Inter-Agency Task Team

Global Accelerator on Jobs and Social Protection for Just Transitions

Thematic Working Group:

Financing

Participating Agencies:

DESA	UNEP
DCO	UNFPA
EOSG	UNICEF
ILO	UN Women
IOM	WFP
Regional commissions	WHO
UNDP	

Background

What is at stake?

Mobilising financing on the scale required to address the "great finance divide" and overcome the devastating socio-economic hardship and job loss caused by the pandemic, the ever-increasing climate emergency, and other crises (such as the Ukraine war and its consequences) is vital. Employment losses and reductions in working hours diminished incomes. The absence of adequate social protection systems in many countries compounded the financial stress to already economically vulnerable households, with cascading effects on health and nutrition. It is critical that finance is mobilised to create decent and productive jobs and extend social protection coverage and protect the chronically poor and those who have been most affected including women, children, migrants, and workers in the informal economy, among others.

The fiscal stimulus gap for economic and labour market recovery is estimated at around US$ 982 billion in low-income and lower-middle-income countries (US$ 45 billion and US$ 937 billion, respectively).[1] Social protection coverage reaches only 46.9 per cent of the global population, thus opening a coverage gap of 4.1 billion people (2020). Despite positive developments over the last decades with the introduction of new branches and benefits in many countries, such a huge coverage gap is essentially linked to a corresponding gap in financing and the persistence of the informal economy. It is a structural situation that pre-existed with COVID-19 but has worsened with the crisis. ILO estimates that at least US$ 78 billion per year are needed for low-income countries to guarantee social protection to all their populations, i.e., 15.9 per cent of their GDP. With current fuel and food prices on the rise, and in the context of high debt levels in most developing countries and a corresponding lack of fiscal space, the objective of the Global Accelerator of creating 400 million jobs and extending social protection coverage to 4 billion people is very ambitious.

The pandemic further increased debt levels while weakening individual countries' economic capacity to service and repay that debt.[2] Increasing debt was already putting pressure on social sector budgets prior to the pandemic, and the additional burden risks further crowding out social spending.[3] The rise in external indebtedness was not matched by gross national income (GNI) and export growth. Countries faced a debt surge in 2020, as economic activity collapsed, and governments acted to provide support during the pandemic. 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.[4] Moreover, the perspective of reversal of monetary policies and interest rates may accelerate their deterioration and will require a coordinated global action. Given the expiry of the Debt Service Suspension Initiative in December 2021, it will also require setting in operation the "Common Framework" as a mechanism to alleviate and renegotiate debt levels to prevent and counteract additional hardship from debt levels.

Private external financing to official development assistance (ODA)-eligible countries dropped by an estimated US$ 700 billion, while global FDI flows decreased by 35 per cent in 2020 (in developing economies up to 45 per cent)[5] and rebounded by 77 per cent in 2021 though unevenly across regions; ODA reached an all-time high during the crisis with a 7 per cent increase in real terms from 2019, but in absolute value only plays a marginal role in the overall financing needs. For instance, in the area of social protection, ODA more than doubled between 2019 and 2020 to reach US$ 5.6 billion in 2020, but this represents only 7 per cent of the financing gaps for social protection in low-income countries (US$ 78 billion) during the same period. The Ukraine crisis is also showing the uncertainty of ODA financing flows, as various donor countries already have signalled their intention to redirect a varying portion of their ODA to respond to this new crisis-related priorities and needs.

At the same time, prospects for domestic revenue mobilisation are mixed. While some governments are increasingly challenged in respect of domestic revenue post-COVID-19, commodity exporters, in particular oil-exporting countries, are experiencing a revenue boost due to current global supply conditions. Governments will need to expand domestic revenue for the sustainability of social protection finance while ensuring the redistributive impacts of both the revenue side (taxes, social security contributions) and expenditure side (social protection benefits, public measures to support a job-rich growth). There is a need to consider the progressivity of revenue policies to avoid negative social impacts.

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[1] UN, Secretary-General's Policy Brief Investing in Jobs and Social Protection for Poverty Eradication and a Sustainable Recovery, 2021.

[2] The global average debt-to-GDP ratio rose to 226 percent in 2019, 1.5 percentage points higher than in 2018. See: IMF, "The Pre-Pandemic Debt Landscape—and Why It Matters", 2021.

[3] https://www.unicef-irc.org/publications/1193-covid-19-looming-debt-crisis-protecting-transforming-social-spending-for-inclusive-recoveries.html.

[4] Kharas & Dooley, "COVID-19's Legacy of Debt and Debt Service in Developing Countries", 2020.

[5] OECD, Global Outlook on financing for sustainable development 2021, 2020.

There are different avenues to increase the fiscal space for social protection and other public policies, such as the reallocation of public expenditure in line with the new priorities, undertaking tax reforms to support relevant sectors of the economy and public policies, the introduction of measures to facilitate the transition from the informal to the formal economy, additional ODA support in the form of grants and concessional loans, among others. However, many developing countries are in dire straits with limited room to manoeuvre.

Girls and women have been particularly impacted by the socio-economic impacts of the COVID-19 pandemic, from job losses, and additional care responsibilities, to enhanced risk of violence.[6] As social protection supports access to health care and other services such as childcare, education (e.g. school meals, education allowances) and long-term care, the provision of these services contributes to gender equality as it liberates caretakers (predominantly women) and gives them new opportunities to access labour market opportunities. It also creates new decent job opportunities in these sectors of the economy. Women's access to the labour market further contributes to increasing households' income and the tax and contribution base to finance social security and other public services. However, most social protection policies are still "gender-neutral" and therefore reproduce the inequalities that pre-exist in the labour market and society, leading for instance to a significant gender pension gap in old age. Gender-sensitive social protection should redress these inequalities on the "spending" side (ensuring that social protection benefits respond to the needs of both men and women; ensuring that women in particular benefit from adequate old-age, survivor, and disability benefits) and on the financing side (through contribution credits to compensate for the time spent in educating children and taking care of family members, or tax incentives). As indicated previously, achieving at least a social protection floor in all developing countries would require an additional investment of on average 3.8 per cent of the GDP – but this percentage is much higher in low-income countries, at 15.9 per cent of GDP, where the universalization of a social protection floor would not be feasible without significant recourse to international solidarity.[7]

In all areas of finance, public, private, domestic, and international, there is increasing interest in green and climate financing, including green fiscal policies, reduction of fossil fuel subsidies and introduction of carbon taxes, or the issuing of green bonds. Financing policies for addressing climate change and accelerating a Just Energy Transition (JET) have the potential to support the creation of productive jobs and the expansion of social protection to protect and facilitate the transition of those disadvantaged by the process of carbon transition.

Key messages:

Financing social protection cannot be delinked from employment, nor from the overall financing in social sectors. In terms of employment, many countries finance their social protection systems primarily from workers' and employers' social security contributions. As such, social security contributions form a central element of the primary income distribution, together with net wages and other earnings. The second major source of social protection financing, government revenue, also depends on the economy's capacity to provide a conducive environment for decent and productive employment and sustainable enterprises, which in turn secures the needed fiscal space for redistributive policies. The combination of taxes and social security contributions renders the financing of social protection systems more sustainable and resilient to crises and economic cycles. At the same time, a well-functioning social protection system contributes to increased productivity and employment, as risks are pooled, and companies and individuals are more resilient after the crisis.

Creating and preserving investment in human capabilities is vital for countries to achieve sustained, inclusive economic growth with a population that is prepared for the challenges of the global

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[6] See for instance: UN Women, 2020. "From insights to action: Gender equality in the wake of COVID-19" and UN Women, 2021. "Beyond COVID-19: A feminist plan for sustainability and social justice".
[7] ILO (2021). Social Protection at the Crossroads – in Pursuit of a Better Future. World Social Protection Report 2020-22. https://www.ilo.org/secsoc/information-resources/publications-and-tools/books-and-reports/WCMS_842103/lang--en/index.htm; Bierbaum M., Schmitt V. (2021). Investing more in universal social protection. https://www.social-protection.org/gimi/RessourcePDF.action?id=57638.

economy of the present and the future.[8] It is critical, at a minimum, to protect social spending, and enhance the efficiency, transparency, and equity of current allocation, while identifying new financing options for critical priorities, including expanding social protection systems.[9]

To further develop domestic resource mobilization capacities and finance large-scale social protection and employment support programmes for all, it will be crucial to develop and finance institutions that improve taxation and fiscal policies by means of reforms, that enforce obligations in terms of tax and social security payments among enterprises and citizens, and that implement formalization strategies for enterprises and jobs. This includes civil registration, tax and labour inspection, social security institutions, employment services, vocational training, as well as strengthening the role of worker and employer organizations. Building transparent, accountable, and interoperable information systems is also key to improving compliance and accountability; all citizens should have an identity card, a social security number, and a tax-payer number and interoperable systems should allow different databases to exchange and cross-check information. Social security legislation reforms that extend the coverage to new occupational groups and difficult-to-cover segments (such as the self-employed, rural workers, workers in SMEs, domestic workers, migrant workers, and workers in the platform economy) are needed; and the need to be complemented by real efforts to implement social security law in practice, including through linkages with other policies to promote the transition from the informal to the formal economy. As indicated previously, several options to actively extend fiscal space exist, ranging from domestic resource mobilization, budget reprioritization, foreign solidarity, fighting illicit financial flows, renegotiating debts, and building and using dedicated reserves. Specific analyses of fiscal space options at the country level may support social dialogues and informed policy decisions.[10]

In many countries, especially those with low- and lower-middle-income status, different forms of international solidarity (technical assistance, South-South and triangular cooperation, budget support, trust funds, International Monetary Fund and other international financial institutions' engagements) will play pivotal roles to improve the capacities to develop and manage employment programmes and sustainable social protection systems, including floors, and to increase domestic resource mobilization capacities. It is key that donor financial support is directed towards the development and self-sustainment of nationally defined social protection systems, rather than on temporary programmes that are not embedded in law, do not rely on a national consensus forged through social dialogue, are not democratically governed, and are not sustainably financed.[11] Alignment between financing and policy priorities is key and can be achieved through Integrated National Financing Frameworks (INFFs); the engagement of public development banks and international financial institutions under the common umbrella of the Global Accelerator is also a very relevant goal.

Countries need to re-examine their employment and financing strategies. These strategies should prioritise integrated policies that promote the creation of decent employment, universal social protection and a just transition to an environmentally sustainable economy in national budgets and plans. They should be based on social dialogue and a thorough assessment of policy and financing gaps for job creation, universal social protection, and the potential for domestic resource mobilisation and international financing options. In this regard, coherence between National Employment Policies (NEPs), National Social Protection Policies and Strategies and INFFs will be critical. Involving not only line ministries but also ministries of finance and social security institutions in these national consultations and dialogue processes will be key together with an alignment of international financial institutions, the

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[8] See ILO-WHO-OECD High Level Commission on Health Employment and Economic Growth Working for health and growth: investing in the health workforce (who.int). An increase in employment of human resources for health stimulates economic growth in several ways – by raising the value of production of goods and services in the health sector, by positively affecting the quality of health and well-being in the country and by contributing to inclusive economic growth, gender equality and improved health outcomes.

[9] https://www.unicef.org/media/103276/file/UNICEF-Financing-An-Inclusive-Recovery-For-Children-Call-To-Action.pdf

[10] ILO (2020). Fiscal Space for Social Protection. A Handbook for Assessing Financing Options. https://www.social-protection.org/gimi/gess/ShowRessource.action?id=55694.

[11] Bierbaum M., Schmitt V. (2021). Investing better in universal social protection. https://www.social-protection.org/gimi/RessourcePDF.action?id=57637.

United Nations, public development banks, bilateral donors, and technical cooperation to support the shared national policy priorities.

Employment policies can support the identification of sectors and sub-sectors with high potentials for creating decent jobs with social protection with a view to targeting investment accordingly (both public and private) and establishing complementary policies to enhance positive spill-overs in terms of indirect and induced jobs. The care, green, and digital economies are of strategic importance to both developed and developing countries. Informed decision-making on investment should be based on cost-benefit analysis and employment impact assessments. It is critical that public policies aiming at improving the business environment and supporting private investment are given due support to fully harness their employment potential. Such investments can generate additional national revenue and fiscal space for public policies and contribute to achieving several Sustainable Development Goals. Similarly, more evidence on the macroeconomic impact of investments in social protection systems,[12] and the impact of integrated approaches as those promoted as part of the Global Accelerator, need to be widely documented and used to convince policymakers, in particular ministries of finance, to invest more and better in national social protection systems.

At the macroeconomic level, financing strategies need to identify country-specific elements of pro-employment macroeconomic frameworks that drive a virtuous cycle whereby the growth of more and better jobs expands households' primary source of finance, i.e., labour income. Social protection also contributes to stabilising the income of families during crises, therefore cushioning activity levels and consumption of goods and services. A friendly macroeconomic framework increases firms' primary source of finance, i.e., revenues from the sale of their products and services, as well as expands the tax base and domestic resource mobilization through the payment of social security contributions, income tax, and consumption taxes. Such a virtuous cycle can stimulate investment, which raises productivity and productive capacity, which in turn feeds back into faster creation of productive employment opportunities. Beyond its positive impact on households' income and business continuity and overall economic development, it also brings about social peace.

Greater alignment between national policymakers, and social partners, as well as bilateral and multilateral development partners, would increase synergies towards extending the fiscal space for job creation and social protection. This would also help explore ways (e.g. via intensified cooperation on tax matters, debt service suspension, special drawing rights (SDRs) reallocations or increased ODA) to create an environment that facilitates the mobilisation of necessary resources for strengthened national employment strategies and the universalization of social protection.

Despite the huge gaps in social protection financing in relation to international standards, in many countries, social protection is also the largest sector of existing government spending. Promoting public policy expenditure reviews that assess the existing programmes and identify opportunities to increase coherence, synergy and efficiency is an option for building fiscal space within a financing strategy for social protection. Examples may be a more precise determination of eligibility, the opportunity to streamline and gain economies of scale in administrative processes such as registries, procurement, and payment systems, facilitate technological innovations, improve revenue collection, or reduce fraudulent payments.

Large-scale crises, emergencies or natural disasters are putting additional pressure on social protection systems and governments' stretched budgets. Social protection systems are meant to protect people against life-cycle risks and prevent and reduce poverty. In the case of large-scale shocks, the occurrence of risks (such as unemployment, ill health or poverty) creates an additional burden on social protection systems in the absence of mechanisms to protect them. Crises and emergencies increase needs and vulnerabilities at times when government resources are stretched thin, giving an important role to disaster risk financing.

[12] FIPE & ILO (forthcoming). Multiplier effect of social protection expenditures on economic outputs. https://socialprotection-pfm.org/knowledge/research/.

Outcomes

Selection criteria:

The proposed outcomes have been identified using the following criteria:

1. Value-added and concrete support that the Global Accelerator will bring to pathfinder countries as part of their financing strategies.
2. Intervention areas which are mutually supportive and can maximize financing outcomes of both jobs and social protection for just transitions at the country level.
3. Alignment with the recommendations of the Financing for the Development in the Era of COVID-19 and Beyond Initiative (FFDI) (particularly Cluster 1 and 2) and other SDG financing initiatives (SDG stimulus plan, etc.).

Overall goal:

Support existing or new financing strategies which can mobilize additional resources to strengthen and expand policies that aim at increasing social protection coverage and decent employment, as well as promoting fair transitions. This will include both promoting public resources by expanding the tax base, actively shaping new fiscal space, as well as mobilizing further ODA and international support, alongside engagement with providers of private capital, including different types of investors and funds for employment generation and green investments. This will be complemented by interventions that aim at a more effective use and stronger alignment of current financial flows (public and private) with relevant SDGs as well as promoting inclusive, sustainable, and job-rich investments in key sectors of the economy.

Outcomes and interventions at the country level:

A. INFFs are harnessed as a key tool to support and guide policy decisions

1. Mainstreaming decent jobs and social protection in financing strategies and selected policies:

- Ensuring financing for decent jobs and social protection is incorporated into financing strategies for national sustainable development plans. Support the systematic integration of gender-responsive national employment and social protection policies into INFFs.
- Mainstream employment, social protection, and just transition in macroeconomic policies, with a clear recognition of their positive impacts on macroeconomic stability, environmental and social sustainability, and GDP growth.

2. Assessments and identification of financing options:

- Assessment of public and private financing for investments in sectors of the economy that have a strong return in terms of decent jobs. Identification of multipliers and promotion of policies (and combinations of policies) that maximize the expected outcomes. Integrate gender analysis at the earliest stages of financing assessments to strengthen alignment between gender equality commitments and identified financing options.
- Development of fiscal space analyses for pilot countries regarding coordination of both domestic and international options to extend and improve social protection systems, including floors, as well as the implementation of employment policies and programmes.
- Improve the capacity of institutions to collaborate to generate data, including data disaggregated by sex and other dimensions, for evidence-based decision-making and close monitoring of policies and programmes. Raise capacity to generate costing analysis for policies and programmes.
- Build an overview of existing social protection and employment programmes and respective spending via public expenditure reviews (for example SPER), with the aim of assessing gaps and opportunities to improve coherence, synergy and efficiency of social protection and employment spending, enhancing the achievement of the policy outcomes, and reprioritizing spending to open more fiscal space for social protection and employment.

- Support the development of evidence on the impact of integrated approaches to financing.

B. *Domestic public resources*

1. **Taxation and fiscal policies:**

- Improving the structure of the tax system so that it is aligned with the relevant SDG financing strategies.
- Support countries to align their fiscal systems with climate change mitigation and adaptation, including climate risk insurance where relevant, as well as social and environmental goals.
- Support countries to design policies based on a systematic analysis of the gender implications of their tax system and budgets.
- Support the adaptation and extension of social security to the informal economy and facilitate the formalization of employment and enterprises as a key strategy to broaden the tax/contribution base in developing countries.
- Create interoperable systems of civil registration, social security affiliation, and tax-payer numbers.
- Strengthen the institutions required to generate financial flows for social protection and employment programmes.
- Support fiscal policies that influence structural transformation, inclusive and decent job creation, and social protection outcomes, including gender equality and women's empowerment.

2. **Budgeting:**

- Support countries to adopt practices and tools that integrate social objectives, including gender equality objectives, and climate objectives into national budget processes, including gender responsive budgeting, employment budgeting and budgeting for social protection and social inclusion, particularly following the proposals under FFDI.
- Support countries to strengthen the alignment of available public budget resources with identified priority areas and sectors with strong decent job creation potential, including the care economy, the health sector, and the green economy, ensuring that women and men benefit equally from new decent jobs across sectors.

C. *Domestic and international private financing*

1. **SDG-aligned investment promotion:**

- Support countries to review priorities for investment promotion in light of structural changes in international production systems, the digitalization of the economy and climate change impacts. Focus on long-term investment, which is crucial to foster productivity growth, transform economies and achieve sustainable development.
- Unlock private capital to invest in SDG-aligned project pipelines for MSMEs – this includes support to identify investment opportunities that accelerate progress towards the SDGs, as well as working with MSMES to develop projects that realise those opportunities and ultimately develop portfolios that will secure investment from financiers.
- Work with enterprises and other private entities including fund managers and banks to leverage blended finance opportunities and incorporate SDG impact management and measurement approaches that will ensure the impact on decent jobs and social protection in line with international labour standards. This will help move the dialogue from post-facto ESG reporting toward management practices that prioritise the SDGs and international labour standards in investment decision-making.
- Support countries in developing innovative debt instruments such as green or SDG bonds that can provide positive outcomes on both employment and social protection extension.

- Consult/seek consensus and buy-in on a mix of policy measures and private commitments (compliance) to support decent work and social protection in selected/relevant national supply chains (e.g., garment, cocoa, etc.) in line with international labour standards and through national social dialogue.

D. *International development cooperation*

1. **Mobilization, alignment and streamlining of ODA:**

- Engage in a dialogue with the World Bank and regional development banks at the global and country levels to align World Bank loan priorities with the integrated policy frameworks promoted as part of the Global Accelerator (e.g., from safety nets to sustainable national social protection systems; sustainable solutions to overcome systemic issues such as the persistence of informality).
- Support enhanced "policy alignment" with international financial institutions on social protection and overall messaging with governments through the coordinated engagement of the UN system, facilitated by UN Resident Coordinators.
- Develop visions to account for international financial institutions, multilateral development banks and the International Monetary Fund's programme contributions as parts of the Global Accelerator's financing strategies
- Promote the Global Accelerator as part of finance in common, notably through the Coalition for Social Investments. Promote other global financing mechanisms and initiatives such as those on blended finance that help generate improved outcomes regarding jobs, social protection, health, and environmental sustainability.

2. **Securing social spending floors:**

- Engage with the International Monetary Fund as part of Article 4 consultations to secure and/or increase investments in building sustainable universal social protection systems, and other public policies conducive to more and better job creation in strategic sectors (green, care, digital) and to facilitate just transitions.
- Engage with the International Monetary Fund as part of its lending programmes to ensure that adjustment is gradual and that a social spending floor is secured or even increased.
- Engage with the International Monetary Fund and its members as part of the implementation of the Resilience and Sustainability Trust (RST) which aims to channel SDR currencies from wealthiest members to vulnerable countries and to support countries as they tackle structural challenges that entail significant macroeconomic risks and where policy solutions have a strong global public good nature (e.g., climate change, pandemic preparedness, additional qualifying challenges).

The actions proposed above should contribute to addressing debt sustainability and increase fiscal space for the implementation of the priority policy actions as part of the Global Accelerator.