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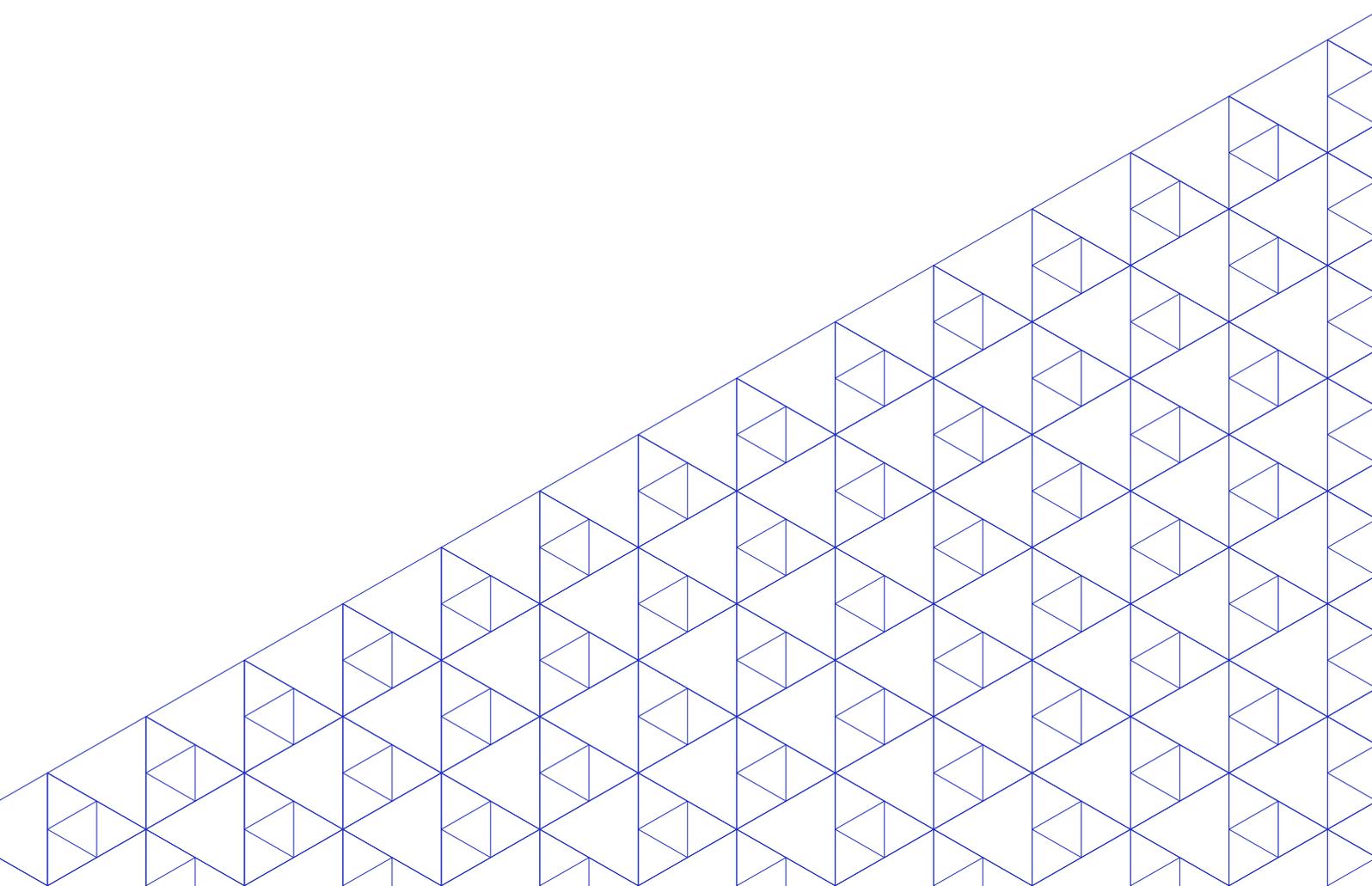
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► Financing human-centred COVID-19 recovery and decisive climate action worldwide

International cooperation's twenty-first century moment of truth

Author / Richard Samans





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Abstract

International cooperation and financing for development in particular face a moment of truth. A lack of national capacity to combat the COVID-19 pandemic and climate change anywhere is a threat to the security and well-being of people everywhere. The most feasible way to mobilize the large additional sums required to advance a fully inclusive, human-centred recovery from the pandemic and a rapid acceleration of climate action on a worldwide basis – including in resource-constrained low-and lower-middle-income countries – is for the international community to apply the public capital it has already invested in the International Monetary Fund and multilateral development banks more efficiently and expansively. This could be achieved by applying the balance sheets and tools of these institutions just as imaginatively for such common purposes as those of central banks and treasuries in advanced countries have been applied for domestic purposes during the pandemic. The paper proposes a set of initiatives to this end in order to fully fund the WHO ACT-A/COVAX Initiative, adequately resource debt relief and restructuring, social protection floors and job-rich sustainable infrastructure and industry in these countries, and finance a global effort to avoid a lock-in of greenhouse gas emissions from coal-fired power generation, which represents the single largest and most time sensitive aspect of the climate action required to achieve the goals of the Paris climate agreement. This fuller utilization of the existing international financial architecture to implement multilaterally agreed objectives would generate an average increase in annual external flows of about 4% of GDP to 82 poorer developing countries during the next seven years, exceeding the Marshall Plan's support of Europe's efforts to "build back better" from World War II, while using such additional international assistance in a similar manner to generate complementary increases in domestic resource mobilization.

About the author

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Introduction

The COVID-19 pandemic continues to fuel the worst public health and socioeconomic crisis that the world has seen in a century. It struck not long after the scientific community warned that the window for decisive action to stabilize greenhouse gas emissions by the middle of the twenty-first century was rapidly closing.¹

These two global crises are creating a moment of truth for international cooperation.² They each pose a direct threat to the well-being of people in every country and across all walks of society, reflecting the essential indivisibility of human security. At the same time, the impacts of these two threats are highly uneven, as are the capacities of nations to address them. This presents a challenge for development cooperation in particular. The lack of national capacity to combat COVID-19 and climate change anywhere is a threat to the security and well-being of people everywhere.

As world leaders reflect on the United Nations Secretary-General's recent landmark report³ regarding the future of global cooperation and the multilateral system, and finance ministers and central bankers gather for the Annual Meetings of the International Monetary Fund (IMF) and World Bank Group, they face growing pressure to respond decisively to the large and urgent financing needs of developing countries in respect of these twin crises. The most feasible way they could do so would be to harness the existing international financial architecture more effectively. The international community's best hope for mobilizing the large additional sums required to "build back better" and strengthen its collective security in the face of these two urgent and universal threats would be to leverage the public capital it has already invested in the IMF and multilateral development banks (MDBs) more efficiently and expansively.

¹ Intergovernmental Panel on Climate Change (IPCC), [Global Warming of 1.5°C](#), October 2018; IPCC, [Climate Change 2021: The Physical Science Basis](#), August 2021.

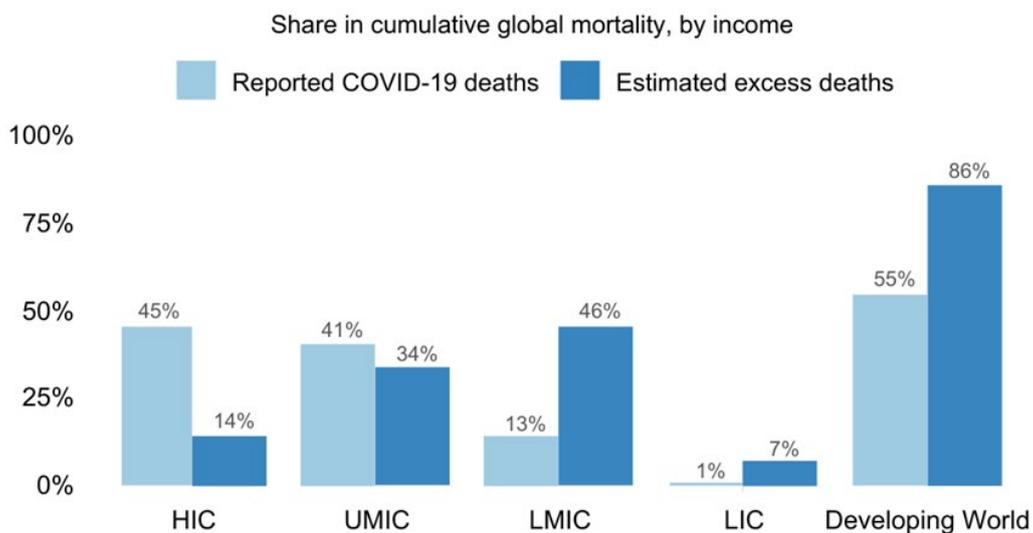
² United Nations Secretary-General, ["The State of the Planet"](#) (speech, Columbia University, 2 December 2020).

³ United Nations, [Our Common Agenda: Report of the Secretary-General](#), September 2021. See as well United Nations, Secretary-General's Policy Brief: [Investing in Jobs and Social Protection for Poverty Eradication and a Sustainable Recovery](#), September 28, 2021.

► 1 The profound and profoundly unequal human impact of the COVID-19 crisis⁴

As of early September 2021, more than 220 million individuals around the world had been infected with the COVID-19 virus and over 4.5 million had died. The pandemic hit wealthier countries first but is now affecting developing countries most severely. Cumulative excess mortality rates (a measure of the extent to which the virus has boosted death rates above trend levels) are now estimated to be far higher in developing than advanced countries, as illustrated in Figure 1.⁵ Far lower rates of vaccination and testing in poor countries are certainly a contributing factor. Less than twenty percent of the more than 5 billion vaccine doses administered thus far have been in lower-middle-income and low-income countries, which account for nearly 60 per cent of the world’s population.⁶

► Figure 1 – Global COVID-19 mortality distribution



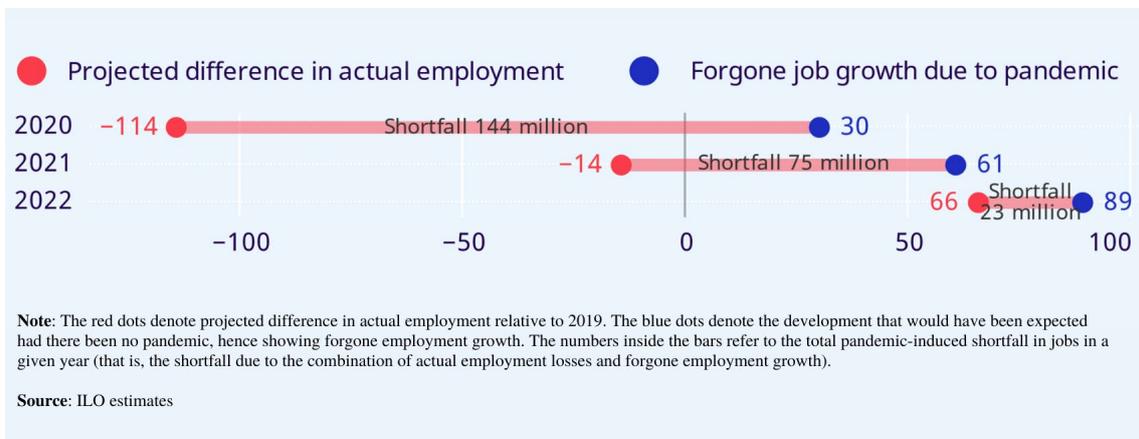
Source: Solstad (2021) through GitHub; JHU CSSE; World Population Prospects, Date: 2021-05-10.
 Note: Acronyms: high, upper-middle, lower-middle- and low-income countries. Excess mortality estimates are from The Economist’s excess mortality model that fills data gaps with a machine learning algorithm using 121 indicators.

The pandemic has severely disrupted the world of work and people’s incomes, with similarly divergent effects within and among countries. In 2020, an estimated 8.8 per cent of the total working hours were lost, equivalent to 255 million full-time workers. While significant global employment growth is expected to occur in 2021 and 2022, it is projected to be insufficient to catch up to where the world of work would have been in the absence of the pandemic. The crisis-induced jobs shortfall relative to pre-crisis trends is estimated to be 75 million in 2021 and 23 million in 2022.⁷

⁴ Much of the analysis in this section on topics relating to the lead responsibilities of United Nations agencies other than the International Labour Organization (ILO) is drawn from interagency material prepared to support Cluster II of the United Nations Initiative on Financing for Development in the Era of COVID-19 and Beyond.
⁵ Indermit Gill and Philip Schellekens, “COVID-19 is a developing country pandemic,” *Future Development*, The Brookings Institution, May 27, 2021 <https://www.brookings.edu/blog/future-development/2021/05/27/covid-19-is-a-developing-country-pandemic/>
⁶ Our World In Data, “COVID-19 vaccine doses administered by country income group,” <https://ourworldindata.org/covid-vaccinations>
⁷ ILO, *World Employment and Social Outlook: Trends 2021*.

The largest employment gaps, in relative terms, are projected to persist in low-income countries, while high-income countries are likely to close the gaps the fastest, thanks to their privileged access to vaccines and their much stronger fiscal policy support. Nearly 85 per cent of government spending to mitigate the effects of the crisis took place in advanced countries. Latin America and the Caribbean experienced the most severe shock to labour markets, with a 33 per cent loss in working hours during the depths of the crisis in the second quarter of 2020, compared with 17 per cent in the Asia-Pacific region. Lower-middle-income countries were hardest hit over the course of the last year, experiencing a loss in working hours that was more than 50 per cent higher than in the rest of the world.

▶ **Figure 2 – Pandemic-induced global shortfall in jobs, relative to 2019 (millions)**



The differing effects of the crisis are highly visible within countries as well. The International Labour Organization (ILO) has estimated that young people have experienced a drop in employment rates two and a half times greater than their older counterparts; 90 per cent of women who lost their jobs have left the workforce, a markedly higher rate than for men; workers in the informal economy have been three times more likely to lose their jobs than those in formal employment arrangements; and medium-sized, small and microenterprises have been 50 per cent more likely to be affected by the crisis than their larger counterparts.⁸

This uneven impact of the pandemic on the world of work is having a profound impact on global poverty. The World Bank estimates that by the end of 2021 97 million more individuals will be living on less than US\$1.90 a day than if there had been no pandemic, reversing a 21-year downward trend in extreme poverty.⁹ The United Nations Children's Fund (UNICEF) estimates that the number of children living below its multidimensional poverty benchmark increased by 150 million to about 1.2 billion in 2020, representing a 15 per cent increase in the number of children living in deprivation in low- and middle-income countries.¹⁰

The pandemic initially forced approximately 1.5 billion students out of school worldwide (83 per cent of enrollees across 167 countries). A year later, one billion students still faced some disruption to their education. While many children in both developing and developed countries shifted, at least partially, to distance learning, the United Nations Educational, Scientific and Cultural Organization (UNESCO) has estimated that 100 million additional children will fall below minimum proficiency in reading owing to the duration of school closings and a lack of adequate remediation programmes. It was also feared that some 11 million primary

⁸ ILO, *World Employment and social Outlook: Trends 2021*

⁹ World Bank, *Global Economic Prospects*, June 2021, 27.

¹⁰ UNICEF, "150 Million Additional Children Plunged into Poverty due to COVID-19, UNICEF, *Save the Children Say*", 16 September 2020. The basis of the calculation is explained in technical note [Impact of COVID-19 on Multidimensional Child Poverty](#).

and secondary students will not return to school, mainly in Asia and Africa. Even before the crisis, 53 per cent of children were not able to understand a text by age 10.¹¹

These severe and uneven secondary effects of the pandemic risk leaving lasting scars on economies and societies in the form of deepened inequalities and lost human potential and well-being. While advanced countries have the fiscal and other capacities necessary to mitigate much of this risk through increased investment in health, job creation and income maintenance measures, most developing countries do not. Their limited capacity to respond to the health, decent work, education and social protection dimensions of the crisis poses a direct threat to the security and well-being of people both within and well beyond their borders, since it enables the ongoing spread and mutation of the virus and expansion of poverty and human desperation, which can fuel social tensions, political instability and cross-border migration and conflict.

¹¹ UNESCO, [One Year into COVID: Prioritizing Education Recovery to Avoid a Generational Catastrophe – Report of UNESCO Online Conference](#), 29 March 2021.

▶ 2 Meeting the moment: Financing human-centred pandemic recovery and accelerated climate action on a worldwide basis

How can the international community respond more decisively and comprehensively to these two crises? It has already provided half of the answer to this question in the form of three universally agreed and highly complementary roadmaps: the [Access to COVID-19 Tools Accelerator \(ACT-A\)](#) initiative, coordinated by the World Health Organization (WHO); [ILO global call to action for a human-centred recovery that is inclusive, sustainable and resilient \(ILO GCTA\)](#), which based on the [2019 ILO Centenary Declaration for the Future of Work](#); and the 2030 Agenda, including the [Sustainable Development Goals \(SDGs\)](#) and the [Paris Agreement](#). The international community must now propel itself faster down these interrelated paths by finding a way to mobilize the financial resources necessary to accelerate the implementation of these roadmaps, which has been lagging in all three respects.

To be certain, donor governments are unlikely to provide a large and sustained increase in bilateral foreign assistance after having run extremely high fiscal deficits to support their domestic economies during the pandemic. In any event, the trillions required for the agenda outlined above, in particular the investments required to implement the SDGs and the nationally-determined contributions under the Paris Agreement, far exceed the current level of global official development assistance of about US\$160 billion per year.¹²

However, these are extraordinary times. Governments have suspended existing rules and assumptions and are using monetary and fiscal policy in creative ways to leverage the balance sheets of their central banks and treasuries to meet pressing domestic needs.¹³ They are rethinking the limits and cost-benefit trade-offs of public borrowing, particularly in the prevailing context of extremely low interest rates.

The same creativity and sense of urgency could be applied to the use of the international financial architecture to address the lack of capacity in developing countries to confront the pandemic and climate crises effectively. The balance sheets and tools of the IMF, MDBs and bilateral development finance institutions should be harnessed just as creatively and expansively for this purpose as those of the central banks and treasuries of advanced countries have been for domestic purposes.

How might the same necessity-is-the-mother-of-invention combination of imagination and determination be applied to the international financial institutions in order to drive the implementation of these multilateral commitments at speed and scale? This is the most consequential question facing international cooperation now and in the crucial decade to come.

Three types of financing are required to implement these consensus agendas at scale and speed. Each is feasible using the existing capital and capabilities of international financial institutions in a more catalytic and networked manner. These are:

- **One-off or relatively time-limited acute needs in developing countries** that can be financed only through public grants or highly concessional loans (for example, COVID-19 vaccines, tests and treatment;

¹² OECD (Organisation for Economic Co-operation and Development), “[Net ODA](#)”.

¹³ For example, in the [Carbis Bay G7 Summit Communique](#), the leaders of the Group of Seven noted that “to mitigate the impact of the pandemic, we have provided unprecedented support to citizens and businesses, including to retain jobs and support incomes and keep businesses afloat, totalling over \$12 trillion including fiscal support and liquidity measures”, equivalent to around 35 per cent of their combined annual gross domestic product (GDP).

sovereign debt restructuring; initial investments to establish, continue or expand social protection systems; and accelerated replacement and avoidance of coal-fired power generation plants).

- **Large, multi-year requirements that generate cash flows** and can therefore be financed through a blend of public and private investment; indeed, they are so big that they can only be adequately financed by engaging private investment (for example, SDG-related sustainable infrastructure and industry).
- **Smaller, multi-year technical assistance and institutional capacity building requirements** typically financed with grants and concessional assistance (for example, the design and administration of labour, social protection, anti-corruption, tax, environmental, competition and financial system policies and frameworks).

The IMF and MDBs have unexploited potential to mobilize a step change in the resources available to developing countries in each of these three respects. If government representatives of developed and developing country governments in the boards of these institutions were to rally around the initiatives outlined below, **the combined effect would be to generate an estimated US\$2 trillion of additional resources for these critical financing needs in poor countries over the next seven years. This sum is nearly twice the projected level of global official development assistance over this period. It would represent an average increase in external flows each year for the next seven years of about 4 per cent of gross domestic product (GDP) for the 82 economies classified by the World Bank as low-income and lower-middle-income** (or more than 3 per cent of annual GDP for an expanded group of 110 economies having a GDP per capita below US\$7,500). This US\$2 trillion estimate does not include the substantial additional domestic resources that developing countries would have an incentive to mobilize in response, which could yield a further US \$1 trillion. Such a large increase in financing for development is what could make the difference between continued incremental and truly transformational global progress on the COVID-19 and climate crises, not least with respect to the ACT-A/COVAX initiative, whose full, multi-year funding is required to bring the pandemic under control.

Issuance and donation of IMF Special Drawing Rights

For only the fourth time in its history, the IMF recently approved a general allocation of Special Drawing Rights (SDRs) and is working on ways to facilitate the on-lending or effective donation of such reserves by developed countries to developing countries.¹⁴ This issuance of US\$650 billion worth of SDRs could enable the international community to redress the gross inequity in pandemic response between rich and poor countries as well as spur decisive action on the most urgent aspect of the global warming challenge if it were combined with a structured donation mechanism. Most wealthier countries do not require this additional liquidity and would likely donate a significant part of their majority share of it to developing countries if there were a coherent international framework for this purpose.¹⁵ The following proposed framework would target four acute, non-recurring financing gaps faced by developing countries that threaten the security of every citizen on the planet by preventing humanity from asserting control over the COVID-19 virus and climate change – and from addressing the highly unequal and potentially destabilizing secondary economic and social effects of each.

With respect to COVID-19 response and recovery, donations should be directed through the special IMF and cross-MDB facilities outlined below to help low- and lower-middle-income countries participate fully in the ACT-A/COVAX initiative, restructure external debt rendered unsustainable by the crisis and establish

¹⁴ See IMF, “Questions and Answers on Special Drawing Rights (SDRs)”, and for further information about options and related technical considerations, Mark Plant, “The Challenge of Reallocating SDRs: A Primer,” Center for Global Development, August 2021.

¹⁵ For further background on the feasibility, precedents and options for such a donation framework, see: David Andrews, “How Might an SDR Allocation Be Better Tailored to Support Low-Income Countries?”, Center for Global Development, 4 February 2021.

or expand basic social protection systems that were overwhelmed by the pandemic, greatly exacerbating the human suffering caused by it.

- **Full funding of the WHO ACT-A/COVAX initiative.** As of June 2021, of the approximately 1.6 billion vaccine doses that had been administered worldwide, the vast majority had been in industrialized and vaccine-producing countries, while only 0.3 per cent had been in the 29 poorest countries.¹⁶ If this situation is left unaddressed, history is likely to record it as one of the worst moral failings of the twenty-first century. At the same time, the recent rapid spread of virus variants has made it clear to citizens of all countries that no part of humanity is safe as long as the disease continues to spread unchecked in other parts of the world, no matter how distant. The ACT-A initiative is seeking to accelerate the development and ensure the equitable allocation by the end of 2021 of 2 billion doses of vaccines (to 20 per cent of the population of 191 participating countries), 900 million tests and 165 million treatments and to support improvements to the health systems of 114 countries. As of late June 2021, the initiative had a funding gap of US\$16.8 billion for 2021, despite US\$16.4 billion having already been committed. It has an estimated further US\$30 billion funding gap for 2022–23.¹⁷ And as of spring 2021, US\$13.1 billion of the US\$15.5 billion in pledges that had been made had yet to be disbursed. Without additional action to enable poor countries to access vaccines, diagnostics and treatments at scale,¹⁸ the mechanism will not deliver on its full promise. Donation of US\$50 billion of SDRs by developed countries over the next two years would enable the international community to fully and promptly fund this crucial initiative without donor countries having to appropriate new, or reprogramme existing, foreign assistance.
- **External debt relief.** The emergency debt relief requirements of low- and lower-middle-income developing countries are also estimated to require billions of United States dollars in financing. The external public debt service payments of developing countries are projected to amount to US\$356 billion in 2021 and US\$329 billion in 2022.¹⁹ According to UNICEF, before the crisis struck, 25 countries were already spending more on debt service than on social spending for education, health and social protection combined,²⁰ and while levels of social spending appear to be stable in the 40 countries that are participating in the G20 Debt Service Suspension Initiative (DSSI), many poor countries are ineligible or choosing not to participate. The IMF reports that, as of early 2021, 28 countries were at high risk of debt distress and 23 countries were at moderate risk. This includes 13 low-income countries, 13 lower-middle-income countries and 8 upper-middle-income countries. A quarter of all lower-middle-income countries were at high risk of debt distress. As of June 2021, the DSSI had extended an estimated US\$13 billion in debt service relief to at least 43 participating countries, of which around US\$6 billion had been implemented. The DSSI has been extended for a final six months to December 2021.²¹ Governments in receipt of relief commit to using freed-up resources to increase social, health or economic spending in response to the COVID-19 crisis. It is clear, however, that much greater debt relief, including permanent debt restructuring rather than temporary delays in scheduled repayments, will be required going forward. Highly indebted countries will be able to use the SDRs allocated to them by the IMF to service or restructure their debts; however, for many poor countries, this one-time amount will represent only a fraction of their annual debt service obligations – less than two-thirds in the case of low-income sub-Saharan African countries.²² Accordingly, wealthier countries should use some of their SDRs to extend the duration and expand the eligibility criteria of bilateral debt relief under the DSSI as long as the pandemic crisis persists and to donate the SDR equivalent of US\$5 billion per year to augment the debt restructuring capacity

¹⁶ Josh Holder, “Tracking Coronavirus Vaccinations Around the World”, The New York Times, 24 August 2021.

¹⁷ WHO, “Access to COVID-19 Tools Funding Commitment Tracker”, 13 August 2021; WHO, “Act-A Prioritized Strategy and Budget for 2021”, 12 April 2021.

¹⁸ See: Hayley Andersen et al., *The Absorption-Capacity Challenge* (The Global Health Security Consortium, July 2021).

¹⁹ Homi Kharas and Meagan Dooley, “COVID-19’s Legacy of Debt and Debt Service in Developing Countries”, The Brookings Institution Global Working Paper No. 148, December 2020.

²⁰ UNICEF, *COVID-19 and the Looming Debt Crisis*, April 2021.

²¹ IMF, “Questions and Answers on Sovereign Debt Issues”, 8 April 2021.

²² Daniel Munevar and Chiara Mariotti, “The 3 Trillion Dollar Question: What Difference Will the IMF’s New SDRs Allocation Make to the World’s Poorest?” (European Network on Debt and Development, 7 April 2021).

of heavily indebted poorer countries via the existing IMF Poverty Reduction and Growth Trust or other potential mechanisms and facilities proposed for this purpose.²³

- **Social protection floors.** Less than half of the global population is eligible for basic social protection, a baseline level of support for the poorest and most vulnerable members of society. Most countries that lack full social protection floors, as defined by the ILO Social Protection Floors Recommendation, 2012 (No. 202),²⁴ have the potential to provide such services through better public financial management and realistic increases in tax revenues over time.²⁵ However, in low-income countries, the required amount of domestic resources amounts to an estimated 15.9 per cent of GDP, the equivalent of 45 per cent of current tax revenues. Closing the social protection floor financing gap in such countries – estimated to be US\$77.9 billion per year²⁶ – through domestic resource mobilization alone is not realistic. The IMF estimates that such countries have the capacity to finance up to a third of their combined US\$500 billion in SDG implementation needs, including in the area of social protection, through an increase of 5 per cent of GDP in tax revenues (up from very low levels) over a decade.²⁷ A matching international financial contribution for social protection would cost in the neighbourhood of US\$20 billion to US\$25 billion per year, an amount that could be covered by wealthier countries in the form of SDR donations. In fact, most low-income and lower-middle-income countries have relatively young populations, meaning that they have the potential, from an actuarial perspective, to establish or expand basic social protections through the right combination of contributory and general financing arrangements supported by a catalytic round of financing from international cooperation. A cross-MDB facility should be established to receive donations of SDRs and, through a global social protection fund,²⁸ provide matching commitments to countries that have sound plans to expand the coverage and/or benefit levels of their social protection systems (or to make permanent the temporary benefits provided during the pandemic) based on solid domestic resource mobilization strategies. In addition to addressing the most acute crisis-related social welfare needs of those countries, such an international social protection financing initiative would give practical effect to the commitment of the international community to achieve universal social protection, including social protection floors, as reflected in SDG Target 1.3.

²³ See, for example, [Financing for Development in the Era of COVID-19 and Beyond: Menu of Options for the Consideration of Heads of State and Government Part I and Part II](#).

²⁴ Adopted by 184 countries, [Recommendation No. 202](#) defines social protection floors as nationally defined sets of basic social security guarantees that should ensure, as a minimum, that, over the life cycle, all persons in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level.

²⁵ ILO, [“Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of the COVID-19 Crisis and Beyond”](#), Social Protection Spotlight, 17 September 2020.

²⁶ Fabio Durán-Valverde et al., [“Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of the COVID-19 Crisis and Beyond”](#), ILO Working Paper No. 14, October 2020.

²⁷ Vitor Gaspar et al., [“Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs”](#), International Monetary Fund Staff Discussion Notes No. 19/03, 23 January 2019.

²⁸ See, for example: UN General Assembly, [Global Fund for Social Protection: International Solidarity in the Service of Poverty Eradication – Report of the Special Rapporteur on extreme poverty and human rights, Olivier de Schutter, A/HRC/47/36](#).

► **Table 1 – Financing gap for achieving universal social protection coverage in 2020, in US\$ billions and as a percentage of GDP (low- and middle-income countries only)**

	Gap in billion US\$ 4 SP areas*	Gap as % of GDP 4 SP areas	Gap in billion US\$ health care	Gap as % of GDP health care	Total gap in billion US\$	Total gap as % of GDP
Subregional groups						
Arab States	15.1	4.5	10.2	3.0	25.2	7.5
Central and Western Asia	86.6	7.9	15.2	1.4	101.8	9.3
Eastern Asia	58.1	0.4	132.9	0.9	190.9	1.3
Eastern Europe	32.8	1.6	21.8	1.1	54.6	2.7
Latin America and the Caribbean	272.1	6.1	61.1	1.4	333.2	7.5
Northern Africa	31.5	4.7	24.1	3.6	55.6	8.3
Northern, Southern and Western Europe	5.0	5.7	1.9	2.1	6.9	7.8
Oceania	1.5	4.5	0.9	2.7	2.4	7.2
South-Eastern Asia	48.2	1.8	46.3	1.7	94.5	3.5
Southern Asia	94.8	2.3	94.8	2.3	189.6	4.6
Sub-Saharan Africa	61.8	3.7	75.1	4.5	136.9	8.2
Income groups						
Low-income countries	36.2	7.4	41.8	8.5	77.9	15.9
Lower-middle-income countries	173.8	2.4	189.1	2.6	362.9	5.1
Upper-middle-income countries	497.4	2.1	253.4	1.1	750.8	3.1
All low- and middle-income countries	707.4	2.2	484.2	1.5	1,191.6	3.8

Source: ILO estimates based on World Social Protection Database 2020 and Stenberg et al. (2017) using WHO methodologies and databases (2017)

*the four policy areas of social protection (excluding health care): children, maternity, disability and old age

With respect to the climate crisis, another special cross-MDB facility should be established to receive SDR donations to finance an urgent effort to retire and replace existing coal-fired power plants and avoid the construction of new ones in low- and middle-income developing countries (LMICs) that lack the capacity to bear the additional cost of doing so in the short to medium term. At the same time, upper-middle-income countries with sizable coal-fired generating capacity, such as China, the Russian Federation and South Africa, should accelerate their own pace of coal plant retirement by applying some of their new SDRs for this purpose if need be. As important as comprehensive action on all of the major drivers of greenhouse gas emissions is, nothing is more vital in the race to stabilize atmospheric concentrations of these gases by the mid-twenty-first century than rapidly reducing the burning of coal and preventing the installation of new coal-burning capacity²⁹. Even if no new coal plants were built, the existing global fleet would consume most of world's remaining carbon budget of roughly 440 gigatons of carbon dioxide under a moderate-probability scenario of 1.5°C in global warming, including a third of the budget in just the next ten years.³⁰ For this reason, unabated coal-fired power generation must decline quickly – much faster than use of oil and natural gas³¹ – if the world is to have a realistic chance of achieving either of the Paris Agreement's 1.5°C or "well-below-2°C" goals: an 80% reduction by 2030 to achieve the 1.5°C goal or the same reduction by 2038 to achieve the 2°C goal as well as virtual elimination (a 97% decline) within the following ten years in the case of both.³²

²⁹ See for example United Nations, "Secretary-General urges countries to end 'deadly addiction' to coal," March 2, 2021

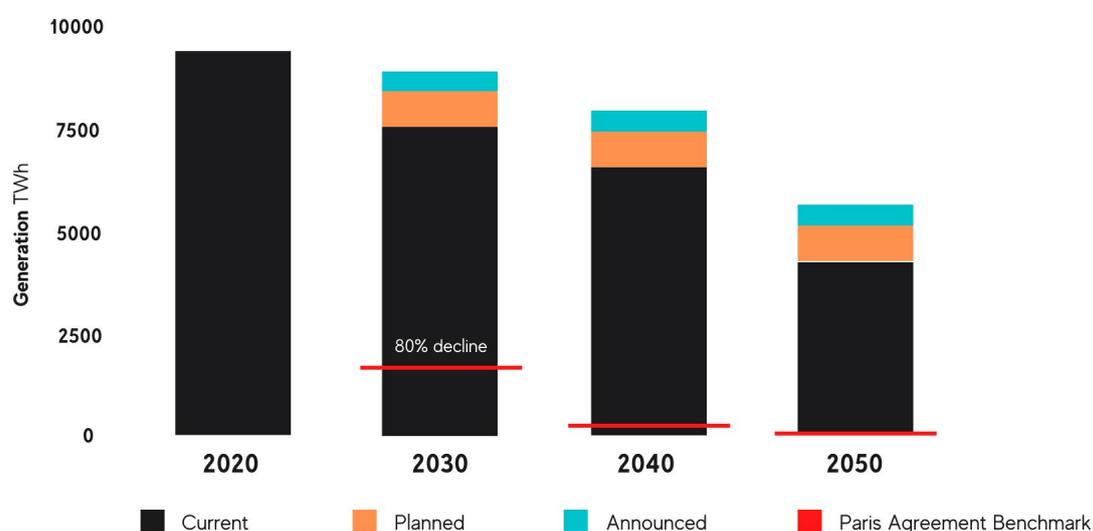
³⁰ Kasia Tokarska and Damon Matthews, "Refining the Remaining 1.5°C Carbon Budget", Carbon Brief, 19 January 2021; IEA (International Energy Agency), "Global Energy Review 2021: CO2 Emissions".

³¹ IPCC, Joeri Rogelj et al., "Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development," SR15, pp. 132 - 134.

³² Paola A. Yanguas Parra et al., "Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C," Climate Analytics, September 2019, pp. 10 – 11.

Although plans for many new plants have been cancelled in recent years, some 1,000 coal boilers are still under construction or are being planned and permitted around the world, representing around a quarter of existing capacity.³³ Coal is thus a central factor driving the current trajectory of nearly 3°C in global warming,³⁴ which the bottom-up nationally determined contribution process of the Paris Agreement has yet to substantially alter on the ground. A strategic, top-down initiative is required to intervene directly in power markets around the world with the financial inducements necessary to replace and avoid coal at the pace required over the next decade to avoid a lock-in of atmospheric greenhouse gases at concentrations incompatible with the mid-century targets set out in the Paris Agreement.

► **Figure 3 – Paris 1.5°C goal requires 80% drop in coal-fired power by 2030**



Source: Climate Analytics, Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C.

Under this initiative, developed and upper-middle-income countries would donate US\$60 billion in SDRs over the next several years into a cross-MDB facility which would have a mandate to: a) buy out existing coal-fired power plants in low- and middle-income countries for the purpose of accelerating their retirement from service over a maximum of 10 to 15 years and to work with their owners to redeploy the proceeds into new clean power construction projects; b) offer financial inducements to sponsors of planned coal-fired plants that are sufficient to convince them to switch to the construction of clean power alternatives; and c) finance a just transition for affected workers and their communities. This facility would be shared by the MDBs in order to diversify risk and increase implementation capacity, and it would be authorized to borrow in capital markets to supplement SDR donations. MDBs currently borrow long term at rates ranging from just above 0 per cent to just under 1 per cent, making this an opportune moment for humanity to make use of these public institutions to avert one of the most dangerous threats to its security later in the century. MDBs could leverage this US\$60 billion in SDR donations three to four times over using additional donor and private sector funding in order to generate the estimated US\$300 billion to US\$350 billion

³³ Global Energy Monitor, “Global Coal Plant Tracker”. See also: Global Energy Monitor et al., *Boom and Bust 2021: Tracking the Global Coal Plant Pipeline*, April 2021, 15; Ted Nace, *A Coal Phase-Out Pathway for 1.5°C* (CoalSwarm and Greenpeace International, 2018); Jason Bordoff, “Yes, We Can Get Rid of the World’s Dirtiest Fuel”, *Foreign Policy*, 26 August 2020.

³⁴ Climate Action Tracker, “Temperatures”.

needed to replace and avoid the majority of coal power generation in low- and lower-middle-income countries by 2035.³⁵ Such an initiative would likely also have the effect of raising the ambition level of wealthier coal-burning countries that have the resources – but not yet the political will – to phase out coal-fired generation within this timeframe, such as China (which accounts for half of all such capacity), the United States of America, European nations and the Russian Federation. Between the share of resources allocated for this purpose from the first SDR issuance in 2021, the matching funds borrowed on the market and a comparable, or perhaps even larger, share of resources allocated from a possible second SDR issuance in 2026 – as well as the incentive effects that this bold effort would have on other countries – the world would have a viable strategy for confronting what is arguably the single biggest obstacle to the fulfilment of the Paris Agreement.

MDB-led public–private financing of sustainable infrastructure and industry

The single biggest obstacle to the attainment of the SDGs is the large financing gap for low-carbon and job-rich sustainable energy, water, sanitation, digital, transport and other infrastructure. In developed countries, this gap exists primarily because of a lack of political imagination and will, rather than a lack of private savings or of public capacity to borrow and tax. However, in developing countries, where the largest gaps in sustainable infrastructure exist, it is a different story.

The IMF estimates that an increase in annual investment of 4 per cent of GDP will be required by 2030 in middle-income developing countries in order for them to achieve the Paris Agreement climate goals and SDGs.³⁶ Sustainable infrastructure represents one half to two thirds of this gap, depending on the country. This incremental financing requirement is comparable to the scale of funding mobilized for Western European countries by the Marshall Plan. The financing gap in 49 lower-income countries is much higher relative to the size of their economies, at 15 per cent of GDP. However, given the small size of these economies, this amounts to around only 0.5 per cent of world GDP, or half a trillion dollars.

These estimates imply an annual incremental investment gap for sustainable infrastructure in developing countries of around US\$1 trillion between now and 2030. This is around five times the level of annual official development assistance and private philanthropy delivered to developing countries. However, it is not beyond the reach of two other, more scalable, sources of development finance: domestic resource mobilization (tax base broadening and more efficient tax administration) and private portfolio and direct investment from both domestic (developing country) and international investors. Thus, the second track of the financing strategy proposed by this paper aims to accelerate the implementation of SDG-related sustainable infrastructure and industry in developing countries by expanding these two sources of investment, using major increases in the latter to incentivize the reforms necessary to mobilize more of the former, not unlike the way in which the Marshall Plan leveraged aid from the United States to secure commitments of locally matched financing and supportive policies in European countries after the Second World War.

MDBs could play a critical catalytic role in this regard. Private investment firms around the world manage assets in excess of US\$120 trillion, of which only 5 per cent is allocated to infrastructure and just 1 per cent to developing country infrastructure. Approximately 10 per cent, or US\$12 trillion, of these assets are actually earning a *negative* yield, and an additional large share is earning a yield of less than 1 per cent. By contrast, infrastructure funds have historically generated a return of 10 to 15 per cent.³⁷ This skewing of global capital away from investment in sustainable infrastructure that is employment-intensive and that reduces

³⁵ For the basis of these estimates and a description of one possible way of structuring such an initiative, see: Donald P. Kanak, [For Health and Climate: Retiring Coal-Fired Electricity and Promoting Sustainable Energy Transition in Developing Countries](#).

³⁶ Vitor Gaspar et al., “Fiscal Policy and Development”.

³⁷ These estimates are drawn from: Blended Finance Taskforce, [Better Finance, Better World: Consultation Paper of the Blended Finance Task Force](#), 2018, 47–50.

greenhouse gas emissions is not justified by the level of risk; average default rates on infrastructure assets are below those on non-financial corporates, and African infrastructure credits have lower default rates than European and United States infrastructure assets.³⁸

A two to three percentage point shift in portfolio allocation by institutional investors to developing country sustainable infrastructure would cover this biggest of SDG and climate financing gaps and, in so doing, open an enormous opportunity for decent work creation in developing countries by virtue of the relative employment intensity of infrastructure projects. This shift could be catalysed through a concerted effort of MDBs to share and diversify the risks perceived by international institutional investors, blending in their own capital and partial guarantees, attracting local currency financing provided by developing country governments and investors, and aggregating infrastructure projects into syndicated packages large enough to be of interest to major institutional investors. The MDBs could offer such financial structuring and risk mitigation support to countries that meet certain minimum levels of domestic resource mobilization (such as tax collection as a share of GDP) and local currency project co-financing. MDB participation would be conditioned on safeguards to ensure financial additionality and integrity and proper public governance and oversight, including those reflected in the [Blended Finance Guidance](#) produced by the Organisation for Economic Co-operation and Development and in the [Equator Principles](#), as well as adherence to international labour, human rights and environmental standards, including those enshrined in ILO core labour standards and other conventions.

Most MDBs have considerable underutilized capital headroom – an estimated US\$750 billion of additional space in their capital structures without putting into jeopardy their AAA credit ratings – to expand such co-financing and risk-sharing as well as more traditional direct lending and grant provision.³⁹ They could comfortably utilize two thirds of this available room on their balance sheets over the next several years, applying 40 per cent of this amount for additional lending and grants and leveraging the other 60 per cent three to four times over in private flows by scaling their co-financing, partial guarantee and portfolio recycling activities. This would generate over US\$1 trillion in additional external financing for SDG-related sustainable infrastructure and industry, which could be structured in a way as to stimulate significant additional domestic resource mobilization and local currency financing.

The public-private, domestic-international and cross-multilateral institution cooperation necessary to solve this global market failure will not occur on its own, even if it would yield a two-for-one payoff of the highest political importance: big increases in employment and reductions in GHG emissions. Although the MDBs and some of their bilateral development agency partners have the necessary balance sheet room and risk mitigation and asset packaging and syndication tools, they lack the political mandate from their boards and the alignment of their senior staff to move rapidly in this direction on an individual basis, let alone a coordinated one. Breaking this logjam requires the kind of cross-cutting political leadership that world leaders under the auspices of the G20 or the UN financing for development initiative could provide, building on the strong network of developed and developing country governments already engaged in these processes.

MDB financing of the domestic economic institutions that underpin socially inclusive growth and development

The two financing initiatives described above would have the added benefit of freeing MDBs to shift more of their traditional activities and resources towards helping countries design the rulebooks for, and properly staff, the corresponding public administrative functions that are crucial to the social inclusivity and sustainability – and thus dynamism and resilience – of an economy. International development assistance

³⁸ Blended Finance Taskforce, *Better Finance, Better World*.

³⁹ See, for example: Chris Humphrey, “[All Hands on Deck: How to Scale Up Multilateral Financing to Face the COVID-19 Crisis](#)” (Overseas Development Institute, April 2020); Riccardo Settimo, “[Higher Multilateral Development Bank Lending, Unchanged Capital Resources and Triple-A Rating: A Possible Trinity After All?](#)”, Bank of Italy Occasional Paper No. 488, April 2019.

has traditionally placed relatively little emphasis on helping countries build effective public administrations in such areas as:

- labour ministries and social protection system agencies that oversee critical social standards and benefits, including vis-à-vis the informal economy and other insecure forms of work that are so prevalent in developing countries;
- environmental ministries that set and enforce compliance with key standards;
- tax agencies that enable adequate and equitable domestic resource mobilization;
- independent anti-corruption, competition and financial regulatory authorities that ensure fair treatment of working families and small businesses;
- institutions of social dialogue – such as worker and employer organizations – that facilitate social participation in the setting of government and enterprise strategies and practices, giving these a solid foundation of citizen confidence and support.

Most of the world's poor people now live in middle-income countries for which the primary challenge is not supplying basic human needs but rather including more of their population in the development process. The robustness of these kinds of economic institutions is what chiefly determines whether countries succeed in doing so at scale over time. Technical and budget support for the design and administrative capacity of these critical public institutions and their rulebooks should be made a top priority for MDBs (and bilateral donor agencies), especially – but not exclusively – in middle-income countries. Properly resourced programmes of this sort – including [Decent Work Country Programmes](#), which help countries translate ILO labour and social protection standards into the rights and protections of workers and their families on the ground – should routinely accompany trade liberalization agreements and country lending programmes in such countries.

As MDBs shift a larger proportion of their financial activities to efforts to catalyse far larger amounts of private investment through a more efficient use of their capital in co-financing and risk mitigation activities, they should be able to devote more of their energy and expertise to providing a service which the private sector cannot supply: helping to build the public institutional infrastructure on which competitive and socially just markets rest. This change, on top of the greatly increased direct lending and co-financing enabled by a more expansive use of their capital, as well as the crash effort to incentivize a rapid decline in coal-related greenhouse gas emissions around the world, represents the refinement in the “business model” of MDBs necessary to apply them more fully to the priorities of the multilateral system in the 21st century.

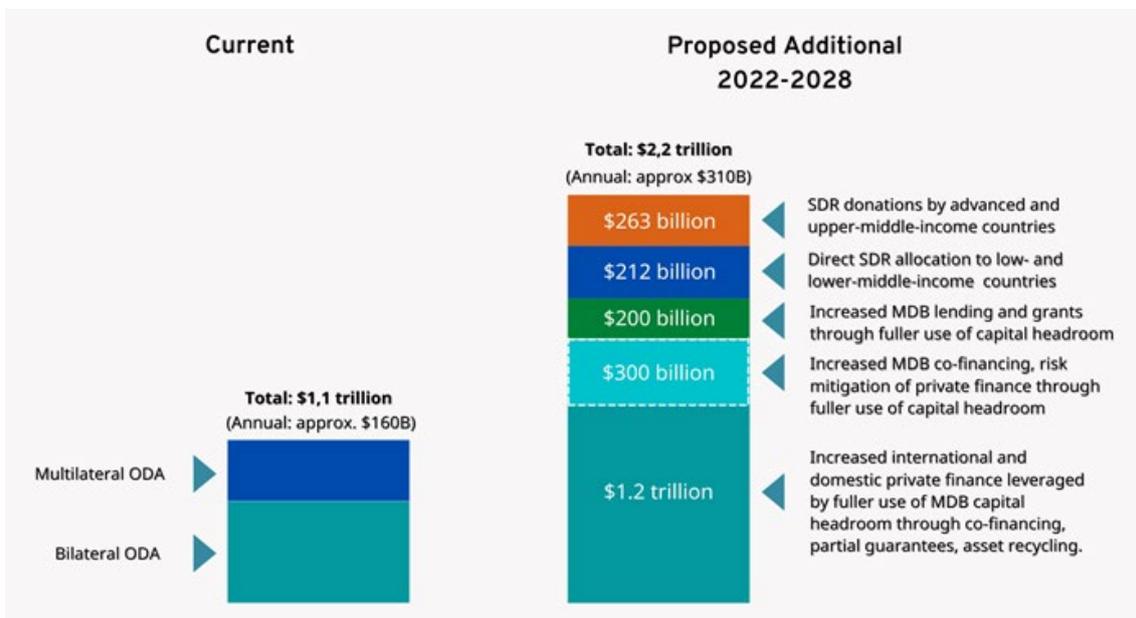
▶ 3 A financing strategy to match the ambition and urgency of multilaterally agreed agendas

These three financing initiatives would provide the international community with the bold resource mobilization strategy that it needs to have a much better chance of achieving its key stated objectives of global vaccine equity, an inclusive worldwide economic and social recovery from the pandemic, and the achievement of the SDGs, including the objectives of the Paris Agreement. By generating an additional US\$2 trillion in international financing for development over the next several years, these initiatives would enable the establishment of a new doctrine of international cooperation corresponding to the deeper level of interdependence that humanity is experiencing in this century as reflected in the universal threats posed by the COVID-19 pandemic and climate change. Specifically, **any low-income or lower-middle-income country that formulated a well-considered and human-centred national recovery plan (as per the ILO global call to action for a human-centred recovery) or SDG national implementation plan would be assured access to substantial additional financial and technical assistance to leverage the resources mobilized domestically for these purposes. This would include the COVID-19 vaccination and treatment plans that the country has prepared, since the ACT-A initiative and its COVAX arm would receive full and prompt funding under this proposal.**

This is the nature of the stronger partnership between developed and developing countries, the public and private sectors, and the Bretton Woods institutions and UN system that is necessary to make the decade of action for sustainable development a reality and to control the pandemic and global warming. Indeed, in the absence of such an initiative, it is difficult to imagine how the large financing needs of developing countries in respect of pandemic response and recovery and climate-related SDG implementation can be met.

The US\$2 trillion estimate assumes that: a) low- and lower-middle-income developing countries receive their quota-based share of the new SDR issuance of about US\$212 billion; b) developed and upper-middle-income countries, such as China, would donate an average of 60 per cent of their share for these four common purposes (US\$263 billion); c) MDBs would utilize roughly two-thirds of their US\$750 billion in additional capital headroom, of which 40 per cent would be devoted to increased lending and concessional assistance (US\$200 billion); and d) MDBs would deploy the remaining 60 per cent, or US\$300 billion, to catalyse private investment in SDG-related sustainable infrastructure and industry through co-financing, partial guarantees and portfolio recycling, leveraging US\$4 of private capital for every US\$1 in MDB capital (US\$1.2 trillion).

► **Figure 4 – Tripling annual ODA-related financing of LICs and LMICs during the next seven years**



Source: Author’s estimates.

Per the discussion above, financing mobilized through the SDR-donation part of this proposal would be allocated to the following four urgent COVID-19 recovery and climate action priorities, whether channelled through a few multilateral vehicles like those suggested above or through a number of plurilateral “clubs” of willing donor and recipient countries (with MDBs serving as the custodians of the special trust funds they create for this purpose):

► **Table 2 – Deployment of SDR donations**

	(billions of US dollars)
Full, multi-year funding of ACT-A/COVAX	50
LMIC debt relief and restructuring (beyond DSSI extension/expansion)	35
LMIC social protection floor creation and expansion	115
LMIC coal-fired power plant replacement and avoidance	60
Total	260

Source: Author’s estimates.

These amounts do not include the additional domestic resources which developing countries would likely mobilize in order to attract such complementary international financing, including in the form of local currency denominated investments in sustainable infrastructure and increased tax revenues to support the expansion of social protection systems. This could add a further US\$750 billion to US\$1 trillion to the total resources mobilized by this package. Finally, a second SDR issuance could be considered for the latter part of the decade, in particular to maintain the momentum on climate action and the implementation of the broader 2030 Agenda.

The tangible human impact of this more effective use of the existing public capital invested in the international financial architecture would be profound, including:

- **Human life and well-being.** Based on current trends, vaccine coverage is projected to be less than 30 per cent at the end of 2021 in 91 low- and lower-middle-income countries with a combined population of 2.5 billion people, compared with over 70 per cent in high-income countries.⁴⁰ Moreover, diagnostic testing in these countries is occurring at less than 15 per cent of the rate in wealthier countries.⁴¹ This financing package could enable vaccine coverage to reach 60 to 70 per cent in poor countries in 2022 and dramatically expand access to diagnostics, equipment and therapeutics. As a result, millions – perhaps tens of millions – of lives would be saved, debilitating illnesses avoided and remediated, and children protected from the loss of parents and educational progress.
- **Jobs.** The employment effects would be similarly transformational. This additional US\$2 trillion in external financing of SDG investment needs in developing countries – especially the major share that would go to finance employment-intensive sustainable infrastructure and industry projects in the energy, water, transport, sanitation, housing, digital, land use, health and education sectors – would create tens of millions of jobs just as the pandemic has created a large shortfall in them (an estimated 75 million in 2021 relative to pre-pandemic trends).⁴² The gross employment creation potential of investing adequately in the SDGs has been estimated at over 300 million jobs by 2030, representing more than 10 per cent of the workforce.⁴³ Global unemployment stands at around 220 million individuals, with young people representing approximately a third of this number and experiencing an unemployment rate of around 13 per cent and a labour under-utilization rate three times higher than that of adults. The energy system aspect of this investment agenda alone is projected to generate 18 million net additional jobs globally by 2030.⁴⁴ Coal power replacement and avoidance is projected to generate three to four times as many jobs as it displaces – an estimated 4 million more in construction alone over the next decade.⁴⁵ Moreover, shifting to a net-zero carbon economy through healthier and more sustainable diets, which reduce meat and dairy consumption while increasing plant-based foods, could create even more jobs. For example, the Inter-American Development Bank and the ILO estimate that 15 million net new jobs could be created in Latin and America and the Caribbean by 2030 as a result of the transition to net-zero emissions in agriculture and plant-based food production, renewable energy, forestry, construction and manufacturing. In sum, this bold financing agenda would go a long way towards filling the large hole in the labour market that existed before – and was widened much further by – the COVID-19 pandemic.
- **Business investment and opportunity.** This international resource mobilization agenda would also create enormous opportunity for sustainable enterprise, including small businesses. The Business and Sustainable Development Commission estimates that achieving the SDGs would create up to US\$12 trillion in market opportunities across four economic systems representing 60 per cent of the real economy: food and agriculture, cities, energy and materials, and health and well-being.⁴⁶ Progress towards the SDGs is well behind schedule,⁴⁷ and these increased financial flows would go a long way towards fully funding national sustainable development plans in poor countries and placing the 2030 Agenda more generally on track. Such additional investment in the real economy is sorely needed to compensate for the effects of the COVID-19 pandemic. The United Nations Conference on Trade and Development reports that:

in the first three quarters of 2020, the value of newly announced greenfield investments contracted by 40% and that of international project finance (used for large infrastructure projects requiring

⁴⁰ Ruchir Agarwal and Gita Gopinath, “A Proposal to End the COVID-19 Pandemic”, IMF Staff Discussion Notes, May 2021, 11–12.

⁴¹ WHO, *ACT-Accelerator Prioritized Strategy and Budget for 2021*, 19.

⁴² ILO, *World Employment and Social Outlook*.

⁴³ Business and Sustainable Development Commission, *Better Business, Better World*, January 2017.

⁴⁴ ILO, *Greening with Jobs: World Employment and Social Outlook 2018*, 42; SystemIQ, *The Paris Effect: How the Climate Agreement is Reshaping the Global Economy*, December 2020.

⁴⁵ Goldman Sachs, *Carbonomics: The Green Engine of Economic Recovery*, 16 June 2020, 15.

⁴⁶ Business and Sustainable Development Commission, *Better Business*.

⁴⁷ UN, *The Sustainable Development Goals Report 2020*.

multiple investors) by 15%. Investment activity fell sharply across all SDG sectors. In infrastructure and infrastructure industries (including utilities and telecom), international project finance announcements were 62% lower in value. Greenfield project values across food and agriculture, water and sanitation, and health and education were all one- to two-thirds lower than in 2019. ... [T]he decline in SDG-relevant investment was much larger in developing and transition economies than in developed countries [and was] more pronounced in the poorer regions. SDG-relevant investment fell by 51% in Africa, 44% in Latin America and the Caribbean, 33% in Asia, and 27% in transition economies.⁴⁸

- **Poverty and economic insecurity.** This large and sustained increase in investment in health and employment through sustainable infrastructure and industry would boost economic growth and living standards. Full funding of the COVAX initiative by itself would have an enormous payoff for both. The IMF estimates that faster progress towards ending the COVID-19 pandemic would raise global income cumulatively by US\$9 trillion by 2025, divided roughly 60:40 between developing and advanced economies.⁴⁹ The estimated US\$1 trillion in increased tax revenue that this would generate in advanced countries would far exceed the proposed US\$50 billion allocation to the ACT-A/COVAX initiative.⁵⁰ It is difficult to conceive of a public expenditure that would have a higher economic multiplier effect. The extensive additional investment in SDG priorities – such as better water, energy, sanitation, transport, housing and digital systems – would simultaneously strengthen the dynamism, inclusivity and sustainability of these economies. Furthermore, the large sums this financing initiative would make available for social protection floor expansion would place the multilaterally-agreed goal of universal social protection within reach, with all that this implies for eliminating the worst forms of poverty on the planet that disproportionately afflict the most vulnerable groups in society: children, older persons, persons with disabilities, informal workers and their families, and non-nationals.
- **Environmental security.** This ambitious mobilization of the international financial architecture would also open a viable path towards the stabilization of global warming by the middle of the twenty-first century. First, it would make possible the steep reduction in coal-fired emissions over the next ten years that is a *sine qua non* of the 1.5°C and well-below 2°C scenarios by ensuring that such action also takes place in developing countries with sizable emissions, thereby removing any “free-rider” pretext for richer coal-burning nations to delay their own decisive action. Second, it would massively boost investment in climate-related sustainable infrastructure and industry in other sectors, further accelerating the low-carbon economic transition of economies and *delivering on the unfulfilled \$100 billion per year promise of climate financing that developed countries made to developing countries* as part of the Paris Agreement. The stakes for humanity in rapidly getting onto the 1.5°C or well-below 2°C curve, and making much faster progress on other key aspects of environmental security such as water stress, biodiversity loss and soil degradation, are extremely high. The current trajectory of nearly 3°C in global warming is projected to render large parts of the tropics essentially uninhabitable and to turn severe droughts and related fires that are currently once-in-a-century events into relatively common experiences that occur every two to five years in most of Africa, Australia, southern Europe, southern and central United States, Central America, the Caribbean and parts of South America.⁵¹ Below 2°C of warming, global average sea levels will likely rise by 30 to 60 cm by 2100. However, warming of over 2°C will likely cause sea levels to rise by 61 to 110 cm in the same period. Under these circumstances, high-tide flooding that is currently expected only once a century would inundate many large cities and communities as often as every year, and some small island nations would likely become uninhabitable.⁵²

In sum, mobilizing this additional US\$2 trillion would make a huge difference to human welfare. These positive potential impacts demonstrate what taking the international economic, social and environmental multilateral agendas more seriously would mean for people on the ground – for the human condition in

⁴⁸ James X. Zhan and Amelia U. Santos-Paulino, “Investing in the Sustainable Development Goals: Mobilization, Channeling, and Impact”, *Journal of International Business Policy* 4 (2021): 166–183.

⁴⁹ Kristalina Georgieva, “Remarks at WTO Aid-for-Trade Stocktaking Event High-Level Plenary” (23 March 2021).

⁵⁰ IMF, *Fiscal Monitor: A Fair Shot*, April 2021, 15.

⁵¹ The Economist, “Three Degrees of Global Warming is Quite Plausible and Truly Disastrous”, 24 July 2021.

⁵² IPCC (Intergovernmental Panel on Climate Change), *Special Report on the Ocean and Cryosphere in a Changing World: Summary for Policymakers*, 2019.

the twenty-first century. They also demonstrate the enormous opportunity cost for humanity of continued incrementalism in development and climate finance.

▶ 4 Conclusion

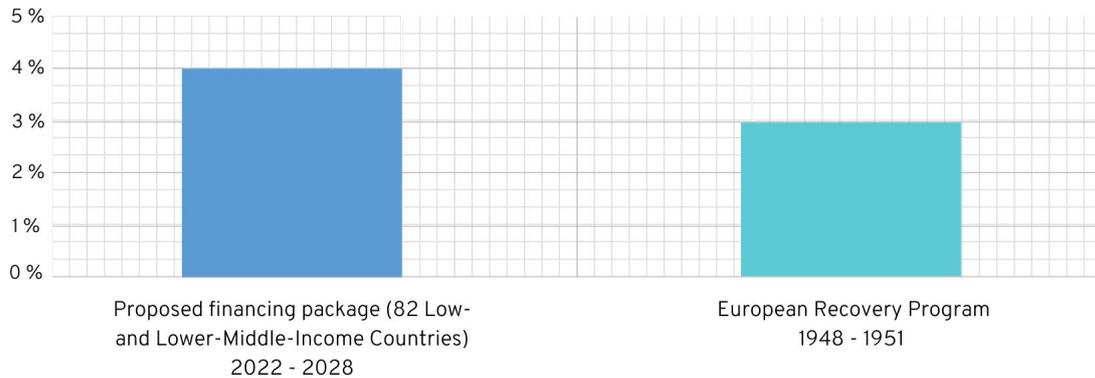
Applying the ambition and approach of the Marshall Plan to this century's watershed moment for global recovery and reform

The proposed financing strategy for COVID-19 recovery and climate action outlined in this paper is certainly ambitious, but it is not pie in the sky. The IMF and MDBs have previously used each of the approaches suggested here, just not at scale or as a central organizing principle of their activities. To be certain, strong collective leadership on the boards of these institutions will be necessary to bring about these changes. This could be a useful focus of the next phase of the UN financing for development initiative: leveraging its high-level political character to build the coalition of developed and developing countries necessary to effect such changes within these boards. Many shareholder governments and top MDB executives are committed to galvanizing and modernizing these organizations further to enable them to serve the international community as effectively as possible in its unprecedented hour of need. The strategy outlined in this brief would help them to harness their balance sheets and expertise to much greater effect for this purpose.

Such a global resource mobilization partnership would greatly accelerate progress in the fight against increased inequality and climate change, which is to say in the implementation of the objectives set out in the ILO Global Call to Action for a Human-Centred Recovery from the COVID-19 Crisis and the Centenary Declaration for the Future of Work as well as the 2030 Agenda and the Paris Agreement. Its efficient leveraging of the resources of developed and developing countries and the public and private sectors would have certain parallels to the great international resource mobilization effort of the twentieth century: the Marshall Plan, designed to help Europe recover from the devastation of the Second World War.

The Marshall Plan, or the European Recovery Program as it was formally known, provided around 3 per cent of recipient country GDP in aid per year over four years (1948 to 1951), comparable in magnitude to the additional international flows that the proposals in this paper would generate for the world's lower-income and lower-middle-income countries over the next seven years. The aid provided through the Marshall Plan built on a similar level of assistance provided by the United States in 1946–47; however, it differed in several important respects. First, it was a multi-year programme, providing greater certainty and continuity. Second, it financed far more than basic needs; it was a multifaceted *recovery* programme that supported the reconstruction of infrastructure, the expansion and modernization of industry and improvements in labor productivity through training and technical cooperation. Third, it required a matching commitment of local currency funds from recipient countries. These were deployed in support of policy reforms aimed at sustaining the economic momentum and social support of the recovery. Such reforms prioritized capital investment, technical and managerial capacity and market competition, thereby strengthening European industry's competitiveness and capacity to generate employment, as well as public debt reduction, which created fiscal space for the important expansion of social protection systems that took place during this period. About half of the war debts of Germany were eventually forgiven, and repayment of the rest was deferred and linked to the country's capacity to pay (its levels of economic growth and exports). Fourth, the Marshall Plan had a distinctly public-private character. Multi-stakeholder councils were formed in recipient countries to advise on the best use of the grants and loans available through the programme, and the overall leader of the programme was a prominent business executive recruited from American industry.

▶ **Figure 5 – Scale of proposed increase in financing for developing country COVID-19 recovery and sustainable development compared to post-WWII Marshall Plan**



As such, the Marshall Plan was far more than an aid – or crisis response – initiative; it was a crisis *recovery and reform* initiative that helped postwar Europe literally build back faster and better, avoiding major social unrest and political instability in the process. It not only supported a return of economic output to prewar levels within a few years, but it also corrected a number of structural and institutional weaknesses that had hampered the performance of European economies during the interwar period.⁵³ In other words, the Marshall Plan played a crucial catalytic role in the postwar rebalancing of Europe's economic growth model and social contract, which in turn enabled decades of strong, socially inclusive economic progress.

An analogous effort is needed today on a global scale to help economies and societies build forward faster and better from the COVID-19 pandemic crisis. A Marshall Plan-like recovery-and-reform strategy is required to supplement and, ultimately, supplant the individual, largely crisis-response, measures of nations, as important as these have been. As was the case in Europe after the Second World War, the speed and sustainability of recovery depends on reinforcing the key building blocks of broad-based economic and social progress: widely available employment and training; stronger worker and social protections; the deepening of other public institutional frameworks that enable more inclusive and dynamic growth; increased investment in the real economy; and, in today's context, accelerated and more equitable progress on the pandemic and climate change. Such increased social investment is also the key to achieving a just transition from our fossil fuel-based energy system consistent with the ILO [guidelines](#) for a just transition toward sustainable economies and societies for all.

The architects of the Marshall Plan – as well as the UN system and the Bretton Woods institutions – deliberately sought to learn from the mistakes of the interwar period. There are analogous lessons to be learned today about the nature of the growth and development model of recent decades, in particular its socially and environmentally unbalanced nature and the deep-rooted perceptions of unfairness that this has engendered in parts of the world. These frustrations are reflected on the street and in government councils in a wide range of countries. They are manifested most visibly at the international level in the long-standing stalemate at the World Trade Organization and the increasingly contentious debate within the United Nations Framework Convention on Climate Change about the unfulfilled commitment made by developed countries to provide US\$100 billion per year in climate finance to poorer countries.

⁵³ See, for example: Curt Tarnoff, [The Marshall Plan: Design, Accomplishments and Significance](#), (Congressional Research Service, Washington, DC, 18 January 2018); J. Bradford DeLong and Barry Eichengreen, [The Marshall Plan: History's Most Successful Structural Adjustment Program](#), National Bureau of Economic Research Working Paper No. 3899.

Industrialized countries, which hold the majority of shares in international financial institutions and have the world's largest capital markets, bear certain historical responsibilities with respect to global inequality⁵⁴ and climate change.⁵⁵ The onward march of the pandemic and global warming threatens to further entrench inequalities and perceptions of injustice around the world. This would be an appropriate moment for these countries, in the interests of the long-term cohesion of the international system as well as their own national security, to provide a fresh round of leadership to and support for these institutions, inspired by the admonition enshrined in the foundations of the ILO's original headquarters paraphrasing its 1919 Constitution: *Si vis pacem, cole justitiam* – "If you desire peace, cultivate justice."

There could be no better place to start than a Marshall Plan-like effort to greatly increase investment in the people of low- and lower-middle-income developing countries – in their health, productivity and economic opportunity, as well as in their social and environmental security. This would provide the international community with the basis of the coordinated strategy it needs to emerge from this crisis faster, stronger and more politically cohesive. It would also lay the foundation for the more inclusive, sustainable and resilient growth and development model to which world leaders have been aspiring since the financial crisis of 2008–09.⁵⁶ If countries were better able to mobilize public and private investment in job-rich sectors of their economies and in the skilling and basic health, labour and social protections of their people, the resulting increase in employment, median household income, labour productivity and consumer confidence would raise aggregate demand and economic growth within and among them, creating a virtuous circle of more rapid and resilient global recovery.

The COVID-19 and climate change crises have created a once-in-a-generation opportunity for a rapid acceleration of international cooperation through a more imaginative and coherent mobilization of existing international financial institutions. The international community could greatly increase the pace of progress on its concurrent health, economic, environmental and social crises by deploying the public capital already invested in the IMF and MDBs more effectively to help developing countries better address their pressing national requirements in these respects. A concrete leadership initiative along these lines would go a long way towards reversing the global spread of disease, inequality and greenhouse gas emissions, while raising broad living standards and strengthening social cohesion and political stability. It would go a long way towards making this next "decade of action" a reality.

⁵⁴ For an overview of research on the legacy of colonialism in this regard, see: Patrick Ziltener and Daniel Kunzler, "Impacts of Colonialism: A Research Survey", *Journal of World-Systems Research* 19, No. 2 (2013): 290–311.

⁵⁵ See, for example: Hannah Ritchie, "Who Has Contributed Most to Global CO2 Emissions?", *Our World in Data*, 1 October 2019.

⁵⁶ See, for example: Richard Samans, *Beyond Business As Usual: G-20 Leaders and Post-Crisis Reconstitution of the International Economic Order*, Center for American Progress, September 2009.

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