Financing a just and sustainable recovery in developing countries

An intersection of health, employment, and climate crises confront the world. We need a decade of action to finance recovery and the Sustainable Development Goals (SDGs). By concentrating on the creation of climate-friendly decent work and universal social protection, we can move from crisis to resilience and forge a new social contract.[1]

Investment from both the public and private sectors must be reoriented toward the medium to long-term to build a strong economic foundation. Large numbers of jobs can be created through sustainable investments in care, infrastructure, public transport and housing, retrofitting buildings, repair of ecosystems, and innovative improvements to cities. Sustainable industrial policy and investment will enable heavy industry transitions.

Resilience demands social protection for all, including the self-employed and people in developing countries where a social protection floor does not exist. A 'Global Social Protection Fund' supported by high-income countries and multilateral organisations should immediately make possible the creation of social protection floors that prioritise health and income support.[2]

Fair taxation, not austerity, is the answer. This includes urgent action in minimum corporate, progressive, financial transaction, wealth, and digital taxes. Working families should not shoulder the burden of adjustments and deregulatory structural reform that will ultimately also hurt the economy, particularly through the scarring effects of long-term unemployment. Another turn to austerity based on unfounded panic about debt-to-GDP ratios would be catastrophic. It is the moment to make long-term investments in sustainable development and growth, taking and make monetary policy and Central Banks fit-for purpose with employment and climate mandates.

International solidarity and support are crucial. High-income countries responded to the crisis on a sizeable scale. A small number of emerging economies can borrow at low rates and undertake quantitative easing. However, the reality is grim in developing countries with little or no liquidity or access to external financial markets. A 'fiscal stimulus gap' has emerged in which middle and low-income countries have not responded proportionately to job loss, due in large part to debt burdens and decades of failed policies from the international financial institutions.[3] These countries face a lost decade of unemployment, poverty, and inequality that will hurt working people the most.

Debt relief based guided by the SDGs and an injection of IMF Special Drawing Rights are necessary to avoid debt and liquidity shocks that would worsen the situation.[4] Developing countries have long been disadvantaged by the unequal terrain of sovereign debt. A binding and comprehensive debt workout mechanism is a missing piece of the international system.

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[1] ITUC, "SDG decade of action - Trade union policy responses", <https://www.ituc-csi.org/sdg-decade-of-action-trade-union-policy-responses>.
ITUC, "A New Social Contract: Crisis >> Recovery >> Resilience", <https://www.ituc-csi.org/crisis-recovery-resilience>.
[2] ITUC, "A global social protection fund is possible", <https://www.ituc-csi.org/global-social-protection-fund>.
[3] ILO Monitor, 6th edition, <https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_755910.pdf>.
Statement by Global Unions to the Annual Meetings of the IMF and World Bank, <https://www.ituc-csi.org/statement-imf-wb-october-2020>.
[4] ITUC, "Responding to urgent global needs: IMF Special Drawing Rights", https://www.ituc-csi.org/IMF-Special-Drawing-Rights

Beyond immediate stabilisation, developing countries need support to patiently finance sustainable development. Grants and concessional loans should be scaled-up to support investment in critical areas that create jobs and catalyse sustainable growth. The only conditions attached should be alignment with the SDGs and international standards protecting people and the environment. Public Development Banks including multilateral, bilateral and national institutions should be reformed to this end and replenished for an investment-led recovery.

Public Development Banks: Patient investment for decent jobs and sustainability

The November 2020 "Finance in Common" Summit will bring together a wide range of Public Development Banks (PDBs). It is an opportunity to increase coordination toward patient investment for the SDGs and recovery. The Summit and its declaration should offer a resounding call for increased public investment that is devoted to the SDGs and create an ongoing platform for stronger partnerships between development banks. PDBs can live up to their significant potential when mandates, governance, and operations are oriented toward results for people and the planet. At the centre is SDG 8: sustainable growth with full and productive employment and decent work for all. This should be part of the mandate and daily work of every PDB.

PDBs can be patient investors guided by policy goals, essential ingredients for innovation and economic transformation that creates decent jobs and meets net-zero carbon emissions targets. With their ability to be long-term and countercyclical, in contrast to private finance that is overly restricted in downturns and speculative or procyclical in other moments, PDBs are uniquely positioned to lead on a coordinated programme of public investment for jobs in a resilient real economy, underpinned by health, social protection, and education. Hundreds of PDBs exist with extensive resources. Now is the time to meet global challenges by founding new PDBs, and replenishing and reforming existing ones with a coherent set of objectives.

The Summit declaration should lay out a vision and cooperative follow-up framework focused on:

- Policy mandates and procedures operationalising the SDGs, with full and decent employment at the centre.
- Contributing to decent work through investment criteria and results measurement systems tracking the quality and quantity of employment.
- Binding operational safeguards and due diligence requirements aligned with international standards protecting human and labour rights, and environmental protection.
- Accountable shared governance including trade union representation on governing boards and transparent public disclosure of investments.
- Adequate resources that empower PDBs to take risks and provide long-term investments for sustainable development and recovery.
- Strengthened partnerships between multilateral or bilateral PDBs and National Development Banks, including increased resource transfers to the national level.
- A leadership role for PDBs in creating sustainable real economies with decent jobs, not a narrow focus on correcting market failure or subsidising the private financial sector.
- Utilising PDBs as part of macroeconomic and industrial policies for transformation, alongside universal social protection and quality public services.

Further information is available in our briefing on the Summit and Public Development Banks.