

# Inclusive Wealth

## AS A MEASURE FOR ECONOMIC DEVELOPMENT



Introduced by the United Nations Environment Programme (UNEP) and UNU-IHDP, the Inclusive Wealth encompasses a country's natural, human, social, and physical resources. This approach is especially relevant in India, where its diverse socio-economic landscape calls for a more comprehensive assessment of wealth.

The Global Wealth Index 2023 shows that global inclusive wealth has increased by nearly 50% over the past 30 years, reflecting strong economic growth. However, this growth has led to a significant depletion of natural capital, with over a quarter lost during this period. This highlights the urgent need to balance economic progress with sustainable resource management.

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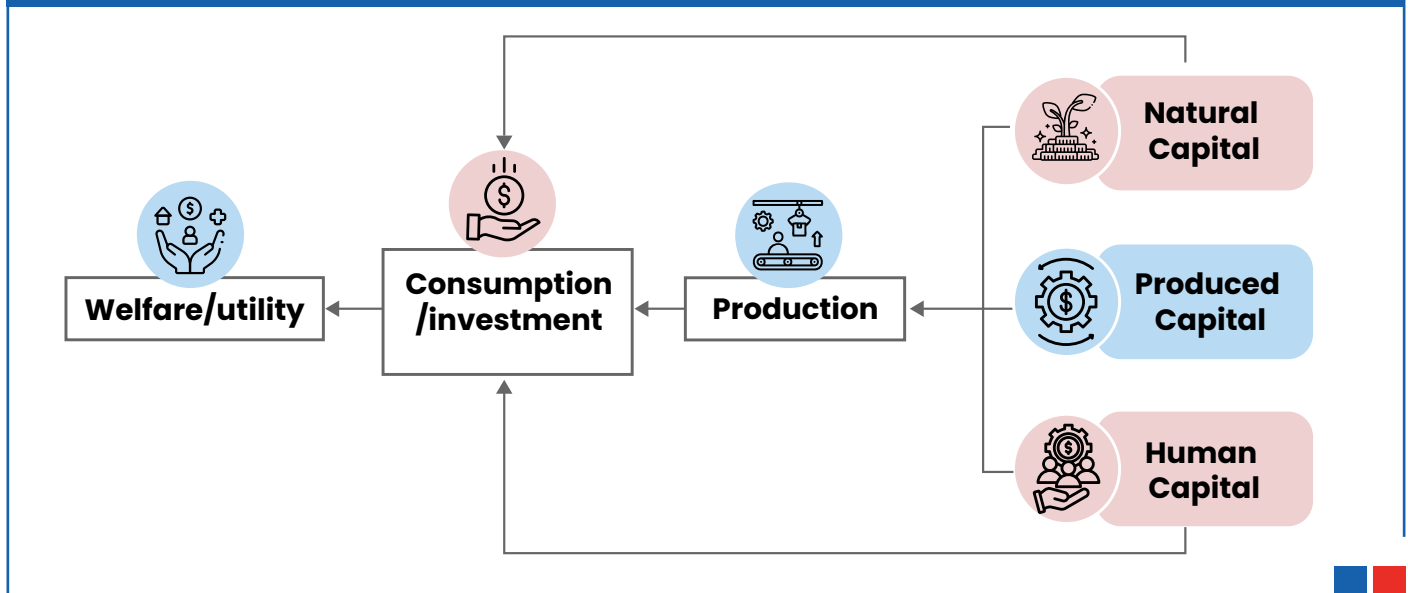
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## I. What is Inclusive Wealth?

Inclusive Wealth refers to a nation's total wealth, which includes financial assets as well as natural resources, human and social capital.

### I.I. Components of Inclusive Wealth

**Figure I.I. Components of Inclusive Wealth**



➤ **Produced Capital:** It includes physical assets like infrastructure, machinery, and technology. Although traditional wealth measures often account for these assets, their sustainability and efficiency are now seen as essential for long-term economic well-being.

➤ **Human Capital:** It refers to the skills, knowledge, and health of the workforce. Investments in education, healthcare, and skill development contribute to a more productive and adaptable labor force, enhancing economic resilience and growth.

➤ A sound human capital development leads to social networks, relationships, and community connections that are vital for inclusive development. Strong social capital fosters better governance, builds trust in institutions, and encourages teamwork in solving problems.

➤ **Natural Capital:** This includes the world's stocks of natural assets such as forests, water, minerals, and biodiversity. Natural capital is important for ecosystem services, which are vital for human survival and economic activities.



## Box 1.1 : Social Emotional Learning and Augmenting Human Capital

### About

- Social emotional learning (SEL) can be defined as the process of **developing competencies, abilities, and/or attitudes necessary to recognize and control emotions, develop caring and concern for others, form positive relationships, make responsible decisions** and deal with challenging situations.

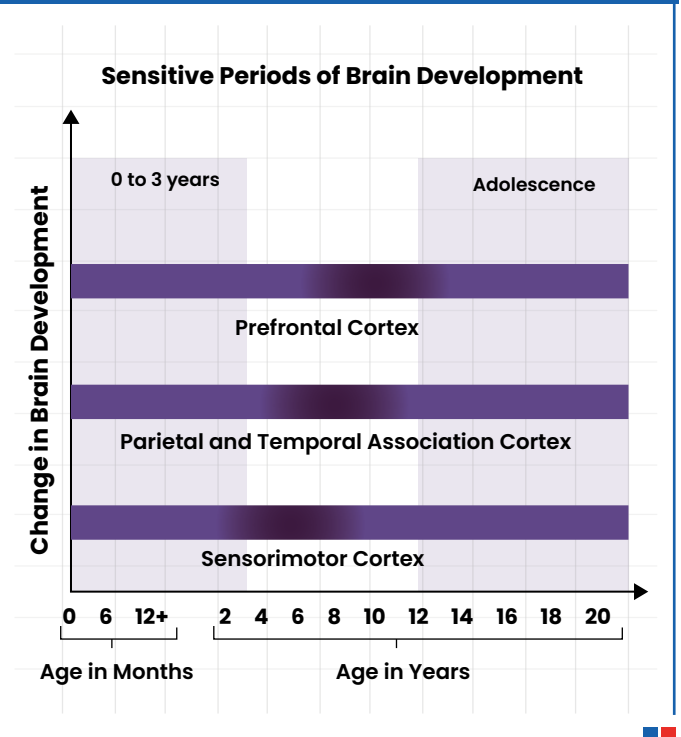
### Development Phases

- **SEL occurs throughout life; however, infancy, childhood and adolescence are periods of considerable SEL development** where maximum growth and restructuring of the brain occurs through informal and formal learning. These are developmental phases during which the brain is highly receptive to social influences and sensitive to training-induced changes in learning SEL competencies.

### Impact

- A recent report showed that **SEL programmes have consistent positive impacts on a broad range of student outcomes, including increased SEL skills, attitudes, prosocial behaviours and academic achievement**, and decreased conduct problems and emotional distress.
- The argument for considering social and emotional competencies as a form of human capital stems from the fact that **various personality traits like self-regulation, emotion regulation and empathy, among others, exhibit a certain degree of stability, yet can be cultivated further through explicit training.**
- These traits improve task **performance, boost labour productivity, and contribute to favourable economic results** both directly and indirectly by promoting stable relationships and overall well-being

**Figure 1.2. Sensitive periods of brain development after birth**



## 2. What is the need of adopting Inclusive Wealth Approach (IWA)?

### ➤ Limitation of traditional Methods:

- **GDP:** It overlooks environmental degradation, the value of natural resources, and rising socio-economic inequalities. In India, GDP growth has uplifted many from poverty, but it has also caused serious environmental damage, costing the country about 5.7% of its GDP each year.
- **Green GDP:** It measures net GDP after deducting the environmental and social costs of development. However, this does not take into account some other assets of a country's economy, such as its human resources or its prevailing ecosystem.
- **Better Life Index:** The OECD has released a report that focuses on measuring the overall wellbeing of a country by looking at individual activities rather

than national statistics. However, gathering reliable personal data can be challenging in developing countries.

- **Localised Approach:** The wide differences between Indian states call for a localized approach to assessing wealth that tracks contributions to the Sustainable Development Goals (SDGs) and long-term sustainability.
  - The **Inclusive Wealth Approach** method focuses on overall growth and requires less data, making it more appropriate for developing countries with limited data access.
- **Long-term sustainability focus:** By considering changes in different types of capital, IWA allows policymakers and stakeholders to evaluate the long-term sustainability of current economic activities.

- ▶ **For example, New Zealand adopted the Wellbeing Budget**, which prioritizes people's wellbeing and environmental sustainability by integrating social and environmental indicators with traditional economic metrics.
- ▶ **Better resource management:** IWA promotes better management of all types of capital, especially natural resources, which are often undervalued or ignored in traditional economic assessments.
- ▶ **For example, Costa Rica's Payments for Environmental Services Program (PES)** is a financial mechanism that promotes forest ecosystem conservation and combats land degradation.
- ▶ **Improved policy decisions:** A better understanding of a nation's wealth allows policymakers to make informed decisions about how to allocate resources, set investment priorities, and develop strategies for growth.
- ▶ **For example, South Korean Green New Deal** focuses on three key tasks: investing in clean energy, promoting innovation, and developing sustainable infrastructure.

### Box 2.1 : Inclusive Wealth and Welfare of marginalised communities

- ▶ **Empowerment of Women:** It highlights the significant role women play in the economy, mainly through unpaid labour at home and in their communities. Recognizing women's contributions enables the creation of policies that promote gender equality and improve their access to resources. This aligns with Article 15(3) of the Indian Constitution, which permits special provisions for women and children.
- ▶ **Support for Tribal Communities:** Tribal communities rely on natural resources for their livelihoods. An inclusive wealth approach helps ensure their rights to land and resources are recognized, promoting sustainable practices that benefit both the community and the environment.
  - ▶ **For example,** The Forest Rights Act (2006) in India empowers forest-dwelling tribes to manage their resources, preserving their cultural heritage, sustaining livelihoods, and conserving biodiversity.
- ▶ **Protection of Children:** Investing in human capital is vital for children's welfare. An inclusive wealth approach prioritizes education, health, and nutrition, which are essential for a child's development.
  - ▶ **For example,** The Mid-Day Meal Scheme in India provides nutritious meals to schoolchildren, boosting enrolment and health while supporting education and investing in the nation's future.
- ▶ **Recognition of Transgender Rights:** An inclusive wealth approach promotes the social and economic inclusion of transgender individuals by recognizing their rights and addressing systemic discrimination.
  - ▶ **For example,** The Transgender Persons (Protection of Rights) Act, 2019 aims to legally recognize and protect transgender rights.

## 3. What are the challenges in adopting inclusive wealth approach?

Addressing the complexities and challenges of measuring inclusive wealth is essential for understanding its implications in modern economies.

### 3.1. Data Collection and Capacity Issues

- ▶ **Data Availability and Quality:** Different countries use varying methodologies and definitions, leading to inconsistencies in data collection. Many developing nations lack the necessary data on natural and social capital, making comprehensive assessments difficult.
- ▶ **Building Capacity for Data:** Developing the institutional capacity to collect and analyze data on inclusive wealth may require substantial investment and training.
- ▶ **Evolving Inclusive Wealth:** Inclusive wealth is dynamic and changes over time, requiring continuous long-term data collection to monitor shifts in capital.

### 3.2. Assessing Inclusive Wealth is complex

- **Complexity of Components:** Inclusive wealth comprises multiple dimensions: produced, natural, human, and social capital. Each dimension has distinct characteristics and methods of valuation, which complicate the measurement process.
- **Natural Capital Substitution:** The belief that natural resources can be replaced by produced or human capital has contributed to their depletion, as investments often prioritize produced capital over sustainability. This imbalance speeds up resource depletion and undermines the goals of inclusive wealth, making it harder to create a comprehensive assessment framework.

### 3.3. Political Hurdles

- **Integration with Existing Economic Frameworks:** It may meet resistance from established economic practices. Policymakers may struggle to transition from traditional metrics to inclusive wealth measures, especially if existing incentives are tied to GDP growth.
- **Lack of Political Will:** Shifting focus to inclusive wealth requires strong political commitment, which may be lacking in some contexts, especially where GDP growth is prioritized.

### 3.4. Public Acceptance and Cultural Context is limited

- **Understanding Gap:** Many stakeholders may be unfamiliar with inclusive wealth, which can lead to resistance or confusion. Effectively communicating its importance and benefits is challenging, especially in a climate where traditional metrics are more widely recognized.
- **Perception of Wealth:** Cultural values affect how we view wealth, and differences in economic development can lead to misleading comparisons if not explained properly.

## 4. What are the initiatives taken to ensure adoption of inclusive wealth approach?

There are numerous initiatives, both at the national and the global level that have been implemented to promote an inclusive wealth approach that integrates environmental, social, and economic factors in assessing national wealth.

### 4.1 National Level Initiatives

- **Natural Capital Accounting:** The Ministry of Statistics and Programme Implementation (MOSPI) in India initiated the Natural Capital Accounting and Valuation of Ecosystem Services (NCAVES) project in 2017.
  - This aligns with the System of Environmental and Economic Accounting (SEEA) framework to compile green wealth accounting, emphasizing the importance of natural capital in economic assessments.
- **National Mission for Green India:** It is a part of the National Action Plan on Climate Change that aims to increase forest cover and quality, contributing to natural capital.
- **Human Capital Development:** The Skill India Mission emphasizes the importance of human capital in inclusive wealth by enhancing workforce skills, which boosts productivity and economic resilience.
- Programs like the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) are designed to improve employability and raise income levels.
- **Sustainable Development Goals (SDG) India Index:** It is developed by NITI Aayog that tracks progress on the SDGs, which include various elements of inclusive wealth.
- **Partnerships with International Organizations:** The government works with international organizations like the World Bank and UNDP to improve its ability to measure inclusive wealth.

## 4.2. Global Initiatives

- **UN System of Environmental Economic Accounting (SEEA):** It is a framework that integrates economic and environmental data. It provides a standardized approach for countries to measure and report on the interactions between the economy and the environment.
- **The Economics of Ecosystems and Biodiversity (TEEB):** This global initiative aims to "make nature's values visible" by highlighting the economic benefits of biodiversity and the costs associated with ecosystem degradation.
- **UN Inclusive Wealth Report:** Released by the United Nations Environment Programme (UNEP), this assessment evaluates countries' wealth by considering their natural, human, and produced capital.
- **World Bank Wealth Accounting:** The Comprehensive Wealth Accounting and Valuation of Ecosystem Services (WAVES) initiative helps countries implement Natural Capital Accounting. It promotes sustainable development by integrating natural resources into development planning.
- **European Union's Beyond GDP Initiative:** This initiative encourages EU member states to adopt new measures of progress that go beyond traditional economic indicators.
- **Global IWI (Inclusive Wealth Index) Project Collaboration:** The UN University and UNEP aim to offer a broader measure of national wealth. Their methodology evaluates three types of capital: natural, human, and produced, focusing on the long-term sustainability of national economies.
- **The Genuine Progress Indicator (GPI):** An alternative metric to GDP that accounts for environmental and social factors, providing a more comprehensive view of economic well-being.
- **Natural Capital Protocol:** Developed by the Natural Capital Coalition, this framework helps businesses identify, measure, and value their impacts and reliance on natural capital in a standardized way.



### Box 4.1. In Conversation: India's Natural Wealth



Jiya



Vini, have you ever thought about how much our forests, rivers, and clean air are worth?

Worth? Aren't these things priceless?



True, but they also contribute to something called **Natural Capital**—a part of what we call **Inclusive Wealth**.



Inclusive Wealth? What's that?



It's a way to measure a country's true progress. Instead of just looking at GDP, it adds up three types of wealth: **Natural Capital, like forests and rivers; Human Capital, like education and skills; and Produced Capital, like buildings and infrastructure.**



So it's about balancing development with sustainability?



Exactly! India has started using **Natural Capital Accounting (NCA)** to track how nature supports our economy. For example, if we lose a forest, we're not just losing trees but also clean air, biodiversity, and even tourism revenue.



That makes sense. Protecting nature is about preserving our long-term wealth.



Yes, because a nation's true prosperity is about more than just money—it's about people, nature, and resources working together.



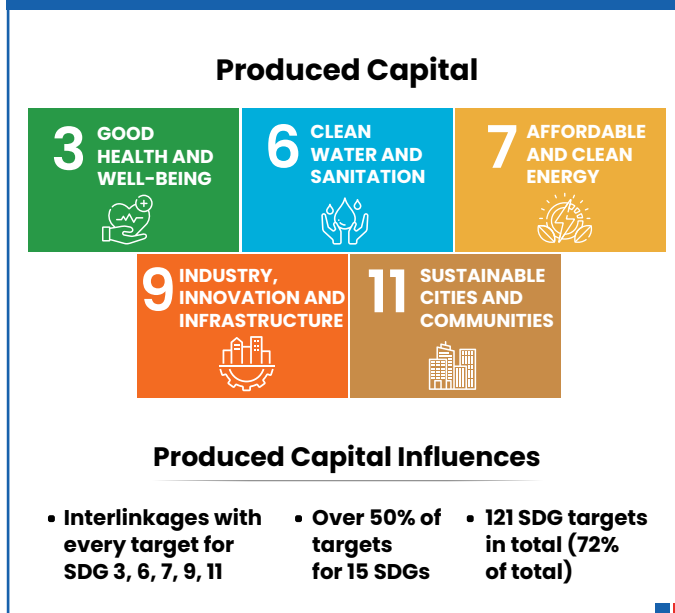
Vini



## Box 4.2 : Inclusive Wealth and fulfilment of SDGs

- **Role of Produced Capital:** Strategic investments in infrastructure can advance targets related to climate, energy, water, transport, and technology.
  - Additionally, with one in three women facing physical or sexual violence globally, well-designed public infrastructure can help reduce such incidents by creating safer environments.
- **Role of Natural Capital:**
  - **Sustainable Resource Management:** The Inclusive Wealth Approach (IWA) promotes the accounting of natural capital, encouraging responsible resource use. This supports SDGs focused on marine (SDG 14) and terrestrial (SDG 15) ecosystem.
  - **Intergenerational Equity:** The IWA focuses on policies that consider the long-term effects of today's decisions, aligning with SDG 12 (Responsible Consumption) and SDG 13 (Climate Action).
- **Role of Human Capital:**
  - **Equity and Social Inclusion:** It prioritizes inclusivity, promoting fair wealth distribution and empowering women, which aligns with SDG 10 (Reduced Inequalities) and SDG 5 (Gender Equality).
  - **Investment in Human Capital:** By focusing on education, health, and skills, the IWA supports SDG 4 (Quality Education) and SDG 3 (Good Health), both important for sustainable societal development.

**Figure 4.1 Produced Capital and SDGs**



## 5. What steps can be taken to ensure adoption of inclusive wealth approach?

The Inclusive Wealth report and related studies suggest that adopting an inclusive wealth approach can be achieved through various measures that incorporate environmental, social, and economic factors into national wealth assessments.

### 5.1. Policy Initiatives

- **Policy Integration:** Integrate the IW framework into national and state policies, ensuring it complements existing frameworks like GDP and the Sustainable Development Goals (SDG).
  - **For example,** domestic policies, such as swapping fossil fuel subsidies for greener options, implementing carbon taxes, and improving resource revenue management, can help balance development with environmental protection.
- **Align Investments with Natural Capital:** Governments should connect investment strategies to natural capital and inclusive wealth.
  - This includes using sovereign wealth funds and focusing on Environmental, Social, and Governance (ESG) criteria to enhance resilience against global challenges like pandemic.
- **Pilot Programs:** Start with small-scale pilot projects to test the IW framework in different states, gathering insights and best practices for broader implementation.

### 5.2. Assessment Initiatives

- **Localized Wealth Assessment:** Localized IW measures should be developed for different Indian states to effectively monitor progress and disparities in natural, human, and produced capital. This approach will allow policymakers to tailor strategies to meet the specific needs of each region.
  - **For example,** The Ministry of Statistics and Programme Implementation (MOSPI) has started compiling green wealth accounting; this can be expanded for regional assessments.



➤ **Consider Population Growth and Future Welfare:** Future demographic changes should be included in wealth assessments to ensure policies support welfare across generations.

➤ **Enhancing Human Capital Accounting:** Implementing human capital accounting will empower policymakers to address health and education challenges more effectively, identify inequalities, and create targeted policies that promote overall well-being.

➤ **Research and Development:** Undertake studies to examine how various forms of capital interact and impact overall well-being and sustainability. This evidence-based research can provide insights for refining policies and shaping new initiatives.

### 5.3. Leveraging Data and Technology

➤ **Assessing Progress through Indicators:** States should develop indicators to evaluate progress across different types of capital and regularly monitor them to refine policies using real-time data.

➤ **For example,** insights from the SDG Index can help track inclusive wealth progress and highlight areas for improvement.

➤ **Ecosystem Services for Sustainability:** Improving the valuation of ecosystem services is essential for sustainable development. By investing in better data and technology, decision-makers can manage ecosystems sustainably, ensuring that both human and natural capitals support long-term prosperity.

### 5.4. Engagement and Capacity Building

➤ **Stakeholder Engagement:** Marginalized communities and stakeholders should be actively engaged in discussions about wealth assessment and development strategies to ensure their perspectives are included.

➤ This engagement will lead to more inclusive policies that genuinely reflect the diverse needs of all segments of society.

➤ **Capacity Building and Education:** Government officials, economists, and community leaders should receive training on the Inclusive Wealth framework to improve their understanding of sustainability and how wealth is built.

➤ **Awareness Campaigns:** Initiate awareness campaigns to educate the public about the Inclusive Wealth approach and its advantages for sustainable development.

➤ This effort will help generate support for transitioning away from GDP-centric measures.

## Conclusion

Adopting the Inclusive Wealth approach is important for sustainable economic development that prioritizes well-being over mere financial measures. By considering natural, human, social, and produced capital, this framework offers a holistic view of prosperity that meets society's diverse needs. In India, where inequalities are more pronounced and widespread, this approach can guide policies that empower marginalized communities, ensure fair resource management, and foster long-term sustainability.



## TOPIC AT A GLANCE

### Inclusive Wealth (IW)

Inclusive Wealth (IW) is a broader measure of national prosperity that includes natural, human, social, and produced capital.



#### Need for Adopting the IW Approach

- ⊕ **Limitations of Traditional Methods:** fails to take into account assets like human resources.
- ⊕ **Localised Approach:** to assess wealth and track SDG contributions.
- ⊕ **Long-Term Sustainability:** focuses on different capitals to assess economic resilience.
- ⊕ **Resource Management:** encourages better management of natural resources.
- ⊕ **Improved policy decisions:** helps policy maker in better understanding of nations wealth.



#### Challenges in Adopting IW

- ⊕ **Data Collection and Capacity Issues:** especially in developing countries like India.
- ⊕ **Complexity of Measurement:** due to different types of capital (natural, human, social), each with unique traits.
- ⊕ **Political and Cultural Resistance:** due to shifting from traditional methods.



#### Measures Taken by India and Globally

- ⊕ **India:** National Mission for Green India, the Skill India Mission, and the Natural Capital Accounting etc.
- ⊕ **Global Initiatives:** The UN's System of Environmental Economic Accounting (SEEA), the World Bank's WAVES initiative, and the EU's Beyond GDP initiative etc.



#### Way Ahead

- ⊕ **Policy Initiatives:** Governments should integrate IW metrics into national policies.
- ⊕ **Assessment Initiatives:** Localized wealth assessments, Human capital accounting to be adopted.
- ⊕ **Leveraging Data and Technology:** to refine policies using real-time data and improve the valuation of ecosystem services.
- ⊕ **Capacity Building:** Engage marginalized communities, train officials and run awareness campaigns.

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