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Strengthening Institutions for Decent Work Amid Global Uncertainty and Persistent Challenges

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Executive Summary

- Amid global uncertainty from geopolitical tensions and trade disruptions, strengthening decent work institutions has become essential for sustainable and inclusive development. While meaningful progress has been achieved—inequality between countries has fallen since the turn of the century, driven by rising worker productivity in middle-income countries, and for the first time in history, over half the world's population has social protection coverage—persistent structural challenges threaten to undermine these gains and widen disparities within countries.
- The global employment outlook has weakened significantly. Employment growth is projected at only 1.5 percent in 2025, corresponding to 53 million new jobs, down from the previous forecast of 60 million. Approximately 84 million workers across 71 countries—mostly in Asia and the Pacific—face elevated risk due to trade uncertainty. Pervasive structural challenges include informal employment expanding faster than formal employment, with more than 2 billion workers—58 per cent of the global workforce—remaining in informal employment in 2024. In Africa, approximately 85 percent of workers are employed informally.
- Even as global output per worker grew by 17.9 percent from 2014 to 2024, the labour income share declined from 53.0 to 52.4 percent—part of a persistent downward trend documented since the 1980s. Had the labour income share remained at its 2014 level, global labour income would have been \$1 trillion higher in 2024, which translates into \$290 additional earning for each worker in the world. This underscores the urgent need for institutions that ensure workers capture productivity gains.
- Structural transformation in traditional sectors has slowed globally, with manufacturing stagnating and workers' transition out of agriculture dwindling in most developing regions. Sectoral policies can help remove supply-side constraints by targeting investments in underserved areas and supporting employment-intensive sectors with higher domestic value-added. In contrast, generative AI represents an emerging structural shift: nearly one in four workers could see their role significantly transformed, with women disproportionately affected. Managing these transitions requires social dialogue between employers and workers, alongside comprehensive reskilling programmes and social protection.
- Addressing inequality demands strengthened institutions for decent work. Minimum wage systems should eliminate legal exclusions that affect an estimated 266 million workers and should be regularly adjusted. Collective bargaining should expand beyond the current one-third of workers covered, with sectoral-level bargaining achieving coverage rates of 69.4 percent. Social protection systems require the financing gaps to be closed by 2.3 percent of GDP for lower-middle-income countries and 19.8 percent for low-income countries. To achieve this, international financial cooperation is necessary.
- Coordinated policy action within a renewed social contract is essential. Deepened collaboration with IFIs and regional development banks can support the systematic integration of decent work principles into operations and ensure macroeconomic frameworks adequately account for employment and social protection. Economic growth and social justice are not competing objectives but mutually enhancing forces that together foster sustainable development.

► Social and Economic Outlook

As uncertainty in the global economy persists with shifting geopolitical tensions and trade disruptions, the importance of building institutions that foster decent work for all could hardly be more critical. There has been meaningful progress: inequality between countries has been falling since the turn of the century, driven by rising worker productivity in middle-income countries, and for the first time in history, more than half of the world's population is now covered by at least one social protection scheme.¹ Yet significant challenges remain. Global growth is projected at 3.0 per cent for 2025 and 3.1 per cent in 2026. This represents an upward revision from the April 2025 reference forecast, owing largely to strong front-loading in international trade as firms and households anticipated higher tariffs and an improvement in global financial conditions.² In labour markets, high-frequency indicators from mostly high-income countries reveal a mixed picture. While unemployment rates in countries with 2025 data remain at historic lows, job vacancies are slightly below their long-term trends, and both business and consumer sentiment declined in the first quarter of 2025. The global employment outlook has weakened accordingly. Employment growth is forecast by the ILO to increase by only 1.5 per cent in 2025, corresponding to an increase in global employment of 53 million workers, down from the previous forecast of 60 million.³

This uncertain landscape poses significant challenges. Approximately 84 million workers across 71 countries—mostly in Asia and the Pacific—who hold jobs directly or indirectly linked through supply chains are at elevated risk of disruption due to tariff measures and trade instability. The combination of low unemployment with below-trend job vacancies suggests employers are exercising caution about hiring new workers while maintaining their current workforce. The final employment impact will depend on the evolution of demand for imports from advanced economies, trade diversion effects, and employment shifts into other sectors.

Examining labour market developments over the past decade reveals persistent structural challenges alongside uneven progress. Global economic growth has been moderately employment-intensive, with productivity growth outpacing employment growth. Employment has shifted towards high-skill occupations, particularly in high-income countries, while middle-income countries have experienced gradual occupational upgrading. Yet the expansion of informal employment is a persisting feature. Formal employment increased by 12.6 per cent since 2014 while informal employment grew by 13.7 per cent, with more than 2 billion people—57.8 per cent of all employed workers—in informal employment in 2024.⁴ Most critically, even as global output per worker grew by 17.9 percent from 2014 to 2024, the labour income share—a key indicator of inequality—declined from 53.0 percent to 52.4 percent, meaning workers failed to capture productivity gains and actually received a shrinking share of economic output. Had the labour income share remained at its 2014 level, global labour income would have been \$1 trillion (in constant purchasing power parity (PPP)) higher in 2024, and each worker would have earned an additional \$290 (in constant PPP) on average that year.⁵ These trends underscore ongoing challenges in translating economic growth into formal economy, decent employment opportunities.

¹ ILO, 2025. The State of Social Justice, 2025

² IMF 2025. [World Economic Outlook Update](#), July 2025.

³ ILO 2025. [World Employment and Social Outlook: May 2025 Update](#), May 2025

⁴ IMF 2025. [World Economic Outlook Update](#), July 2025.

⁵ ILO 2025. [World Employment and Social Outlook: May 2025 Update](#), May 2025

► Structural Transformation, Sectoral Policies and AI

Recent evidence paints a concerning picture: structural transformation in traditional sectors has slowed globally, with manufacturing experiencing protracted stagnation and the transition of workers out of agriculture dwindling in most developing regions. This slowdown has contributed directly to declining productivity growth rates across countries, limiting these countries' capacity to generate productive employment. Moreover, when structural shifts do occur, they often concentrate jobs and economic activity in selective locations rather than spreading opportunities broadly. This contributes to spatial inequalities that undermine the potential inclusive impacts of transformation.⁶

Against this backdrop, sectoral policies have regained prominence as instruments for productive diversification and employment creation, while supporting a more balanced macroeconomic environment. In many developing regions, low inflation tolerance in response to shocks stems largely from insufficiently diversified and productive supply capacity. When domestic demand increases—including through fiscal stimulus—the result can be rising imports and inflation that constrain employment growth. Sectoral policies aimed at structural transformation help lift these supply-side constraints, working in tandem with enterprise development and supporting micro, small, and medium enterprises overcome constraints related to technology, markets, finance and skills. By targeting investments in underserved areas and supporting employment-intensive sectors with higher domestic value-added, these policies can catalyze private investment that spurs decent job creation even amid fiscal constraints.⁷

Generative AI is emerging as a transformative force in the world of work, though its future impact remains difficult to predict. Recent ILO research reveals that most workers—76.2 per cent—are employed in occupations with minimal or no exposure to generative AI. However, nearly one in four workers could see their role significantly transformed. Crucially, exposure does not imply jobs will disappear but rather indicates the occupations that might most quickly experience the automation or transformation of existing tasks.⁸ Notably, workers in medium-skill occupations face the highest overall risk, with 38.1 per cent employed in occupations with some degree of exposure, while clerical support workers face the greatest exposure. The findings lead us to identify significant gender implications: women are forecast to be twice as affected as men by automation, particularly in high-income countries.

Whether AI adoption ultimately leads either to job losses or to complementarity depends on how technology is integrated, management decisions, and—fundamentally—the role of social dialogue between employers and workers in shaping implementation. In the event of job displacement, workers require income support through unemployment insurance and social protection measures. Reskilling and upskilling programmes are essential to prepare workers for new careers, particularly in the expanding digital, green and care economies. Given that women face disproportionate dislocation risks from AI, support measures must be designed inclusively to foster access, including by addressing barriers such as childcare responsibilities and transportation constraints that may prevent women from participating in training and placement programmes.

⁶ ILO, 2025, [Global Employment Policy Review](#), September 2025

⁷ ILO, 2025, [The State of Social Justice](#), 2025

⁸ Gmyrek et al., 2025, [Generative AI and Jobs](#), May 2025

► Addressing Inequality and Cost-of-living Pressures

The long-term decline in the labour income share, well documented since the 1980s, and high and persistent wealth concentration and inequality as highlighted in the ILO 2025 State of Social Justice Report, underscore the urgent need for policies that ensure a fairer distribution of the fruits of progress. The ILO calls on governments to strengthen minimum wage systems as key tools to address low pay and wage inequality. While 90 per cent of countries have some kind of minimum wage system, the impact remains constrained by legal exclusions, high informality, and enforcement challenges. An estimated 266 million workers are covered by minimum wage legislation yet earn less than the applicable minimum.⁹ The ILO urges countries to eliminate legal exclusions, particularly for agricultural and domestic workers, ensure regular adjustments to maintain real value, and strengthen enforcement mechanisms.

Increasingly, attention has focused on living wages—the wage level necessary to afford a decent standard of living for workers and their families. As endorsed by the ILO Governing Body in March 2024,¹⁰ decent wages are central to economic and social development and essential in reducing poverty and inequality. Living wages should be achieved through wage-setting processes—statutory minimum wage negotiations or collective bargaining. When designed and implemented in ways that consider both the needs of workers and their families and economic factors, in line with ILO principles, minimum and living wage policies can have a meaningful impact on reducing inequality.

Freedom of association and collective bargaining are critical for a fair distribution beyond basic labour rights. Research consistently demonstrates that collective bargaining leads to more egalitarian wage distributions by raising wage floors and standardizing rates.¹¹ However, globally only one third of employed workers have their terms and conditions determined by collective agreement, and unionization rates fell from 20.0 per cent in 2008 to 16.8 per cent in 2019. ILO research indicates in particular that multi-employer bargaining at the sectoral level achieves high coverage rates at 69.4 per cent.¹²

Social protection is a significant mechanism to address inequalities through redistributive institutions, where social transfers (such as unemployment benefits, pensions, and child benefits) and the progressive taxes that finance them work together. For the first time in history, more than half—52 percent—of the world's population is covered by at least one social protection scheme, up from 43 per cent in 2015. However, almost half the world remains excluded, with low-income countries lagging behind significantly. The ILO stresses that social transfers and the taxes financing them are effective in reducing inequality, but fiscal capacity is crucial: without adequate fiscal space, social security systems cannot function effectively. The ILO estimates that closing the financing gap for a social protection floor (excluding healthcare) would require an additional 0.7 per cent of GDP for upper-middle-income countries, 2.3 per cent for lower-middle-income countries, and 19.8 per cent for low-income countries. Given the low tax capabilities and high debt burden of low-income countries, this gap cannot be bridged without significant international financial cooperation to support national efforts to progressively enhance fiscal capacities.^{13 14}

⁹ ILO, 2024. [Global Wage Report](#). November 2024

¹⁰ ILO, 2024. [Meeting of Experts on Wage Policies, Including Living Wages](#). February 2024.

¹¹ Farber et al, 2021. Unions and Inequality over the Twentieth Century: New Evidence from Survey Data. *The Quarterly Journal of Economics* 136(3): 1325-1385.

¹² ILO, 2025. [The State of Social Justice](#), 2025

¹³ ILO, 2025. [The State of Social Justice](#), 2025

¹⁴ ILO, 2024. [World Social Protection Report 2024-26](#), September 224

► Engagement with IFIs: fostering deepened coordination

While economic growth driven by productivity gains is necessary for creating productive employment and decent jobs, it has never been sufficient on its own. Economic growth can exacerbate inequalities and undermine social cohesion—or it can be channeled to advance decent work, strengthen labour rights and build inclusive institutions. The real challenge is not an inherent conflict between economic and social objectives, but rather the failure to take coordinated action that transforms this potential dilemma into a dynamic, mutually reinforcing synergy.¹⁵

Coordinated policy action can transform the dilemma into a mutually reinforcing dynamic. Monetary policy that considers labour market outcomes alongside price and financial stability, fiscal frameworks that prioritize employment-oriented investments and adequate social protection, sectoral policies that remove supply constraints while safeguarding workers' right during transitions, comprehensively addressing major technical changes such as the AI transition through social dialogue and strengthened minimum wage and collective bargaining institutions—are all important but the whole is stronger than the sum of its parts. They should be pursued holistically, as part of a renewed social contract that prioritizes democratic governance, reduces inequality, engages social partners through meaningful dialogue, and puts people's needs at the centre. A renewed social contract provides the institutional foundation and political legitimacy necessary to sustain coordinated action over time, ensuring that policy choices reflect social and economic realities and contribute to outcomes that societies perceive as fair and inclusive.¹⁶

Deepened collaboration with IFIs and regional development banks can support the systematic integration of decent work principles into operations, ensure that financial investments generate quality employment and strength social protection systems. In this regard, the ILO continues to engage with the IMF on debt sustainability and fiscal space analysis to ensure that macroeconomic frameworks adequately account for social protection financing and employment considerations. The ILO welcomes the focus of the World Bank's 2025 World Development Report on standards for development¹⁷ and looks forward to further collaboration with IFI and regional development banks to demonstrate how taking international labour standards into account can enhance investment outcomes and advance social justice at the same time. The FfD4 Compromiso de Sevilla calls for the international financial architecture to be reformed, including by enhancing voice for developing countries, strengthening global financial safety nets, and integrating social sustainability into debt frameworks. Economic growth and social justice are not competing objectives but mutually enhancing forces that together foster sustainable development.

¹⁵ ILO, 2025. [Jobs, Rights and Growth: Reinforcing the Connection](#). Report of the Director-General. May 2025.

¹⁶ ILO, 2024. [Towards a Renewed Social Contract](#). Report of the Director-General. May 2024

¹⁷ WBG, 2025. [World Development Report 2025 Standards for Development: Concept Note](#), 2025