE FRANÇAISE
DE DÉVELOPPEMENT

EXTENSION OF
THE RESEARCH
FACILITY ON
INEQUALITIES

REDUCING INEQUALITIES:
INSIGHTS FROM THE EU-AFD RESEARCH FACILITY

A synthesis of evidence, tools,
and partnerships, 2020-2025




#ResearchInequalities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WHAT IS THE EU-AFD RESEARCH FACILITY ON INEQUALITIES?

The European Union and Agence Française de Développement have both made tackling inequalities a strategic priority. In this context, the two institutions launched a joint initiative in 2017, the EU-AFD Research Facility on Inequalities. This public policy-oriented research programme has helped partner countries and development actors better understand the dynamics of inequality and design more effective public policies in response.

2017 → 2020 → 2025 2026 → 2028

First phase of the Facility | **The Extension of the Facility** | **Towards a Third phase**

2017-2020: First phase of the Facility

Funded by the EU and coordinated by AFD in collaboration with research centres in partner countries, the first phase of the Facility supported **22 research projects across 32 countries.** The objective was to improve the understanding of socioeconomic inequalities—their root causes, consequences, and potential solutions.

This objective was pursued through the development of tools and methodologies to measure and analyse inequalities in diverse contexts, thus supporting partner governments and EU Member States to mainstream the reduction of reduction into their policies and development co-operation strategies.

More than 100 research papers and policy briefs were published, contributing to academic debate while also initiating national-level policy dialogues on inequality.

An addendum to the initial agreement – with an additional funding – was signed in 2020 to enable AFD to continue the research work undertaken during the first phase of the Facility. This addendum allowed the Facility to deliver **13 additional papers, country studies and methodological notes,** to deepen knowledge on inequalities and further inform public policy debates.

2020-2025: The Extension of the Facility

Building on the success of the first phase, an Extension of the EU-AFD Research Facility on Inequalities was launched at the end of 2020. This second phase focused on supporting the design of inequality reduction policies in four partner countries, each with its own specific priorities:

- **Colombia:** supporting the Government with analyses that aim to promote a more inclusive social and fiscal system and reduce spatial inequalities.
- **Indonesia:** producing a multidimensional diagnostic on inequalities, assessing the distributional effects of environmental policies, and analysing the social implications of marine protected areas.
- **Mexico:** supporting a more inclusive development model by analysing the care economy and the distributional effects of environmental taxation, while also exploring how strengthening value chains—through nearshoring, distributed electricity in Nuevo León, and better integration of states such as Oaxaca—can reduce regional and social inequalities.
- **South Africa:** identifying and analysing the social impacts and externalities of social policies, and reducing socio-economic inequalities while addressing the challenges of the energy transition.

Based on research conducted with local research centres, the policies developed under the Extension have been the result of a close dialogue with partner governments. These policies have also built on the results achieved by the Facility, both in terms of methodologies developed and synergies established.

The Extension has made it possible to publish **47 research papers and policy briefs,** organise over 50 seminars and local events, and 3 international conferences, informing national-level policy dialogue on inequality.

2026-2028: Towards a Third phase

Building on these foundations, a third phase of the programme is under preparation for 2026-2028, with the objective to support the social dimension of the Global Gateway agenda and adoption of the EU Inequality Marker (I-Marker) approach across development investments, policy-reforms and institutional practices.

All resources, projects presentation and research publications related to the Facility are available on afd.fr/en

"The Facility has helped place inequality at the centre of national debates"

By extending the EU–AFD Research Facility on Inequalities in 2021, we sent a clear message as Team Europe: tackling inequalities is not optional; it is the defining challenge of our time. Crises multiply, trust erodes, and science is questioned. In this context, the Facility has shown the power of rigorous evidence to turn knowledge into trust, and trust into change.

Working hand in hand with partners such as the Ministry of Finance in Colombia, state authorities in Mexico, the Presidency in South Africa, and the national statistical office in Indonesia, the Facility has helped place inequality at the centre of national debates. It also served as a platform for dialogue between the European Commission, Member States, partner countries and civil society, reinforcing Team Europe's collective impact. This spirit of equal partnership reflects the Global Gateway strategy: building solutions together, rooted in shared values and local realities.

We have not just produced policies on paper but delivered real policy impacts. In Colombia, we contributed to the National Development Plan with new inequality indicators. In Mexico, we supported legislation at the state level on the care economy. In South Africa, we supported the just energy transition by centering inequality reduction and informing the Presidential Employment Stimulus.

Beyond these results, the Facility has also helped us design key innovative tools. The EU Inequality Marker, together with the Distributional Impact Assessment, enables us to track how our external cooperation action contributes to reducing inequalities and to ensure that the poorest 40 percent truly benefit, aligning our investments with the promise of SDG 10.

We will continue to turn the Facility's evidence into inclusive action, making sure the green, digital and social transitions we support through the Global Gateway leave no one behind.

Erica GERRETSEN
Director for Human Development, Migration, Governance and Peace, DG INTPA, European Commission

“Clearly presented evidence helps reframing problems and opening new policy solutions”

The European Union, AFD and many governments in developing countries share the conviction that the necessary transitions ahead of us will not take place without a viable political path and a strong focus on inequality reduction. Hence the goal of the Research Facility on Inequalities was clear: deepen the evidence, broaden the partnerships and ensure that research informs real policy and future investment choices.

First, empirical knowledge was consolidated through new analyses of fiscal incidence, multidimensional inequality diagnostics, and case studies in different countries such as South Africa, Senegal, Indonesia, and Mexico. Each yielded concrete national results while also pointing to obstacles such as unequal access to services, segmented labour markets, or exposure to climate risks.

Second, the Facility linked research and dialogue by engaging ministries of finance, national statistical offices, EU institutions, and partners. Clearly presented evidence helps reframing problems and opening new policy solutions.

Third, collaboration was strengthened, as researchers from Europe and partner countries worked side by side, with governments prioritising the questions and debating the findings. This improved the quality of the work and its relevance for policy processes.

The lesson is simple: rigorous, co-produced and clearly disseminated research can shift debates and support fairer strategies. Inequalities remain profound, while climate change, pandemics, and geopolitical shocks make them more complex. As this phase closes, the task is to build on achievements—sustain networks, refine tools, and keep inequalities at the center of the development agenda.

Thomas MELONIO
Chief Economist and Executive Director of Innovation, Strategy and Research,
Agence Française de Développement (AFD)

SYNTHESIS 1

SOCIAL AND FISCAL POLICIES FOR INEQUALITY REDUCTION

Reforms must focus on improving the distributional impact of public spending aand strengthening domestic revenue mobilisation. © Cyril Le Tourneur d'Ison

In recent years, overlapping crises – financial, health-related (as the COVID-19 pandemic), and geopolitical – have exposed social fractures within and between societies. The Global Human Development Index (HDI) declined for two consecutive years (2020-2021) (UNDP, 2024), with between-country inequality reverting to early 2010s levels (UNDP, 2025), and within-country inequality rising, as reflected in a 0.3-point increase in Gini coefficients (World Bank, 2022). In July 2021, UN Secretary-General António Guterres called for rethinking the social contract, emphasising its importance in rebuilding trust between state and society (UN, 2021). His appeal, echoed in the "Our Common Agenda" (ibid.) report, highlighted the need to rethink how societies deliver public goods, protect rights and ensure participation, especially for those most often excluded (ibid.). In this context, it is vital to identify effective instruments for shaping a more just and inclusive social contract. **What reforms in social and fiscal policy are required to make it fairer?**

I. The role of a fair social contract in reducing inequalities

I.A WHAT IS THE SOCIAL CONTRACT AND WHY DOES IT MATTER FOR INEQUALITY REDUCTION?

The social contract refers to an implicit or explicit agreement between citizens and the state, defining reciprocal rights and obligations to uphold legitimacy, the rule of law, and social justice (UNRISD, 2022). John Rawls (1971) conceptualised it through the lens of "justice as fairness" proposing that a just society should be designed from an "original position" in which individuals, behind a "veil of ignorance" are unaware of their own socio-economic status. This thought experiment ensures that the principles chosen are fair and impartial, laying the groundwork for the welfare state and for redistributive institutions, including social protection and equal opportunities for all (Plagerson, 2023).

On this basis, a social contract is essential for reducing inequalities, as **it provides both the normative and institutional foundation for redistributive policies to be publicly perceived as legitimate and just** (Birdsall, 2001). Indeed, redistribution through progressive taxation, social transfers, and universal access to quality social services could help narrow income and opportunity gaps, while strengthening capabilities, supporting social mobility, and fostering social cohesion (UNDP, 2019) – and thereby contributing to the reduction of inequalities.

I.B WHAT MAKES A SOCIAL CONTRACT FAIR?

While interpretations of a just social contract vary across societies, the literature converges on three core functions: procedural, redistributive, and participatory. The **procedural function** concerns the fair design and implementation of rules and institutions. It requires that individuals be treated equally under the law and that social rights – such as education, health care, and social protection – be clearly defined, legally guaranteed, and accessible in practice (Plagerson 2023; Vonk & Oliver, 2019). Embedding these rights in national legal frameworks, as highlighted in the ILO's World Social Protection Report (2021), helps states extend protection to excluded groups. The **redistributive function** refers to the just allocation of resources, emphasising the role of fiscal policy – particularly progressive taxation and equitable public spending –, in addressing inequalities (Hujo et al., 2024). The **participatory function** highlights the importance of active and inclusive citizen engagement in shaping public decisions, especially those affecting the distribution of resources. Strengthening participation enhances democratic accountability and reinforces the legitimacy of the social contract.

The social contract is thus foundational to reducing inequalities: **it defines how social rights are guaranteed, how resources are redistributed, and how all citizens are included in public decision-making.** Yet in practice, many systems fail to deliver on this promise. To rebuild trust and promote equity, fiscal and social reforms must serve as the pillars of a renewed social contract.

II. Where social contracts lack fairness, social and fiscal policies are key to rebuilding it

II.A WHY DO CURRENT SOCIAL CONTRACTS FALL SHORT?

Many contemporary social contracts fail to ensure access to decent work, essential social services, and opportunities for social mobility. In contexts with high levels of informality and weak social protection systems, large segments of the population – such as the unemployed, the Not in Education, Employment or Training (NEET) youth, and unpaid caregivers – remain excluded. From this point of view, the EU-AFD Research Facility on Inequalities and its Extension (RFI from here on) offers multidimensional inequality diagnostics identifying who is being excluded, and under which structural conditions. A notable example is Mudiriza et al. (2024)'s work in Mpumalanga (**South Africa**), a province facing one of the highest NEET youth rates in the country – over 37% for the past decade, representing more than 638,000 young people aged 15-35. The RFI's findings show that being female, married and with children under the age of seven, and living in income-poor households significantly increases the likelihood of being NEET.

Current social contracts are also often characterised by regressive tax systems, heavily reliant on indirect taxes such as value-added tax (VAT), which disproportionately burden low-income households. The RFI contributes to revealing these imbalances by analysing the distributional effects of tax and public spending systems. In **Senegal,** for example, Gueye (2025) applied the fiscal incidence analysis (FIA) showing that, despite exemptions and reduced VAT rates in some sectors (such as tourism), the tax remains poverty-increasing.

II.B WHY AND HOW ARE SOCIAL AND FISCAL POLICIES KEY TO REBUILDING A FAIRER SOCIAL CONTRACT?

The work of the RFI demonstrates that many social contracts fall short in practice – failing to guarantee social rights, promote equitable distribution, or enable meaningful participation. Building on the three functions of the social contract outlined above – procedural, redistributive, and participatory, – a fairer social contract depends on how these functions are put in practice. Social and fiscal policies serve as the main vehicles for this implementation: they define social rights and who has access to essential services (procedural function), how resources are raised and allocated (redistributive function), and how citizens participate in shaping decisions that affect their lives (participatory function) (Hujo et al., 2024). The RFI provides concrete examples of how these policies operate. For instance, Monroy et al. (2022) highlight how redistributive policies, such as the **Colombia** Mayor programme, provide monthly income subsidies to elderly individuals who are homeless, lack a pension, or live in extreme poverty. By 2020, the programme had achieved full national coverage, reaching nearly 1.7 million people across all municipalities. In Kenya, Manda et al., (2020) applied FIA showing that the overall fiscal system is moderately progressive, with the bottom six income deciles being net beneficiaries of tax and transfers, while the top three deciles are net contributors. This indicates that fiscal policy in **Kenya** functions as a tool for redistribution.

If social and fiscal policies are the pillars to operationalise a fairer social contract, the central question becomes: **how should they be redesigned to make fairness real?**

III. Redesigning social and fiscal policies for a fairer social contract

III.A FINDINGS FROM THE RFI ILLUSTRATING POTENTIAL CHANGES TO SOCIAL POLICIES TO DESIGN A FAIRER SOCIAL CONTRACT

The RFI's findings consistently point to **three structural drivers of exclusion across diverse contexts:** inadequate income support, limited access to decent jobs, and the disproportionate burden of unpaid care work. These gaps undermine the foundations of the social contract. Each of these drivers corresponds directly to a critical area for policy reform – cash transfers, public employment, and the care economy – which are essential to making social contracts more inclusive and responsive.

III.A.a Amplifying the impact of cash transfers

A central area for reform is the rethinking of cash transfers – direct income support to vulnerable groups that enhances resilience and promotes human development (Fisher et al., 2017). The COVID-19 pandemic demonstrated that **cash transfers should not be limited to emergency responses,** but instead form a core component of permanent and inclusive social protection systems. A notable example is **South Africa**'s COVID-19 Social Relief of Distress (SRD) Grant, analysed by Bhorat et al. (2023). For the first time in South Africa, an income transfer was directly linked to employment status, with data showing that receipt of the grant increased the likelihood of employment by approximately 3 percentage points. Several factors may help explain this outcome. First, the grant likely alleviated liquidity constraints, enabling recipients to invest time and resources into the job search – especially during periods when mobility restrictions were lifted. Second, improvements in the grant's administrative reach over time likely contributed to increased uptake and greater effectiveness, particularly among individuals previously excluded from formal support channels.

III.A.b Reassessing the role of public employment policies in the social protection landscape

A second critical area for reform is the reconfiguration of public employment policies. Public Employment Programmes (PEPs) can play a **key role by providing jobs to those excluded from the formal labour market,** especially in times of crisis. As part of the RFI, Philip (2025) shows how the introduction of the SRD Grant in **South Africa** during the pandemic enabled PEPs to evolve from basic safety net function to one valuing labour. The Presidential Employment Stimulus (PES), launched under the Economic Reconstruction and Recovery Plan (ERRP), redefined public employment as a platform for livelihood support and local economic stimulus. By 2024, PES enabled over one million work opportunities through the Basic Education Employment Initiative (BEEI), the largest youth employment programme in South African history. The RFI also provides empirical evidence of the BEEI's economic multiplier effects in a study by Bassier and Budlender (2024). By matching anonymised BEEI participant records with high-frequency sales data from a major retailer, the analysis shows a 15% increase in spending among participants during the programme, with persistent post-programme effects. Estimates suggest this translated into ZAR 38 million (EUR 1.9 million) per month in additional domestic value added, of which ZAR 19 million (EUR 950.000) went to wage bills – primarily benefiting local economies.

III.A.c Ensuring the centrality of the care economy

Encompassing the paid and unpaid activities providing support for care-dependent populations (e.g. children, older people, people with disabilities, special needs), **the care economy remains currently undervalued, with caregiving work largely unrecognised,** unpaid, and disproportionately carried out by women. As part of the RFI, Mudiriza et al. (2024)'s work in **South Africa** highlight the consequences of this neglect, revealing how the absence of accessible care services traps young female caregivers in unpaid domestic roles, cutting them off from education, employment, and social mobility. In Mpumalanga, over half of NEET youth who are inactive and disengaged from the labour market cite caregiving responsibilities as the primary reason – and 85.8% of them are women. In contrast, Orozco et al. (2024)'s research in Nuevo León, **Mexico,** highlights **care as a lever for upward mobility.** Girls from low-income households who had access to early childhood care services were found to improve their position on a social mobility index by 15 points – from the 25th to the 40th percentile – compared to those

without access. Importantly, the RFI does not stop at diagnosis. In **South Africa,** it recommends **investing in community-based care services** to free up time for caregivers – especially young women – to return to school or work. In **Mexico,** it advocates for the **systematic integration of care services into social protection frameworks,** particularly targeting low-income households. These research findings have also informed national debates in Mexico. In an interview, Rocío Espinosa Montiel, researcher at Centro de Estudios Espinosa Yglesias (CEEY) and RFI contributor, highlights that although care has become a prominent issue among female legislators and features in the current administration's social agenda, progress on legal and fiscal reforms has stalled. She points to promising innovations at the local level, such as San Pedro Garza García's time bank, which facilitates community-based exchanges of care services. These examples show that while large-scale reforms are needed, community-driven models, as suggested by the RFI, can deliver flexible, accessible care solutions that empower women to regain access to education and the labour market. This same perspective has been echoed in the **Colombian** context in an interview with Dr. Oscar Becerra, Associate Professor at the Universidad de los Andes and RFI contributor. He emphasises the value of community-level initiatives, citing Bogotá's Manzanas del Cuidado (care blocks), which delivers coordinated care, education, and wellness services in local neighbourhoods, as well as Semillas de Apego, a psychosocial support programme designed for young mothers in conflict-affected rural areas. Becerra also highlights the unique contribution that the RFI can make in this space – not only by identifying and making visible the structural barriers faced by caregivers, but also by supporting place-based strategies that respond to community realities.

III.B FINDINGS FROM THE RFI ILLUSTRATING POTENTIAL CHANGES TO FISCAL POLICIES FOR A FAIRER SOCIAL CONTRACT

The RFI's work also shows that fiscal systems often fall short in two critical areas: they fail to translate public spending into equitable outcomes, and raise revenue in ways that reinforce inequality. To address these shortcomings, **reforms must focus on improving the distributional impact of public spending and strengthening domestic revenue mobilisation (DRM) through more progressive taxation.** These two changes respond directly to the RFI's evidence on how fiscal policy can become a more effective and legitimate tool for redistribution.

III.B.a Domestic revenue mobilisation for fairer and more inclusive taxation

Strengthening fiscal capacity – by "collecting more and spending better" – not only enables strategic social investments, but also fosters accountability, reinforcing a participatory citizen–state relationship. Yet, in many low-income countries, DRM is constrained by high levels of informality, narrow tax bases, and regressive systems that burden the poorest. Applying the Commitment to Equity (CEQ) methodology (Lustig & Higgins, 2017), Akim et al. (2020) find that fiscal systems in **Mali, Senegal** and **Côte d'Ivoire** have a slightly progressive impact on reducing inequality, stemming from the combination of slightly progressive direct taxes, regressive indirect taxes, and progressive public spending on education. The RFI adds value by translating these comparisons into tailored recommendations, such as expanding the Personal Income Tax base among top earners, revisiting VAT exemptions to enhance equity, and introducing targeted excise taxes on tobacco, alcohol, sugary drinks, and carbon-intensive goods. In doing so, the RFI supports partner countries in designing tax systems that are not only more efficient, but also more equitable.

III.B.b Making public spending more transparent and equitable

In times of transformation and instability, strengthening the legitimacy of the social contract requires not only transparency in how public resources are raised, but also in how they are allocated. **FIA plays a critical role by assessing who bears the tax burden and who benefits from public spending** (Amjad, 2019). In **Colombia,** a RFI study by Núñez and Lasso (2024) found that, despite a 2018 tax reform, the redistributive capacity of the fiscal system remained limited. Under 2020 conditions, poverty actually increased from 43.4% to 44.6% after accounting for tax and transfers – primarily due to the regressive impact of VAT and the limited reach of some social programmes. Yet, social spending also contributed to a reduction in extreme poverty from 16.6% to 15.4%, and had a more significant impact on inequality, with the Gini index falling from 0.596 to 0.533. A complementary study by Alvarez et al. (2025) applied the CEQ methodology through a gender lens in a context of high informality and unequal care responsibilities. Findings show that, at equal income levels, women – particularly informal female-headed households with caregiving duties – face significantly higher poverty risks than men. Female-headed households record poverty rates 9.3

percentage points higher than those headed by men, with 1.6 percentage points of this gap attributed to greater reliance on informal income sources.

These results highlight the limitations of current fiscal instruments and point to **the need for more inclusive policies that recognise and address the specific vulnerabilities arising from the intersection of gender, informality, and family structures.**


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Conclusion

This synthesis has explored how social and fiscal policies must be redesigned to build a fairer social contract – one capable of addressing rising inequalities and the limitations of current systems. In this context, the RFI plays a critical role – not only in identifying where social contracts fall short, but in providing the tools and evidence to strengthen them.

The RFI identifies key areas for reform: expanding inclusive cash transfers programmes, rethinking public employment policies, investing in the care economy, and ensuring equitable taxation and efficient public spending in social sectors. In doing so, the RFI helps enhance the capacity of governments and partners to design social contracts that are not only more inclusive and just, but also grounded in legitimacy, accountability and meaningful participation.

SYNTHESIS 2

ADAPTING SOCIAL AND FISCAL POLICIES TO REDUCE INEQUALITY IN THE GREEN TRANSITION

Green transitions risk deepening existing labour market inequalities unless fiscal and social policies support the most vulnerable. © Matahati Productions

The United Nations defines green transitions as systemic and cross-sectoral shifts towards climate-safe and environmentally sustainable practices (UNDESA, 2022). Beyond addressing the climate crisis, these transitions present an opportunity to transform economies and societies by tackling sustainable development challenges and structural inequalities. Yet, green transitions can also lead to disruptive socio-economic impacts, potentially resulting in unequal outcomes across different social groups (OECD, 2024). In response, growing attention is being placed on how green transitions can be made fair – ensuring that their benefits are widely shared and that their costs do not fall disproportionately on the most vulnerable groups. Within this agenda, social policies can help compensate those most affected by the transition, while fiscal policies can enable it by mobilising resources and shaping incentives towards more inclusive and sustainable outcomes. This then underscores the need to examine how social and fiscal policies can be designed to enable equitable green transitions, specifically by addressing the question: **what is the fair approach to green transitions in the current policy-making context?**

I. Why do we need a fair approach to green transitions?

I.A THE SOCIAL IMPACTS OF GREEN TRANSITIONS

A fair approach to green transitions is essential due to its potential unequal social impacts. In fossil fuel-dependent economies, the transition disproportionately affects workers directly employed in these sectors, as well as those indirectly connected through supply chains (OECD, 2022). The reskilling burden falls largely on lower-skilled workers, while green jobs are predominantly concentrated in high-skilled segments (OECD, 2024). As Becerra and Piñeros-Ruíz (2025) demonstrate as part of the EU-AFD Research Facility on Inequalities and its Extension (RFI from here on), **Colombia**'s labour market illustrates this trend: workers with university or postgraduate degrees – particularly in science, technology, engineering, and mathematics (STEM) – have a significantly higher probability of being employed in green occupations. In contrast, individuals with Technical and Vocational Education and Training (TVET) backgrounds have a lower prevalence of jobs directly affected by green transitions (14% of total). Importantly, labour markets most affected by the green transition also tend to be characterised by high levels of informality, which further compounds the vulnerability of workers in these sectors since informality limits workers' access to training, benefits, and secure employment. This places certain groups at particular risk – especially women. Becerra and Piñeros-Ruíz (2025) show that women are 8.4% less likely than men to work in occupations with direct green potential, with only 11.1% of female employment in such jobs compared to 19.5% of male employment.

I.B THE DIFFERENT WELFARE AND DISTRIBUTIONAL IMPACTS OF GREEN TRANSITIONS

A central concern of green transitions is their impact on the distribution of economic and social well-being – **particularly when fiscal instruments such as energy taxes or subsidy reforms are introduced without redistributing mechanisms.** Because low-income households often allocate a larger share of income to basic energy needs and have limited capacity to adapt, they are particularly vulnerable to inequitable green transitions' policies. In **Mexico,** this vulnerability is evident in the case of the Special Tax on Production and Services (IEPS) on fuels. Scott et al. (2024) show that between 2012 and 2020, the IEPS shifted from a fuel subsidy worth 1.3% of GDP into a tax of the same magnitude – resulting in a 2.6% increase in the net tax burden on households. This, combined with an increase in VAT, has had a disproportionately negative effect on poorer households, given the regressive nature of both VAT and IEPS.

Similarly, while carbon pricing is intended to internalise environmental costs, it can also have regressive effects if not designed to consider the impact on the most vulnerable groups. In **Indonesia,** Nasrudin et al. (2025) show how a carbon tax set at €30 per tCO_2 is found to have a mildly regressive impact, as poorer households devote a significantly larger share of their income to energy. However, the study also notes that the overall impact on inequality is highly dependent on the presence and design of accompanying fiscal measures – highlighting the importance of compensation mechanisms in making carbon pricing socially equitable.

If the unequal social and welfare impacts of green transitions are the reason why a fair approach to green transitions is needed, then **it becomes necessary to define what a fair transition is,** and which are its most foundational elements.

II. What constitutes a fair approach to green transitions?

II.A WHY IS IT ESSENTIAL TO EMBED THE LEAVE NO ONE BEHIND (LNOB) PRINCIPLE IN GREEN TRANSITIONS?

Since 2015, with the adoption of the 2030 Agenda and the Paris Agreement, a new paradigm has emerged linking climate action to pro-poor development, embedding the LNOB principle in climate programming (Mensah et al., 2022). **Applying the LNOB principle means prioritising policies that focus on those most affected by climate-related environmental and socio-economic harms,** ensuring they can adapt, respond, and benefit from the shift to a low-carbon economy. This requires strengthening adaptation measures, managing transitions in fossil fuel-dependent regions, and addressing unintended policy impacts such as job losses and increased inequality (OECD, 2018).

II.B WHO SHOULD BEAR THE COSTS OF GREEN TRANSITIONS?

Fair green transitions cannot be achieved without addressing the question of how the costs and benefits of climate action are shared across and within societies. The principles of **shared responsibility** and **fair contribution** recognise that, while all actors must be involved in the transition, they do not all have the same capacity to contribute, nor the same historical responsibility for emissions. Accordingly, **a different allocation of effort is required:** higher-income individuals, large emitters, and wealthier countries are expected to shoulder a greater share of the transitions' financial and social costs. Evidence shows why: since 1990, the wealthiest 1% of the world's population has been responsible for 23% of the total increase in greenhouse gas emissions (OECD, 2024). In 2019 alone, the wealthiest 1% generated 15% of global emissions (Stockholm Environment Institute, 2024). By contrast, the world's 46 least developed countries – home to over 1.1 billion people – have contributed minimally to global emissions, yet they have suffered 69% of worldwide deaths caused by climate-related disasters over the last half century (OECD, 2024).

If fair green transitions must, on one hand, ensure that vulnerable individuals and communities are not left behind, and, on the other, distribute responsibilities and costs according to people's capacities and levels of exposure to risk, then the key challenge becomes: **how can these principles be effectively translated into social and fiscal policies that enable fair green transitions?**


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III. How could we design fair green transitions through social and fiscal policies?

III.A FINDINGS FROM THE RFI ILLUSTRATING HOW SOCIAL POLICIES CAN REDUCE INEQUALITIES IN GREEN TRANSITIONS

The research conducted under the RFI shows that green transitions risk deepening existing labour market inequalities unless social policies are designed to identify and support those most at risk. **This section presents three policy responses** – profiling and designing solutions for at-risk groups, providing skills to the future labour market, and gender- and youth-sensitive planning – drawn directly from RFI findings. These illustrate how targeted, context-aware social policies can reduce inequality upholding the LNOB principle.

III.A.a Profiling and designing solutions for mitigation of labour market impacts

Planned green transitions require social policies to mitigate their potential negative employment impacts. Central to this is the **ex-ante identification of at-risk groups, allowing policymakers to anticipate labour market disruptions** and avoid exacerbating existing inequalities. A detailed sectoral, regional, and demographic profiling of those structurally exposed to labour market disruptions is therefore essential. In support of this approach, Bhorat et al. (2025) conducted a study in **South Africa** as part of the RFI to profile workers in the coal mining sector at risk of job loss resulting from the country's energy transition. The study reveals that nearly 80% of coal mining employment is concentrated in the Mpumalanga province and that the sector's workforce is relatively young indicating sustained employment needs rather than an ageing sector. Additionally, the study highlights the high risk of wage losses for workers who may be relocated to other sectors, since wage inequality within the coal mining industry is lower than in the broader formal economy. With these findings, the RFI highlights **the critical importance of using disaggregated data and robust estimates to inform targeted policies.** In this case, such data supports the prioritisation of skills development and job placement initiatives tailored for a young and vulnerable workforce. However, the RFI does not stop at identifying who is most at risk. It also provides concrete guidance and solutions on how **to support displaced workers through comprehensive social protection packages.** Bhorat et al. (2025) develop a microdata-based just transition policy matrix approach, which assigns social protection policy responses to specific age-skill cohorts of displaced workers. These include temporary income support, mobility assistance, education and training, and early retirement options. The study presents five policy orientation scenarios across three retrenchment levels. Notably, even in the higher retrenchment rate scenario, the costs remain relatively modest – equivalent to 0.6% to 4% of **South Africa**'s current social protection budget. Crucially, the analysis underscores that South Africa already has institutional mechanisms in place that can be leveraged to deliver these protections effectively. In particular, the Unemployment Insurance Fund (UIF) and the Labour Activation Programme (LAP), such as the Temporary Employer/Employee Relief Scheme (TERS), are identified as the most promising instruments to support displaced workers.

III.A.b Providing skills to the future labour market for a diversified and inclusive economy

Fair green transitions also require economic diversification away from fossil fuel-related activities. In this regard, **social policies must invest in skills that enable workers and organisations to be integrated into emerging or expanding sectors** aligned with a decarbonised economy. In South Africa's coal-reliant Nkangala District, Mlauzi et al. (2025) examined the local skills ecosystem for Micro, Small, and Medium Enterprises (MSMEs), revealing structural biases favouring large firms. Going beyond diagnosis, the RFI recommends **integrating local industries into green value chains** through stronger collaboration between MSMEs and TVET institutions to co-design training aligned with regional industrial needs – such as green energy, infrastructure, and sustainable manufacturing. Crucially, the RFI underlines that skilling strategies must go beyond generic competencies and instead focus on market-relevant pathways from incubation to employment. Building on these findings, insights from an interview with expert Dr. Oscar Becerra – Associate Professor at the Universidad de los Andes and contributor to the RFI's research in **Colombia** – highlight the importance of both institutional frameworks and firm-level collaboration in making skilling efforts effective. In

the Colombian context, this points to the role of the SENA (Servicio Nacional de Aprendizaje) – a national vocational training institution with strong regional presence – in providing transferable skills relevant to a changing economy. However, he stresses that this institutional offer must be complemented by job-specific training developed in partnership with firms and sectoral associations, ensuring alignment with actual labour market demand. In sectors dominated by small producers, collective actors like trade unions or producer federations can act as intermediaries, pooling resources and technical capacity to deliver training that individual firms could not provide on their own.

III.A.c Gender and youth-sensitive transition planning

The labour market shifts driven by green transitions are neither gender- nor age-neutral (OECD, 2024). Integrating a gender- and age-sensitive perspective – **particularly concerning the Not in Education, Employment or Training (NEET)** – into transition planning is therefore essential to operationalise the LNOB principle. Mudiriza et al. (2024) analysed the profile of NEETs in Mpumalanga, the **South African** province most affected by the coal phase-out. Findings revealed a youth NEET rate of 45.9% in 2023, with significant gender disparities. Young women, particularly those from low-income households, married, and with children under the age of seven, face a significantly higher likelihood of being NEET. Care responsibilities emerge as a critical barrier: over half of NEET youth who are inactive cite caregiving as the primary reason for their disengagement from the labour market, and 85.8% of them are women. Through such disaggregated profiling, the RFI helps governments in designing targeted social policies tailored to the specific vulnerabilities of different subgroups. Among the most urgent priorities, there are **measures facilitating the school-to-work transition for low-income youth,** particularly through skills development aligned with labour market needs. At the same time, **addressing gender barriers requires policies that strengthen the care economy,** including early childhood development and family support systems.

This perspective is confirmed in an interview with Dr. Kate Philip – Programme Lead of **South Africa**'s Presidential Employment Stimulus and contributor to the RFI's work, – who stresses that tackling gendered labour exclusion in green transitions' contexts demands not only new opportunities but also support for care responsibilities that typically constrain women's participation. This must be done through **two essential policy levers.** First, a strong social protection foundation – including child support, social relief, and pension grants – offers essential income security, enabling caregivers to meet family needs without deepening their marginalisation. Second, public employment programmes can offer recognition, remuneration, and validation for care work that is often unpaid and invisible. South Africa's own experience illustrates this potential, having integrated care roles within its Presidential Employment Stimulus (PES). Flexible arrangements, such as the part-time structure of the Social Employment Fund, are particularly effective in enabling participation by women. For youth, she notes, participation increases significantly when work is perceived as dignified, aspirational, and socially valued.

III.B FINDINGS FROM THE RFI ILLUSTRATING HOW FISCAL POLICIES CAN PROMOTE EQUITY WHILE FUNDING GREEN TRANSITIONS

The RFI's findings highlight **two structural weaknesses in fiscal systems that undermine fairness** in the context of green transitions: first, inefficient subsidy structures that disproportionately benefit higher-income groups; and second, taxation that can have regressive effects if not carefully designed. Reforming fiscal policy in these two areas – through the reallocation of subsidies and the implementation of progressive environmental taxation – is therefore essential to align transition efforts with the principle of fair contribution.

III.B.a Redirecting energy subsidies to create fiscal space and support inclusive green investment

In line with the principles of equity and fair contribution, energy subsidy reforms represent **one of the most effective tools for correcting distributional imbalances** and freeing up public resources to finance fair green transitions. Rather than eliminating subsidies outright, redirecting them towards socially targeted green investments – particularly for low-income households – can simultaneously expand fiscal space and improve transition fairness. In practice, this could be achieved by replacing regressive, consumption-based subsidies that disproportionately benefit higher-income households with in-kind support, such as rooftop solar systems, which prioritise low- and middle-income groups. To illustrate this, Fuentes Bracamontes et al. (2025) conducted a study in Nuevo León (**Mexico**) as part of the RFI,

proposing a strategic reconfiguration of electricity subsidies to simultaneously address distributional inefficiencies and infrastructure constraints. Importantly, this work goes beyond analysis: the RFI developed a feasible reform scenario tailored to local socioeconomic conditions and energy demand patterns. The recommended approach involves reallocating current electricity subsidies towards large-scale rooftop solar panel installation in strategic municipalities. Estimates suggest that by redirecting the annual electricity subsidy, approximately 74,000 solar systems could be installed each year. Over a five-year period, this would result in more than 1,000 MW of accumulated installed capacity – equivalent to a large-scale solar plant, but in a distributed format. While the estimated share of electricity covered by this programme – between 6.9% and 9.2% of total regional consumption – may appear modest, it is significant for two reasons. First, it would be achieved without building new centralised power plants or expanding the transmission grid. Second, it would directly benefit households through clean energy access and lower long-term electricity costs, while also supporting Mexico's broader energy transition goals.

III.B.b Using progressive environmental taxation to finance a fair transition

Beyond reallocating existing resources, fair green transitions also require **fiscal policies capable of mobilising new revenue in a progressive and socially sustainable manner.** The introduction or optimisation of environmental taxes – such as energy taxes – can expand fiscal space by internalising environmental costs while enhancing the redistributive function of the tax system. However, to avoid exacerbating existing inequalities, it is essential that these measures be **accompanied by comprehensive distributional impact assessments** and integrated into the broader public spending framework. This is where the RFI adds significant value, supporting evidence-based policy design grounded in distributional analysis.

In **Mexico,** Scott et al. (2024) assessed the distributional impact of the IEPS fuel tax – an indirect consumption tax levied on fossil fuels – within the context of the national fiscal system. Their findings show that, between 2014 and 2020, the consumable income of the extremely poor shifted from a 2.3 percentage point reduction (relative to household market income) to a 0.5 percentage point increase. In other words, the rise in indirect taxes such as IEPS largely offset the poverty-reducing effect of direct transfers for the poorest households highlighting the regressive potential of environmental taxation when not paired with adequate compensatory measures. Crucially, the RFI not only helps in identifying this imbalance, but also **facilitates the development of concrete policy recommendations.** Among them, redistributing resources through a pure universal transfer (UT) stands out as a promising mechanism to offset regressive impacts. A pure UT refers to an equal per capita unconditional amount for the entire population – essentially the simplest form of transfer, often associated with the idea of a Universal Basic Income. Despite being financed through a regressive green tax, a UT could substantially increase fiscal redistribution (from 2.9 to 4.7 Gini ppt), reduce extreme poverty by 4 ppt, and nearly eliminate the overall impoverishing effect (down from 5.4 to 1.7 ppt). In this scenario, only the top three income deciles emerge as net contributors.

Conclusion

This synthesis examined what defines a fair approach to green transitions in today's policy context. While these transitions are critical for environmental sustainability, they risk deepening existing inequalities if not grounded in principles of fairness. Fair green transitions must therefore be shaped by two core commitments: leaving no one behind and ensuring that the costs are shared fairly. In this context, the RFI equips governments and partners with evidence-based guidance to operationalise fairness in green transitions by identifying at-risk workers, designing inclusive skilling strategies, addressing the vulnerabilities of youth and women, and informing fiscally progressive policies such as subsidy reallocation and equitable environmental taxation. Together, these social and fiscal policies provide a pathway to advance both climate and social objectives – ensuring that green transitions become a driver of equity rather than a source of exclusion.

SYNTHESIS 3

SUSTAINABLE ENERGY TRANSITIONS AND ENVIRONMENTAL POLICIES THROUGH AN INEQUALITY-REDUCTION LENS

Research findings demonstrate how the green transition should not be only environmentally sustainable but also socially just. © Bénédicte Desrus / AFD

Limiting the most severe consequences of climate change will require a rapid and sustained reduction in global emissions over the coming decade, with the goal of reaching net-zero by mid-century (IPCC, 2019). The concept of a just transition recognises that climate mitigation efforts must be pursued alongside measures to reduce poverty and inequality. As climate impacts are already deepening existing socio-economic vulnerabilities, it is essential to avoid a scenario where the most disadvantaged – who have least contributed to the climate crisis – bear the greatest costs of the transition. In energy and environmental policy debates, the idea of a just transition is increasingly cited as a normative framework for building sustainable economies (Müllerová et al., 2023). Yet, its widespread use often fails to translate into policies that meaningfully embed equity as a structural principle. A truly just transition requires attention not only to intended outcomes, but also to their implementation: who participates, under what conditions, and who ultimately benefits. Inclusion alone does not guarantee equity – when it occurs under unfavorable conditions, such as high tariffs, limited access to services, or exclusion from decision-making, it may deepen existing inequalities. Therefore, it is essential to explore how justice – procedural, distributive, and restorative – can be embedded in policy design. The central question is: **how do we ensure the green transition is fair?**

I. What does a fair green transition really mean?

I.A WHAT DO WE MEAN BY A "JUST TRANSITION"?

Originating in the 1980s with U.S. trade unions calling for protections for workers in environmentally intensive industries (Newell & Mulvaney, 2012), **the concept of a just transition has evolved beyond its initial distributive and mitigative focus** to address a broader set of social and equity challenges linked to low-emission transitions. The OECD (2025) adopts a broader perspective, stressing the need to manage distributional impacts, ensure fair benefit-sharing, mitigate transition costs, and provide compensation for adversely affected groups. Increasingly, countries are incorporating just transition principles into national climate strategies. Notably, South Africa's 2022 Just Transition Framework links the energy transition to the country's history of inequality and centers vulnerable groups in decision-making (Presidential Climate Commission (PCC), 2022).

I.B WHY MUST EQUITY BE CENTRAL TO TRANSITION DESIGN?

Calling a transition "just" requires more than envisioning a fairer energy or environmental system – it demands close examination of the pathway to that system. As critical analyses have shown (Ledger, 2022), invoking "inclusion" alone does not guarantee equity. What matters is not just whether inclusion happens, but how – under what conditions and for whom. Therefore, **embedding equity as a guiding principle means ensuring that the processes, not just** the outcomes, of the transition are just. This entails addressing three key dimensions of justice – procedural, distributive, and restorative – as outlined in South Africa's Just Transition Framework (2022). **Procedural justice** ensures meaningful participation by workers, communities, and small enterprises in policy design. **Distributive justice** requires that transition costs and benefits are fairly shared, recognising that decarbonisation creates winners and losers across jobs, value chains, and resource flows. Finally, **restorative justice** calls for addressing historical harm to people, communities, and ecosystems through compensation, remediation, and inclusive governance.

If equity is to serve as the foundation for just transitions and new energy systems, then the very assumptions that shape our current approach to the transition must be questioned. When it comes to the actual design of policies, **equity is rarely treated as a central concern.** To understand the disconnection between principles and practice, we need to look at what the green transition currently looks like.

II. The characteristics of the current green transition

II.A WHO GETS ACCESS TO GREEN JOBS?

Green jobs are one of the main promises of the green transition: they are expected to be better, more stable, and more sustainable (ILO, 2025). However, access to these opportunities is far from equitable. In many contexts, **the economic benefits of green jobs are concentrated among already advantaged groups,** while vulnerable populations remain excluded. The EU-AFD Research Facility on Inequalities and its Extension (RFI from here on) contributes valuable disaggregated evidence showing how green labour market dynamics can reinforce existing inequalities. For example, Becerra and Piñeros-Ruíz (2025) demonstrate that **Colombia**'s labour markets reflects this pattern: green jobs tend to be better paid, of higher quality and concentrated in the formal sector – largely held by university-educated urban men in the upper income deciles. In contrast, women, youth, and rural communities are largely excluded from the jobs created by the green transition, especially when access is shaped by market dynamics that favour those with existing human capital, financial resources, and access to economic networks.

II.B WHO BENEFITS FROM THE FINANCIAL FLOWS GENERATED BY THE GREEN TRANSITION?

The green transition is generating substantial fiscal revenues, potentially progressive and redistributive, via instruments like energy taxes and carbon pricing. Yet in practice, **such tools often have regressive effects,** burdening vulnerable socio-economic groups – particularly where energy use, though lower in absolute terms, makes up a larger share of low-income household budgets. The RFI contributes by producing **analyses that reveal how environmental taxation affects different groups,** providing evidence to assess whether fiscal instruments align with equity goals. Scott et al. (2025) assess the distributional impact of **Mexico**'s IEPS (Special Tax on Production and Services) fuel tax and find that increases in indirect taxation have offset the positive effects of direct transfers in reducing extreme poverty. In other words, the redistributive intent of the fiscal system is undermined when revenues from environmental taxation are not strategically redirected toward the poorest deciles. Without such redistribution, low-income groups are required to help finance the green transition without meaningfully benefiting from its fiscal flows.

II.C WHO OWNS THE GREEN INFRASTRUCTURES?

The infrastructures driving the green transition – solar parks, wind farms, smart grids, and storage systems – are environmentally beneficial but remain largely owned by private actors, large utilities, and multinational firms (Hughes, 2021). Ownership is not a marginal issue: **South Africa**'s Just Transition Framework, for example, explicitly includes it as a component of a just transition, underscoring the need for diversified and democratic ownership to promote equity, resilience, and energy access. **Concentrated ownership raises critical concerns** as it determines who controls profits, strategic decisions, and energy access. A case in point is South Africa's Renewable Energy Independent Power Producers' Procurement Programme as highlighted by Lehmann-Grube et al. (2025). In response to the programme, the National Union of Metalworkers of South Africa (NUMSA) issued a manifesto advocating for social ownership and democratic control, arguing that a profit-driven model leads to high tariffs, risk transfers to the state, and slower renewable energy expansion.

II.D WHO GAINS FROM ENVIRONMENTAL PROTECTION POLICIES?

Environmental protection policies – such as protected areas, reforestation programmes, and biodiversity offsets – are often presented as serving the common good and advancing environmental justice. Yet, without a foundation in equity and restorative justice, their implementation can generate significant distributive inequalities. **Top-down approaches frequently exclude local communities** from resource governance, limiting access to livelihoods. The RFI contributes by documenting these distributional effects and generating evidence on how conservation efforts impact different social groups. In the case of **Indonesia,** Syukri et al. (2025) show that while Marine Protected Areas (MPAs) formally aim to align conservation with local development, their expansion has often prioritised territorial coverage over management quality. As a result, **communities near MPAs face higher poverty rates** and poorer access to essential services than those in non-protected areas.

Taken together, these dynamics reveal a consistent pattern. The poorest and most vulnerable communities often do not gain access to green jobs, benefit only partially from the financial flows of the transition, have little stake in infrastructure ownership, and are only selectively included in environmental protection policies. Under such conditions, equity in the green transition cannot be assumed. We know what a just transition should look like – but when it comes to designing actual energy and environmental policies, equity is rarely treated as a central concern. **So, what needs to change in order for equity to be at the centre of policies design?**

III. What needs to change to make the transition fair and equitable

III.A EXPAND EQUITABLE ACCESS TO DECENT GREEN JOBS

Green jobs are not only low emission occupations, they must also be decent jobs that promote social inclusion, economic growth, and sustainability (ILO, 2025), thereby upholding the principle of procedural justice. Ensuring broad-based benefits from the transition requires **investment in technical and entrepreneurial skills,** closing existing gaps and expanding opportunities for vulnerable and marginalised groups. **Becerra and Piñeros-Ruíz (2025)** emphasise the need for early, targeted public policies to address labour market disparities in **Colombia.** A key priority is integrating green content into Technical and Vocational Education and Training (TVET) curricula, using regionally tailored and gender-sensitive approaches. Strong social protection are also essential to support at-risk workers and prevent rising inequality.

This perspective was confirmed in an interview with Dr. Oscar Becerra – Associate Professor at the Universidad de los Andes who contributed to the RFI's research in **Colombia** – who emphasises that connecting excluded populations to green job opportunities demands an integrated public policy approach. From his view, sector-specific industrial strategies must be accompanied by strong education and training policies, enabling workers to acquire the technical and transferable skills demanded by new green sectors. However, he stresses that **in the space between industrial and education policies lies a third, often underemphasised, pillar: labour market policy.** This policy space is critical to ensure that workers and firms can effectively connect. Labour regulations must be adapted to expand formality, improve job quality, and remove structural barriers to hiring, particularly in regions and sectors most affected by the transition. Without such enabling mechanisms, Becerra warns, even well-intentioned green investments may widen existing inequalities.

The RFI then extends this perspective beyond individual labour outcomes to consider how businesses – particularly Small, Medium, Small and Micro Enterprises (MSMEs) – are positioned within green transition efforts, and whether they are supported to contribute to job creation. In the case of **South Africa,** Mlauzi et al. (2025) conduct a skills ecosystem mapping and show that, while MSMEs have a high potential for job creation in the green economy, there are no enabling mechanisms or catalysts for them to engage with Just Energy Transition (JET) initiatives, mostly due to due to weak municipal support structures.

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III.B REDIRECT GREEN FINANCIAL FLOWS TOWARDS EQUITY

A fair incentives framework for the green economy must consider the distributional effects of environmental fiscal tools. Carbon taxes, for example, are not neutral: their impact varies by income level, geography, and household structure. Achieving both sustainability and equity requires ***ex-ante* assessment tools during policy design to anticipate social impacts and inform targeted compensation.** Revenue recycling is key: the fairness of carbon pricing depends less on the tax itself than on how revenues are redistributed. The RFI advances this agenda by supporting forward-looking fiscal analyses that test the distributive implications of environmental taxes before they are implemented. A study conducted by Nasrudin et al (2025) in **Indonesia** employed an ex-ante microsimulation model, based on household-level microdata, to assess the distributional impact of a proposed carbon tax. The analysis simulated different redistribution scenarios and found that a tax set at €30 per ton of CO_2 would have a mildly regressive impact prior to behavioural adjustments, with a slightly greater burden falling on households in the upper-lower to middle segments of the expenditure distribution. Once behavioural responses were factored in, regressivity diminished, reflecting the relatively small share of taxed fuels in the consumption baskets of poorer households. Crucially, the study shows that the ultimate equity outcome depends on how revenues are used. Among the recycling options tested, means-tested transfers targeted at low-income and energy-poor households produced the greatest gains, with benefits concentrated at the bottom of the expenditure distribution.

III.C DEMOCRATISE OWNERSHIP AND CONTROL OF GREEN INFRASTRUCTURE

Equitable energy systems demand for strategies to enable c**ollective ownership and local control, especially for historically marginalised communities.** Cooperatives, for example, provide a concrete, locally responsive alternative to conventional models – particularly in rural and peripheral areas where grid extension is unfeasible. Yet, legal recognition alone is insufficient. Realising equity, in line with participatory justice, also requires targeted support in the form of technical assistance, access to credit, and capacity building. For example, Hernandez-Cortes et al. (2025) illustrate this through the case of Río Lagartos, **Mexico,** where the local fishing cooperative Manuel Cepeda has acquired a solar-powered ice machine, an investment critical for preserving catches and lowering production costs. Governed through democratic assemblies – and thus participatory management, – the cooperative demonstrates how shared control over renewable energy can enhance both local livelihoods and economic empowerment.

In an interview, Dr. Kate Philip – Programme Lead for **South Africa**'s Presidential Employment Stimulus and contributor to the RFI's work – offers a grounded perspective on the challenges and potential of democratising ownership in transition contexts. She highlights the **strong potential of user-owned models,** particularly in the context of the green transition, where approaches like community-owned solar installations are already showing promise. Rather than replicating traditional ownership structures, this moment presents a unique opportunity to experiment with hybrid models – such as worker share ownership schemes and multi-stakeholder cooperatives – that can foster greater inclusion while remaining commercially viable. At the same time, she stresses the **importance of sequencing and support:** successful democratic ownership models require ecosystem backing – from aligned consumer structures to enabling public policy and market access. Here, she sees the RFI playing a key role in helping policymakers identify what types of collective ownership are most feasible and desirable in different contexts, and how to design support mechanisms that set them up for long-term sustainability, not failure.

III.D DESIGN ENVIRONMENTAL TRANSITION POLICIES FOR SHARED SOCIAL AND ECOLOGICAL GAINS

For environmental policies to deliver lasting outcomes, they must be grounded in principles of procedural and restorative justice, recognising the historical rights of communities and promoting their active role in ecosystem management. This approach creates **new spaces for participation** and for redistributing the value of environmental resources. In **Indonesia,** research supported by the RFI analyses how MPAs can be structured to advance both conservation and social equity. Hanri et al. (2023) propose co-management frameworks that formalise shared authority between the state and local communities, complemented by mechanisms such as conditional payments for ecosystem services, investments in sustainable fisheries and eco-tourism infrastructure. Yet, the redistributive potential of MPAs depends on the quality and inclusiveness of their implementation. Sykuri et al. (2025) find that, despite

government efforts to expand MPA coverage, there has been insufficient attention to management quality – particularly in addressing local welfare and inequality. The analysis documents persistent high poverty in coastal areas: in 2021, 4.19% of individuals in coastal regions lived in extreme poverty, with 12.5% of Indonesia's total poor population residing in these areas. MPA districts also showed a higher concentration of households in the bottom 20% of the expenditure distribution, and between 2010 and 2015, poverty declined more slowly in MPA villages than in non-MPA areas.

Conclusion

The green transition presents an unprecedented opportunity to redefine economic, energy, and environmental systems along sustainable lines. However, its transformative potential cannot be taken for granted. Without equity as a foundational principle, the transition risks reproducing – or even deepening – existing inequalities, further marginalising those most vulnerable to climate and environmental crises. This synthesis has highlighted four key dimensions where equity gaps persist: access to green jobs, distribution of financial flows, ownership of infrastructure, and environmental governance. Across each area, evidence shows that vulnerable populations – especially women, youth, informal workers, and rural communities – are often excluded from the benefits of the transition. Here lies the value of the RFI: by generating disaggregated diagnostics, producing policy-relevant evidence, and engaging national stakeholders, it helps translate equity principles into actionable recommendations. In doing so, the RFI demonstrates how the green transition can be not only environmentally sustainable but also socially just.

TOOLS
TO MEASURE AND ANALYSE INEQUALITIES

Inequality has become a central theme in development debates, with SDG 10 putting it on the international agenda alongside poverty reduction and climate action. But while everyone agrees that inequalities matter, reducing them is not straightforward. Unlike poverty, inequality cannot be captured by a single line or benchmark. It is relative, persistent, and shaped by institutions, norms, and political choices that do not shift quickly. This makes it harder to measure, and harder still to address.

For governments and development partners, this means that credible and practical tools are essential. Without them, discussions about inequality remain vague. With them, countries can identify where inequalities come from, how they evolve, and how different policies can reduce them. From the outset, the EU–AFD Research Facility has aimed to provide such tools. **During its Extension phase, three areas of work have been particularly important: national inequality diagnostics, fiscal incidence analysis, and the development of a framework to assess the distributional impact of development cooperation.**

National Inequality Diagnostics

The first phase of the Facility developed a methodology for national inequality diagnostics (Shifa & Ranchhod, 2020). These studies, carried out in countries such as South Africa, Ghana, and Kenya, provided **a structured way of analysing how inequalities are produced and maintained.** They combined data analysis with institutional and political economy perspectives, and were conducted in partnership with national research centers and statistical offices. This made them useful not only as academic contributions, but as **starting points for government dialogue and policy design.** In the Extension, this approach was further developed and applied in new contexts. Mozambique, Colombia, and Indonesia each carried out diagnostics that adapted the common framework to local circumstances. In Mozambique, the analysis focused on spatial inequalities and the divide between regions (Siúta et al., 2024). In Colombia, the diagnostic highlighted the role of gender, ethnicity, and territorial disparities (Nuñez Mendez et al., 2022). In Indonesia, attention was given to how inequality interacts with environmental vulnerability and climate risks (LPEM, 2024).

An important innovation has been **the update of the diagnostics handbook,** which now includes guidance on assessing climate-related inequalities (Shifa & Ranchhod, 2025). This reflects the growing awareness that climate shocks and environmental policies can deepen existing divides, as the poorest are often most exposed and least protected. A conceptual paper produced in the Extension provides the foundations for measuring and analysing these links, ensuring that future diagnostics can incorporate them in a systematic way (Yasser et al., 2025).

These studies have shown their value in two ways. First, they provide governments and partners with a shared evidence base for discussions on inequality. Second, they highlight practical entry points for policy, whether in fiscal transfers, labor market reforms, or service delivery. By involving local institutions from the start, they also help build ownership, increasing the likelihood that findings feed into national debates and decision-making.

Fiscal Incidence Studies

A second area where the Facility has made progress is the analysis of how taxes and public spending affect inequality. Fiscal incidence studies assess **who pays and who benefits from fiscal policy,** and are **a powerful way of making redistribution visible.** In its first phase, the Facility supported such studies in countries including Kenya, Morocco, and South Africa, using the Commitment to Equity (CEQ) approach.

The Extension has broadened and deepened this work in several directions. A new CEQ study in Senegal finds that fiscal policy modestly reduces inequality through direct taxes and targeted transfers like the *Bourse de Sécurité familiale*, but indirect taxes raise poverty (Gueye, 2025). In-kind spending on health and primary education is strongly progressive, while higher education and energy subsidies favor the better-off, highlighting uneven redistribution.

Four new studies further extended the scope of the tool. In Mexico, researchers examined the distributional impact of environmental taxes, shedding light on how green fiscal policies affect different income groups (Scott et al., 2024). In Colombia, two studies were carried out: one on the overall fiscal incidence, and another adding a gender perspective to see how taxes and transfers interact with existing gender gaps (see Nuñez & Lasso, 2024 and Alvarez et al., 2025). In Indonesia, the focus was on the carbon tax and its incidence across households, linking inequality analysis with climate policy (Nasrudin et al., 2025).

Together, these studies mark a shift from looking only at traditional redistribution through taxes and transfers to considering new dimensions of equity. By integrating gender and environmental perspectives, they show how fiscal tools can be designed to support both social and climate goals. They also illustrate how incidence analysis can move from being a one-off exercise to becoming a practical instrument for policy debates in ministries of finance and parliaments.

A framework to assess the distributional impact of development cooperation

From the outset, the Facility has sought to answer a simple but often neglected question: do development cooperation projects actually reduce inequality? To do so, it tested distributional impact assessment (DIA), a method that estimates who benefits from a project across the income distribution (Morabito & Niño-Zarazúa, 2025). The objective was to go beyond country-level diagnostics and fiscal incidence, and **to look directly at how individual projects affect the distribution of opportunities and resources.** Building on early pilots, the Extension developed the approach further.

Two strands emerged: first, the systematisation of the method through the creation of the Inequality Marker (I-Marker), developed with and now adopted by the European Union; second, the operational testing of DIA in concrete projects, which gave substance to the marker. These experiences confirmed that DIA can be done with relatively light tools, but also showed that timing is crucial: perhaps the most important finding is that DIA is most useful when applied before or during project implementation, so that inequality insights can inform design choices. **The I-Marker is still at an early stage, but it represents an important innovation. By making inequality reduction visible at the level of development investment portfolios, it creates incentives for governments, donors, and implementing agencies to think more systematically about distributional impacts.**

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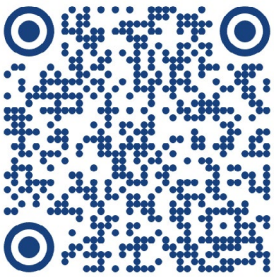

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