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WHAT NEXT FOR FINANCING SOCIAL PROTECTION AND HEALTH SERVICES? A Contribution to FfD4 in the Spirit of Monterrey

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Contents

Readers who have opened this paper on the UN website will know that at the end of 2023, the United Nations General Assembly agreed to convene a fourth international conference on financing for development (FfD4) in Spain in 2025.[2] The "Spirit of Monterrey" in the subtitle of this paper refers to the cooperative – even joyful – spirit of Member States, international institutions, civil society and private sector organizations after they had struggled together from 1997 to 2002 and in the end forged a deep and inclusive process of international cooperation to advance the financing of development.[3] The international political atmosphere today is far from that of 2002, but there still seems to be that spark of purpose when

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[1] This paper was prepared by Barry Herman as a consultant to the Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs (DESA). An earlier version of the paper served as a background note for an expert group meeting organized by DESA and the International Labour Organization. That paper was prepared in cooperation with the Universal Social Protection Department of ILO with assistance from the World Health Organization, and that cooperation was essential to the preparation of the present paper. However, the present paper reflects Mr. Herman's personal views and not necessarily those of the UN, ILO or WHO. Comments are welcomed (herman@socdevjustice.org)

[2] UN (2023), General Assembly resolution 78/231.

[3] Barry Herman (2006), 'The Politics of Inclusion in the Monterrey Process,' DESA Working Paper No. 23, April (https://www.un.org/esa/desa/papers/2006/wp23_2006.pdf).

the relevant stakeholders come together on "FfD." This paper is offered as a contribution to help nurture that spark.

The starting point in the preparations for FfD4 is the political commitments in two important international documents, beginning with the Addis Ababa Action Agenda (AAAA), the agreed outcome document of FfD3 in 2015. That wide-ranging Agenda focused in its paragraph 12 on improving delivery of "social protection and essential public services for all," with a strong commitment to universal access to quality social benefits and services.[4] The second starting point for the preparations for FfD4 is the Agenda for Sustainable Development and its sustainable development goals (SDGs). That Agenda contains two complementary SDG targets: target 1.3 on universal social protection (USP) and target 3.8 on universal health coverage (UHC).[5]

USP entails actions and measures to realize the human right to social security by progressively building and maintaining nationally appropriate social protection systems, so that everyone has access to comprehensive, adequate and sustainable protection over the life cycle, in line with standards adopted through the International Labour Organization (ILO).[6]

UHC calls for all people to have access, without discrimination, to nationally determined sets of the needed promotive, preventive, curative, rehabilitative and palliative essential health services, and essential, safe, affordable, effective and quality medicines and vaccines, while ensuring that the use of these services does not expose the users to financial hardship, with a special emphasis on the poor, vulnerable, and marginalized segments of the population.[7]

Unfortunately, as the paper will remind readers, the world is far from attaining USP or UHC. As a step in that direction, however, the international community through the ILO has been calling since 2012 as a matter of priority for countries to adopt national social protection floors, comprising at least essential health care without hardship and basic income security for all.[8] Adding to this, the experience in the COVID-19 pandemic and the increasing frequency of catastrophic weather events underlines the global imperative to strengthen and better coordinate health and social protection systems if we are to save lives and livelihoods from devastation. But to be effective, those systems need to be in place before the disasters strike, providing the protection and health services to all in need from birth and throughout the cycle of life.

It is thus an encouraging sign that the international community is giving increased visibility to social protection and health matters, evidenced notably in the Pact for the Future, adopted by the Heads of State and Government that met at the United Nations on 22 September 2024.[9] A challenge for FfD4 is to capture that political momentum and use it to strengthen and extend the financing of these essential social policies and systems. In fact, different facets of domestic financing and international cooperation involved in meeting this challenge have been under discussion in various forums in recent years.

A number of measures have already been agreed or might be realized with an additional political commitment. This paper seeks to encourage consideration and endorsement of such measures so that Member States can deliver the warranted benefits and services to their people on a sustained and assured basis. As the scope of measures is quite broad and this paper unavoidably long, readers may skip to the

[4] UN (2015), General Assembly resolution 69/313.
[5] UN (2015), General Assembly resolution 70/1.
[6] ILO (2021), International Labour Conference, 109th Session, Resolution III.
[7] UN (2019), General Assembly resolution 74/2.
[8] ILO (2012), International Labour Conference, 101st Session. Social Protection Floors Recommendation (No. 202).
[9] UN (2024), General Assembly resolution 79/1, notably paragraphs 21(b), 25(b), 36(c), 53(a), 60 and 60(d).

paragraphs in blue type called "policy challenges."

The funding of social protection and health coverage

Social protection and healthcare are ineluctable responsibilities of States. The services themselves can be delivered through a variety of entities, including public, private, and non-profit ones, including charitable organizations. However, the State's strong oversight role is crucial to ensure a legal, financial and administrative framework that aligns with international human rights and social security standards and produces the services intended.

The nature of the obligation

Social protection includes, among other benefits, transfers in cash and in kind for children, mothers with newborns, persons with disabilities, those who are unemployed or poor, and older persons. It is key for realizing the human right to social security, as set out in international human rights instruments and guided by international social security standards. According to the International Covenant on Economic Social and Cultural Rights (ICESCR), ratified by 172 countries, States have a legal obligation to progressively implement the right to social security to the maximum of their available resources (Articles 2 and 9).[10] According to international social security standards, in other words, States have the responsibility to establish and maintain a system that secures the adequate protection of their population against life cycle risks, as well as "co-variate" shocks that affect whole communities at once.

In addition to the strong rights-based obligations for investing in social protection, there are well-documented economic and social benefits of social protection. It can reduce and prevent both poverty and excessive inequality, increase consumption and aggregate demand, improve access to nutrition, education and health services, and facilitate labour market participation, especially of women. Social protection also secures many of the living and working conditions that are essential for enhancing health and preventing disease – known as the social determinants of health – thereby ensuring a broad protective basis for population health overall. Social protection systems can also enhance enterprise productivity (e.g., reducing absenteeism). During economic downturns and crises, expanded social protection expenditure can have large positive multiplier effects on aggregate demand in a counter-cyclical manner, reducing the depth and duration of the economic contraction. How helpful is this? Studies of several countries note the increase in all-cause mortality during economic recessions.[11] In addition, extending social protection to those previously not covered, or inadequately covered, not only reduces their vulnerability and enhances their resilience, but also contributes to confidence in transitioning from the informal to the formal economy. It can also reduce opposition to climate action and just transitions to more environmentally sustainable economies and societies. In all, effective social protection systems can foster greater social cohesion, which helps repair the social contract.

Many social protection benefits are funded directly through the government's budget and thus from tax revenues. Others are funded through mandatory contributions of workers and/or employers to financial facilities outside the budget, as for retirement, health or unemployment. Adequate provision of budget-funded services depends on the one hand on the political commitment to accommodate social protection in the expenditure budget, and on the other hand on the effectiveness, efficiency and – one should hope – fairness of national tax systems. Similarly, sufficient funding of contributory programmes depends on

[10] For the text of ICESCR and list of ratifications, see https://treaties.un.org/pages/viewdetails.aspx?src=treaty&mtdsg_no=iv-3&chapter=4.

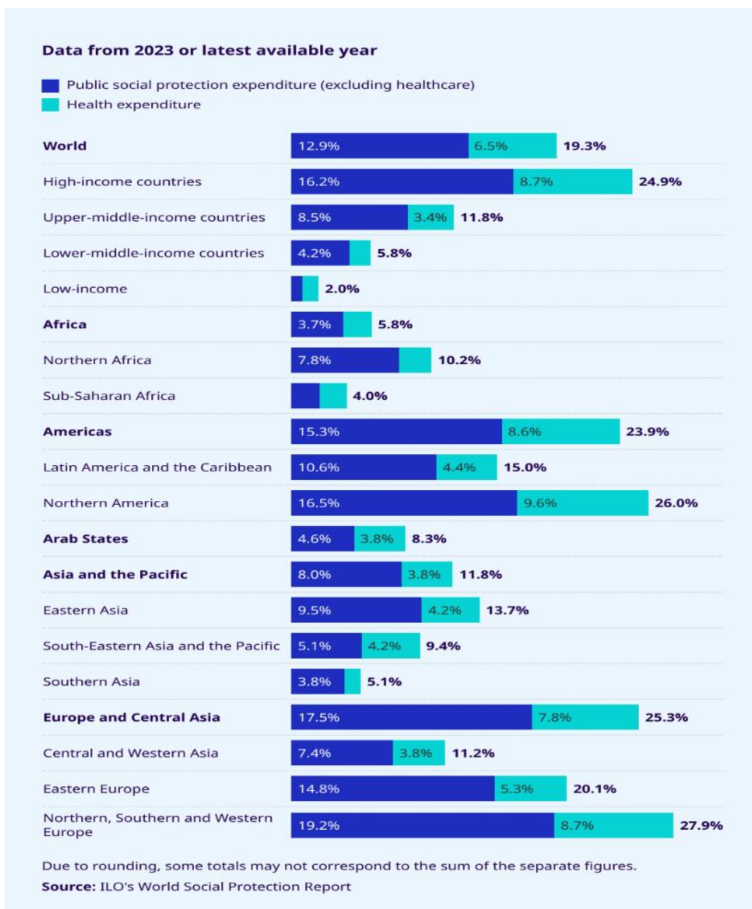
[11] Gerry McCartney et al. (2019), 'Impact of Political Economy on Population Health: A Systematic Review of Reviews.' *American Journal of Public Health* 109 (6) June: e1-e12.

political commitment to adequate programme payments and services to all who are eligible as an entitlement, and sufficient mobilization of contributions from prospective beneficiaries and their employers. Countries that provide universal social protection and healthcare benefits usually have a strong tax base and use a mix of non-earmarked and earmarked (mainly contributory) sources of revenue. However, the exact funding mix between contributory and non-contributory sources differs across countries that have similar levels of spending, reflecting different policy institutions (such as privately or publicly funded healthcare and pension systems), but also different strategies for balancing the various objectives of social protection, including risk-pooling, income-smoothing across the life cycle, reducing inequality and alleviating poverty.

The overall funding of social protection and health

According to SDG indicator 1.3.1, only 47.6 per cent of the global population have access to effective coverage of at least one social protection benefit, leaving 3.8 billion people uncovered.[12] And while high-income countries edge closer to universal coverage, low-income countries have barely progressed in recent years. Under-investment in social protection continues to be one of the main reasons for the low coverage rates. Public expenditure on social protection and health care was, on average, 19.3 per cent of gross domestic product (GDP) worldwide in 2023. This average, however, hides enormous inequalities (figure 1).

Figure 1. Social protection and health expenditure around the world



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[12] ILO (2024), *World Social Protection Report, 2024-26: Universal Social Protection for Climate Action and a Just Transition* (https://www.ilo.org/publications/flagship-reports/world-social-protection-report-2024-26-universal-social-protection-climate).

While high-income countries spend 24.9 per cent of GDP on public social protection and health annually, upper-middle-income countries spend less than half of this amount as a share of GDP, lower-middle-income countries spend under one quarter, and low-income countries barely 8 per cent. In 2021 lower middle-income countries spent 27.5 per cent of their budgets on debt service, which was twice their education spending, four times health care spending and nearly 12 times social protection spending.[13]

There is consensus on the primacy of domestic resource mobilization to secure "with due regard for the objectives of social justice and equity, a solid and sustainable economic, fiscal and financial base for the extension and operation of universal social protection [including health] systems over the medium to long term, without compromising the adequacy and coverage of benefits."[14] Taxes and contributions for social security and health care constitute the lifeline of sustainable and equitable social protection and health systems that would provide adequate protection to everyone.

> **Policy challenges**: This discussion begs us to ask how to incentivize and mobilize governments to take the responsibility that is clearly theirs for providing fully adequate social protection and health coverage. Yes, international assistance is needed (we come to that later), but the government has to first prioritize its provision. The Addis Ababa Action Agenda encouraged Member States "to consider setting nationally appropriate spending targets" (para. 12), but FfD discussion did not follow up on that recommendation and it seems more or less forgotten.
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> On the other hand, there has been increasing political concern in many countries about the evident low priority usually given to social protection and health care – indeed, to social spending more broadly. And without strong already built systems, services will be underprovided during catastrophes and people will be left virtually helpless. There has long been a concern that the International Monetary Fund (IMF) might have had some responsibility in discouraging this category of spending, or at least being indifferent to it. That concern led the Independent Evaluation Office (IEO) of the IMF to produce a critical report on how the IMF engaged with its member countries on social protection.[15] IMF monitors the macroeconomic situation of all its member countries through its mostly annual surveillance missions to countries. They do so more intensely when countries seek to recover from economic crises and have to negotiate the policy conditions required to receive an IMF loan. IMF's primary interlocutors at country level are finance ministries and central banks. The gist of the IEO report was that the Fund staff needed to pay greater attention to the content of fiscal expenditures, especially as regards social spending. Reaction to the report led the Fund's Executive Board in 2019 to adopt a new policy that seeks to assist its member countries to realize "adequate, efficient and sustainable" social spending.[16] Implementation of this new policy is discussed in a later section of this paper, but suffice it to say here that if governments want to strengthen and protect their social spending systems, the IMF should henceforth be an ally.
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> What remains is to strengthen the political constituency at national level and globally to more effectively press for expanding social protection and health spending. By actively considering social protection and health issues in the run-up to FfD4, the Preparatory Committee for the

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[13] Oxfam (2023), 'World's Poorest Countries to Slash Public Spending by More Than $220 Billion In Face of Crushing Debt,' 9 October (https://www.oxfam.org/en/press-releases/worlds-poorest-countries-slash-public-spending-more-220-billion-face-crushing-debt).

[14] ILO (2021), op. cit., para. 15 (a).

[15] IEO (2017), *The IMF and Social Protection* (https://ieo.imf.org/en/Evaluations/Completed/2017-0724-the-imf-and-social-protection).

[16] IMF (2019), 'A Strategy for IMF Engagement on Social Spending,' 14 June (https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975).

conference can help build the requisite political momentum.

Funding budget-based social protection

The amount of budget-based social spending depends on the tax base. Among the options for increasing tax revenues in low and middle-income countries, the most common has been consumption/sales and value-added taxes (VAT). These taxes tend to be regressive.[17] That is, a 15 per cent tax on a child's backpack takes a larger share of the income of a poor family than a rich one. Other options that have thus far produced less revenue in developing countries are taxes on income, wealth and corporate profits, as well as property and inheritance taxes, which are more redistributive but require the formalization of enterprises and economic activities. As economies grow, one should expect to see such taxes increasingly adopted, although weaknesses in tax administration and incentives embedded in tax systems for special interests may undermine the progressivity and effectiveness of the tax system. Yet additional types of taxes are deployed by various countries, some quite traditional, such as on the value of commodity exports, and others are innovative, such as on financial transactions. There are many options.[18]

A particular concern is the effectiveness of corporate taxation, especially on the local operations and cross-border sales of large multinational firms. For example, international competition to attract foreign direct investment has led many governments to offer tax concessions to foreign investors. Such tax competition may determine if an investment is made in one country or its neighbour, but by itself is unlikely to significantly increase total investment in all the competing countries.[19] Moreover, large multinational corporations have actively manipulated their tax incidence country by country to minimize the overall burden, which has provoked the Organization for Economic Cooperation and Development (OECD) and the Group of 20 (G20) to devise a major international policy initiative to capture unfairly avoided taxes. However, implementation of these agreements has lagged and only modest improvements were expected for developing country tax revenues.[20] Although beyond the scope of the present paper, perhaps another reform approach could over time build potentially greater political buy-in.[21]

One additional issue is that governments might seek to fund a social protection policy through earmarked taxes. Earmarking may increase compliance with tax obligations, as taxpayers may be more willing to pay taxes if they know the revenue is being used for a valued purpose, such as child benefits, than if their tax revenues go into a general fund. In addition, dedicated funding streams for non-contributory social protection benefits can facilitate better long-term planning and efficient use of resources. However, there are also arguments pointing to the downside of earmarking. Besides the possibility that governments redirect previously used general purpose funds away from the targeted social spending, the amount of funding depends very much on how volatile the earmarked tax revenue will be. Also, earmarking reduces the flexibility of public expenditures, and the ability of the government to respond to changing economic

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[17] Pierre Bachas et al. (2024), 'Tax equity in Low and Middle-Income Countries' *Journal of Economic Perspectives*, 38 (1): 55-80, and Anne Brockmeyer et al. (2024), 'Does the Value-Added Tax Add Value? Lessons Using Administrative Data from a Diverse Set of Countries,' *Journal of Economic Perspectives* 38 (1): 107-32.
[18] Barry Herman (2018), 'Sustainably Financing Social Protection Floors: Towards a Permanent Role in National Development Planning and Taxation,' Brot für die Welt, Analysis 81, Discussion Paper, April (https://www.brot-fuer-die-welt.de/fileadmin/mediapool/2_Downloads/Fachinformationen/Analyse/Analyse81-en-v07-Web.pdf).
[19] Reuven S Avi-Yonah (2024), 'Bridging the North/South Divide: Tax Competition and Global Justice' University of Michigan Law and Economics Research Paper, Forthcoming (https://ssrn.com/abstract=4812020).
[20] Julie McCarthy (2022), 'A Bad Deal for Development: Assessing the Impacts of the New Inclusive Framework Tax Deal on Low- and Middle-income Countries,' Brookings Global Working Paper 174, May (https://www.brookings.edu/wp-content/uploads/2022/05/Tax-and-Bad-Deal-for-Development_Final.pdf), and Tax Justice Network (2015), Ten Reasons to Defend the Corporation Tax' (https://www.taxjustice.net/wp-content/uploads/2013/04/Ten_Reasons_Summary.pdf).
[21] UN (2024), 'Promotion of Inclusive and Effective International Tax Cooperation at the United Nations,' Note by the Secretary-General (A/79/333).

conditions.[22]

While not a tax per se, another source of fiscal funds for social spending can be generated by redirecting other forms of spending away from less desirable uses. One such approach is to remove explicit fuel subsidies, as well as implicit fuel subsidies that arise when carbon emissions are not priced and thus no account is taken of their harmful environmental impact. Given the existential challenge posed by climate change, the move away from fossil fuels has become an urgent necessity. However, the removal of fuel subsidies will increase the cost of living, notably of the poor, and so it is necessary to ensure that adequate social protection schemes and programmes are in place through which to provide additional transfer payments to cushion the social impact. Across all low- and middle-income countries, explicit fuel subsidies represent, on average, 1.2 per cent of GDP, while implicit fuel subsidies represent 9.8 per cent of GDP. In lower- and upper-middle-income countries the progressive removal of explicit fuel subsidies and implicit ones (as through a carbon tax) could generate revenues that would more than cover the additional funding needed to reach USP and UHC. However, that potential is almost non-existent in low-income countries. In those countries, little government finance is allocated to fuel subsidies and there is a high social protection financing gap.[23]

> **Policy challenges**: The preceding paragraphs raise important fiscal questions. Theoretically, earmarked taxes are a terrible idea. Politically, they can be useful, if not necessarily reliable. Mongolia provided a case in point, where the payment of a universal child benefit has come out of taxes on copper exports. The problem arrived when copper prices fell and the tax no longer could cover the cost of the child benefit,[24] indicating that such taxes need to be combined with fiscal reserve funds into which funds are added in times of strong export prices and funds are drawn down during periods of low prices.
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> While adequate social protection spending will perforce make a significant claim on tax resources, effectively designed, implemented and enforced tax systems are essential to the proper functioning of government itself. The drain on tax revenues of tax competition to attract foreign direct investment as noted above is a case in point where corrective action can be taken. Thus boosting fiscal resources would impact more than social protection and health spending. Social protection policy development thus needs to coordinate closely with other essential public responsibilities of government and their funding. Indeed, as the paper will elaborate below, social protection planning needs to be part and parcel of national development planning and budgeting, monitoring and auditing.

Contributory funding of social protection

Social security contributions, generally paid by both workers and employers (including the government as employer), are the main source of contributory revenues for social protection. Broad risk-pooling and solidarity in financing can ensure that social protection fosters equity and social cohesion. However, there have been various challenges to the sustainability of this form of social protection.

The international consensus, as embedded in ILO Convention 102, is that the employee share should not exceed 50 per cent of the total financial resources allocated to the protection of employees and their

[22] Isabel Ortiz et al (2019), *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*, ILO (https://www.ilo.org/publications/fiscal-space-social-protection-handbook-assessing-financing-options).
[23] Umberto Cattaneo et al. (2024), 'Financing Gap for Universal Social Protection: Global, Regional and National Estimates and Strategies for Creating Fiscal Space'. ILO Working Paper 113 (https://www.social-protection.org/gimi/Media.action?id=19617).
[24] UNICEF (2018), 'No Child Benefit, No School Supplies,' 26 December (http://unicefmongolia.blogspot.com/2018/12/no-child-benefit-no-school-supplies.html)..

families, including children.[25] Nevertheless, there have been arguments for reducing the employer social security contribution rates. However, where employer reductions in social security contribution rates have been tried, the only clear outcome has been a wider financing gap for social protection.[26] In practice, at least, contribution rates have remained stable throughout the twenty-first century.

In some cases, supplementary funding of contributory systems from general taxes may be required to avoid placing an undue burden on people of small means. Certain population groups do not have sufficient financial capacity to build a contributory history and therefore need to rely on non-contributory benefits. Thus, while social insurance pools the risk on the principle of solidarity, collective financing between employers and protected persons (including the self-employed in many countries), often needs complementing transfers from the government budget to extend coverage to those with insufficient contributory capacities.[27]

Since the “structural adjustment” policies of the 1980s, social insurance mechanisms have been a frequent focus of policy dialogues with international financial institutions. Pensions systems in particular have been the target of reforms, as they constitute a significant share of social spending and face an array of challenges. Some of these challenges are triggered by slow-moving generational factors such as an ageing workforce, but also by deep-seated economic challenges such as wage stagnation and the decreasing labour share of income, the prevalence of precarious and unprotected forms of employment, and inadequate contributions. Consequently, many countries implemented reforms to safeguard their pension systems’ financial health, yet often with adverse consequences for pension adequacy. Many of these adjustments reduced benefit levels or tightened eligibility criteria, for example, by increasing penalties for early retirement, elevating the statutory age for pension eligibility, or linking retirement age adjustments to life expectancy. Governments should align both structural and parametric reforms with the benchmarks set out in international social security standards, which most countries have adopted, so as to ensure financial, economic and fiscal sustainability, while also prioritizing equity and social justice.

One strategy proposed to address the financial dilemma of social security systems has been to convert them from defined-benefit social insurance systems to defined-contribution and individually overseen retirement accounts, which would be managed by employers or private financial institutions on their behalf. In a number of countries that took this approach, the results were sufficiently disappointing to seek to reverse the decisions.[28] The volatile nature of the privatized systems was made manifest during the global financial crisis.

In pay-as-you-go defined-benefit pension systems, the risk is borne collectively, and acceptable benefit levels for individuals can be assured through mechanisms such as care credits for both women and men, and guaranteed minimum pensions. In defined-contribution systems with individual savings accounts, on the other hand, the risk is borne entirely by the individual. In this case, the pension paid depends on the amounts contributed and the earnings over time of those contributions. The future returns on the investments and thus the future benefits to be paid are not known in advance. There is therefore no guarantee that a given level of contributions will translate into an adequate benefit level for income

[25] ILO (1952), Social Security (Minimum Standards) Convention, 1952 (No. 102).
[26] Florencia Calligaro and Oscar Cetrangolo (2023), ‘Financing Universal Social Protection: The Relevance and Labour Market Impacts of Social Security Contributions’, WIEGO Working Paper No. 47, March, WIEGO and ILO (https://www.wiego.org/sites/default/files/publications/file/financing-universal-social-protection_0.pdf).
[27] ILO et al. (2023), ‘Sustainable Financing of Social Protection’ Technical Paper Prepared for the 1st Meeting of the G20 Employment Working Group under the Indian Presidency, 6 February (https://www.ilo.org/publications/sustainable-financing-social-protection), and Ortiz et al. (2019), op cit.
[28] Isabel Ortiz et al. (2018). *Reversing Pension Privatizations: Rebuilding public pension systems in Eastern Europe and Latin America*, ILO (https://www.ilo.org/publications/reversing-pension-privatizations-rebuilding-public-pension-systems-eastern).

security in old age.[29]

One further international policy concern in which social security may play a role has been to facilitate transitions of often large informal parts of the economy to the formal part.[30] Formalization of employment, enterprises and economic transactions is fundamental for creating fiscal space through progressive taxation and social security contributions alike. To achieve this goal, a robust strategy is needed, including the promotion of decent work, as well as extending social security to workers who are currently in the informal economy. Just how to do this has become a preoccupation of policymaking.[31]

> **Policy challenges**: Defined benefit social security systems have been on the defensive, not only owing to the funding challenges that demographic and economic trends bring about, but also because social pensions – and in some cases company-organized pensions – are contingent liabilities on the government budget. Sustainable financing of social security systems is thus essential for sustainable public finance as a whole. The challenge is to strengthen the financing of these systems without undermining their mutual contributory nature…or not. Much attention over the past decades has been on reducing promised payouts in order to match contributions collected.
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> But there is another approach. The basis for the worker's contribution is the wage and some systems cap the wage income subject to the tax, which reduces the burden on the highest paid employees, the executives. Also, much of executive compensation may be excluded from the contribution all together because much of their income is not categorized as wages. The cap and the narrow definition of the compensation for work can be changed.
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> Another option would be to scratch the contributory model and shift the social security system to the government budget and general taxation that does not depend on the country's wage bill. But while that might make some sense financially, it requires that labour have greater trust that the government will protect their pensions than seems to be the norm.
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> Thus, for political reasons, if for no other, it seems that policymakers need to commit to the financial sustainability of their social insurance systems and to privilege increases in revenue over decreases in pensions to ensure that sustainability. They should also forever eschew the practice adopted by the previous government of Sri Lanka in its sovereign debt and development crisis, when it reduced the interest rate on the treasury securities that were held in the national pension plan from an average of over 20 per cent per year to 12 per cent until 2025 and 9 per cent thereafter, thereby reducing the capacity to pay future pensions, but allowing the government to offer to the foreign holders of Sri Lankan bonds a smaller "haircut" when they renegotiated the value of those bonds.[32]

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[29] ILO (2022), 'Old-age Pension Models Worldwide from an ILO Perspective: What Workers' Organizations Need to Know,' Policy Brief, July (https://www.ilo.org/publications/old-age-pension-models-worldwide-ilo-perspective-what-workers-organizations).

[30] ILO (2015), International Labour Conference, 104th Session, Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy.

[31] ILO (2021), *Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience* (https://www.ilo.org/publications/extending-social-security-workers-informal-economy-lessons-international).

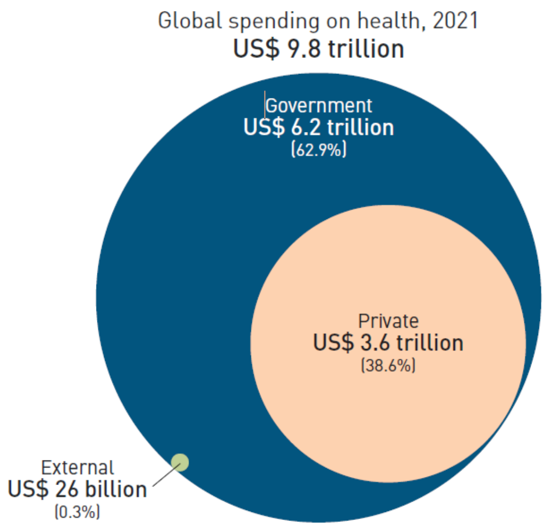
[32] C.P. Chandrasekhar et al. (2023), 'Paying with Austerity: The Debt Crisis and Restructuring in Sri Lanka,' Working Paper Series, No. 590, Political Economy Research Institute, University of Massachusetts, Amherst, December (https://peri.umass.edu/?view=article&id=1769:paying-with-austerity-the-debt-crisis-and-restructuring-in-sri-lanka&catid=125).

The state of public health funding

The adoption of a dedicated SDG target on universal health coverage aimed to incentivize countries to reach for the goal. In part this approach built on earlier efforts of the World Health Organization (WHO) to bring to the world's attention the imperative of UHC, a goal that the UN General Assembly supported in 2012 in its resolution on global health and foreign policy.[33] There are essentially two priorities: providing appropriate health services to all and making them affordable to all population groups. Neither priority is near delivery. That is, in 2023, more than half the world's population was not covered by essential health services, while one in four people suffered financial hardship or incurred catastrophic expenditures to access health services.

None the less, global spending on health reached a new high in 2021, as the world reacted to the COVID-19 pandemic. The world spent 10.3 per cent of GDP or US$ 9.8 trillion on health that year. However, unlike social protection, which is by definition a public or publicly mediated outlay, almost 40 per cent of health spending is private (figure 2). Nevertheless, public spending per se increased across the world in 2021, underpinned by sharp budgetary responses to the crisis, except in low-income countries where domestically financed government health spending decreased, and external health aid played an essential supporting role.[34]

Figure 2. A view of global spending on health



Source: WHO, 2023. *Global Spending on Health: Coping with the Pandemic*.

What is important to realize in this context is that about 11 per cent of the world's population live in countries that spent less than US$ 50 per person per year, while the average per capita spending on health was around US$ 4,000 in high-income countries. Low-income countries accounted for only 0.24 per cent of global health expenditure, despite having an 8 per cent share of the world's population.

Many countries do not have universal guarantees in law for "healthcare without hardship," or if they do,

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[33] UN (2012), General Assembly resolution 67/81.
[34] WHO (2023). 'Global Spending on Health: Coping with the Pandemic,' December (https://iris.who.int/bitstream/handle/10665/375855/9789240086746-eng.pdf?sequence=1).

they are poorly implemented, resulting in too many countries where out-of-pocket payments are the main source of financing for healthcare, with impoverishing effects that are more pronounced among the poor and vulnerable. Indeed, catastrophic expenditure owing to out-of-pocket payments has actually been increasing. Moreover, when financial barriers are too high, those who cannot overcome them simply forgo care. That is, data show that despite some progress on service coverage, there has been a deterioration in financial protection in recent years.[35] Poor people in poor countries are thus doubly disadvantaged.

Effective prevention policies are integral to universal health coverage and to achieving healthy nations. However, spending on health promotion and disease prevention programmes has been persistently low for most of the past decades, although an increase was seen during COVID-19. More precisely, WHO identified only 3 per cent of total health expenditure in high-income countries and 13 per cent in low-income countries as being for prevention in 2021. To address this unsatisfying result, WHO is giving greater emphasis to a primary health care approach, which aims to increase investment in prevention and health promotion.[36] In all, this can be quite important because of the "intersectional" nature of health, as it depends in part on non-health policies that prevention can address, such as environmental risks, dietary risks, tobacco consumption, childhood undernutrition, and indeed extreme poverty.

Clearly, increased spending on health services is warranted, considering the social and economic returns when the population enjoys good health and well-being both through UHC and improved conditions of daily life. How to finance the additional investment and annual spending is the challenge. Countries apply different models for health care provision and thus for funding with varying results. In some cases, direct state provision or state-financed private provision through partnerships may be available and even free to patients, but the quality may be deemed so low that prospective patients prefer not to use it when they have another alternative. Private non-profit and for-profit clinics and hospitals may be trusted to be of higher quality but be financially out of reach.

But these are not the only options. For example, communities in Senegal have arranged care insurance, pooling risk within the community, through *mutuelles de santé* which may also make a special arrangement with a local non-profit partner hospital for discounted charges that the insurance covers.[37] A variety of approaches to health care provision may thus be valuable, but in fact health policy is far from meeting the challenge of providing universal access to adequate and affordable health services.

> **Policy challenges**: As in the case of social protection, universal access to affordable quality health services has to be a national priority. The models for its financing begin with both tax-financed and contributory insurance systems, again as in social protection. Indeed, the policy challenges discussed under the rubric of social protection apply equally to financing of health care. However, there are additional dimensions.
>
> Besides the investment needed to build the capital stock of clinics and hospitals and the human capital stock of skilled nurses and doctors, health care requires effective engagement with additional economic actors, both in provision of the inputs to healthcare, such as medicines, but also in being able to draw upon and stimulate relevant research and development activities, both in home countries and internationally. Health care thus depends on policies in other realms, such

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[35] WHO (2023), *Tracking Universal Health Coverage: 2023 Global Monitoring Report* (https://www.who.int/publications/i/item/9789240080379).
[36] WHO (2018), 'Health in All Policies as Part of the Primary Health Care Agenda on Multisectoral Action' (https://iris.who.int/handle/10665/326463).
[37] Johannes Jütting (2004), 'Do Community-based Health Insurance Schemes Improve Poor People's Access to Health Care? Evidence from Rural Senegal,' *World Development,* 32 (2): 273-288.

as regarding international trade and what the Addis Agenda contains in a chapter devoted to "science, technology, innovation and capacity building." The wholistic approach of FfD is thus essential to realization of universal health care.

One particular FfD issue that impacts health care is the role of private versus public provision of care, notably as regards the for-profit and non-profit private modalities in contrast to direct public sector provision. However mixed the modalities that countries choose for the provision of health care, the state retains responsibility for oversight and regulation of the entities not directly operated by state institutions, for which capacity needs to be adequate and grow over time with the increasing complexity of medical care. As may be seen in this discussion, and given the aforementioned impact of economic activities on health and of health on economic activities, planning for health needs to be part and parcel of the overall development planning and budgeting process as much as does social protection per se.

Taking account of the care imperative in social protection and healthcare

Many aspects of social protection and healthcare services, whose financing is the focus of this paper, involve the provision of care, a subject that is itself receiving warranted increased international political attention. There are two primary aspects of this attention, the availability of appropriate and affordable care when needed, and the economic situation of the workers whose jobs are to provide that care.

One reason for the concern is seen clearly when viewed through a gender lens. The current social organization of care places a disproportionate share of unpaid care work on women, which hinders their effective labour market participation and widens gender gaps in the world of work. In 2018, the ILO reported that women spend an average of 4 hours and 25 minutes daily on unpaid care work, compared to 1 hour and 23 minutes for men. In countries where a larger share of GDP is invested in childcare and long-term care services, the gender gap in time spent on unpaid care work decreases and women's labour force participation increases. Unpaid care work is the primary reason that women are deemed outside the labour force despite in fact working. Globally, 606 million working-age women (21.7 per cent) perform unpaid care work full-time, compared to 41 million men (1.5 per cent).[38]

This is one reason that women's overall participation in the labour market is significantly lower than men's. In 2022, the labour force participation rate for those aged 25 to 54 showed a 29.2 percentage point gender gap, with 61.4 per cent female participation compared to 90.6 per cent male participation. However, for those in the same age group with at least one child under six, this gap widened to 42.6 percentage points, with 53.1 per cent female participation and 95.7 per cent male participation.[39] Employed mothers of young children also tend to work shorter hours, with women with one child working an average of 4 hours per week less than men in the same situation, and this gap widens when more young children are living in the household.[40]

Social cash transfers to help pay for care and public provision of child, disabled and elderly care services can ameliorate the pressure on families. And yet, even when such social programmes are created, their coverage is often partial. For example, an analysis of national legislation on paid care leave and public childcare services revealed that in 91 out of 175 countries, the "childcare policy gap" – defined as the

[38] ILO (2019), *A Quantum Leap for Gender Equality: for a Better Future of Work for All* (https://www.ilo.org/publications/major-publications/quantum-leap-gender-equality-better-future-work-all).
[39] ILO (2023), 'Spotlight on Work Statistics n°12,' ILO Brief, March (https://researchrepository.ilo.org/esploro/outputs/encyclopediaEntry/New-data-shine-light-on-gender/995264846702676#file-0).
[40] ILO (2018), *Care Work and Care Jobs for the Future of Decent Work* (https://www.ilo.org/publications/major-publications/care-work-and-care-jobs-future-decent-work).

period between the end of an entitlement to paid leave from work and the start of a child's eligibility for childcare services or primary school – exceeds 5 years. That is, during this period, parents lack care policy entitlements, often forcing women to leave the labour market to provide unpaid care, or, for those who can afford it, to rely on out-of-pocket care solutions.

Moreover, even in countries where there is legal coverage for childcare services, effective coverage is extremely low, due to low public investment in such services. Similarly, long-term care services remain inaccessible to the large majority of older persons across the world, as only 89 out of 179 countries have a statutory provision of public long-term care services for older persons and effective coverage remains low.[41]

The solution is clearly increased provision of quality care services, which should be accompanied by provision for adequate remuneration and workplace protection of care workers. Indeed, at its 2024 session, the International Labour Conference (ILC) of the ILO described the situation of paid care workers as involving,

> "…decent work deficits of care workers, including long working hours and occupational health and safety risks – such as exposure to violence and harassment, including gender-based violence and harassment – and severe staff and skill shortages…While care work is highly demanding and often requires high levels of skills and specialized knowledge, skills are not always fully recognized and valued accordingly. While some care workers are highly skilled and well-paid, many, including migrant and domestic workers, remain in the informal economy, low-paid and excluded, by law or in practice, from protections, including social and labour protection. Community health and care workers, often not recognized as workers, are also without such protection. Migrant workers, many of whom are women, often are not able to exercise fully the same rights as other workers. Further challenges to decent work and the care economy include strong ethnic, racial and gender-based occupational segregation, and undervaluation of care work" (paras 4 and 5).[42]

Clearly, the situation is unacceptable and the ILC thus adopted a set of guiding principles for addressing these social failures and called on "governments, employers' and workers' organizations, as appropriate to their spheres of responsibility, with support from the ILO," to develop appropriate corrective policies.

Policy challenges: Both sides of the care economy need improvement. On the one hand, strengthened social protection and health spending – the primary focus of this paper – should make possible more adequate and effective provision of care services to households, with positive impact on reducing gender inequalities. On the other hand, policies are also needed to upgrade the work in the care economy so it qualifies as "decent work," including by providing a fair income, assuring security in the workplace, and including care workers in the social protection system.

While some services in the care economy are provided directly by public entities, many of them are organized through for-profit companies and not-for-profit organizations. The Addis Agenda committed to fostering "a dynamic and well-functioning business sector, while protecting labour rights and environmental and health standards in accordance with relevant international standards and agreements," including on human rights and labour standards (para. 37). These standards

[41] ILO (2022),. *Care at Work. Investing in Care Leave and Services for a More Gender Equal World of Work* (https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_838653.pdf).
[42] ILO (2024), International Labour Conference, 112th Session, Resolution V.

need to be applied to the care economy. In other words, along with policies to increase funding of social protection and healthcare, governments should politically commit to assure that the market for care services operates responsibly and efficiently, which requires that the market for care is effectively overseen by government authorities.

An FfD perspective on funding social protection and health

FfD is an intergovernmental, interministerial, inter-organizational dialogue that the United Nations has hosted for over 20 years. It began as an initiative of UN representatives of developing countries who wished to break global financial impediments to their development and foster positive international collaboration. FfD has always understood that development begins at the national level, with countries formulating their development strategies and plans. Indeed, the discussion of funding social protection and health spending thus far in this paper has focused on increased domestic resource mobilization. But there is also inevitably an international dimension that to greater or lesser degree may complement domestic efforts. One challenge for governments is then how best to mobilize different revenue sources – domestic and international, public and private – in an appropriate and coordinated way.

Social spending in development policymaking

As already said, the development of national social protection and health systems needs to be seen as part and parcel of overall development planning and policymaking. As such, policies to develop these systems should complement policies for environmentally sustainable and equitable economic growth and employment. This is not news. Developing country governments have been assigning relative priorities to different components of government spending, including social programmes, through national development plans for far more than half a century, and tools for socially informed project selection were among the first techniques devised in the field of public economics. Medium-term expenditure and revenue plans elaborated in cooperation with the IMF and the World Bank into which social protection and health spending must be fit are also now commonplace,

More recently, the United Nations has filled out a proposal mooted in FfD3 to develop Integrated National Financing Frameworks (INFFs). They are now being developed in 86 countries, although only 13 national and subnational authorities have thus far advanced to the stage of adopting operational financing strategies.[43] It is imperative that individual country INFFs devote sufficient attention to identifying sources of both investment financing and current funding for social protection and health services.

A related development planning initiative of note is that launched by the UN Secretary-General in 2021, the Global Accelerator on Jobs and Social Protection for Just Transitions,[44] which has evolved into an inter-agency programme to assist countries in promoting integrated employment and social protection policies. It currently supports 15 "pathfinder" countries in stimulating the creation of decent jobs in the green, digital and care economies.[45] It also seeks to reinforce national social protection systems, in part as a way to encourage the formalization of enterprises and employment.[46] An important pillar of the

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[43] See INFF webpage at https://inff.org/resource/making-finance-work-for-people-and-planet-how-countries-are-building-their-sustainable-finance-ecosystem-through-integrated-national-financing-frameworks.

[44] UN (2021), 'Secretary-General's Policy Brief: Investing in Jobs and Social Protection for Poverty Eradication and a Sustainable Recovery' 28 September (https://unsdg.un.org/sites/default/files/2021-09/SG-Policy-Brief-on-Jobs-and-Social-Protection-Sept%202021.pdf).

[45] See the Global Accelerator webpage at https://www.unglobalaccelerator.org/.

[46] ILO (2021), *Extending Social Security to Workers in the Informal Economy*…, op. cit.

Accelerator is insisting that countries establish a corresponding financing strategy to progressively mobilize adequate funds to support the integrated policy plans. This integrated approach is important in that employment, social protection and health are intrinsically interconnected. Indeed, being unemployed, even when basic material needs are met, leads to worse mental and physical health, worsening with longer periods of unemployment.[47]

Funding for the UN assisted Global Accelerator country programmes, like the INFF programmes, is expected to draw from donor contributions to the Joint SDG Fund at the UN. In addition, in June 2024, the World Bank's Social Protection and Jobs Compass formed a joint programme with the Global Accelerator to "accelerate progress to achieve universal social protection and create decent and productive jobs."[48] It will initially make available to nine countries grants for technical assistance at the rate of US$ 500,000 per country, funded by a German contribution to the Umbrella Trust Fund for the World Bank's Rapid Social Response Adaptive and Dynamic Social Protection Programme. The challenge will be to forge effective collaboration as the policy approaches of UN agencies and the World Bank differ in important respects as on targeted versus universal national social protection programmes.

> **Policy challenges**: The announced collaboration of the UN Accelerator and the World Bank's "Compass" brings together in a joint initiative deep experience and technical expertise of the lead organizations involved, but also different approaches to promoting social protection and jobs. They will need to forge an effective collaboration. Similarly, in countries having active INFF and Accelerator programmes, effective collaboration among different UN agencies is required. FfD has long sought not only to expand development cooperation but also to make it more effective. These initiatives might serve as cases in point of how a closer collaboration of development partners might be created in working with developing country governments and their civil society and business stakeholders. FfD4 should insist that this happen.
>
> The INFFs and the Accelerator are young programmes around which there should be growing support as experience accumulates. Should not FfD4 call for more countries to use INFFs and the Accelerator, which are "home grown" UN initiatives that were developed in accordance with UN development policies and priorities? And should not Member States also increase their financial support for these initiative and announce agreement to do so in the FfD4 outcome?
>
> Most importantly, however, is that the collaboration at country level should lead to adequately funded national projects and programmes. These initiatives are about planning and if planning does not lead to sustainably funded budgets backed by adequate domestic and international financial support, they become academic exercises, and national governments are not academies.

International sources of funding

Developing and ensuring adequate social protection and health systems has two financial parts. One is undertaking and financing capital investment in structures, equipment and human capital. The other is making a long-term commitment to cover different types of annual expenses, including compensation of employees, use of goods and services, cash transfers to beneficiaries, and maintenance of the fixed capital. Funding for programmes in social protection and health thus involves both finance for capital

[47] WHO and ILO (2021). *WHO/ILO Joint Estimates of the Work-related Burden of Disease and Injury, 2000-2016* (https://www.who.int/publications-detail-redirect/9789240034945).

[48] Global Accelerator (2024), 'The UN Global Accelerator and the World Bank Social Protection and Jobs Compass join forces to achieve universal social protection and expand opportunities for sustainable, decent and productive employment,' News Release, 20 June (https://www.unglobalaccelerator.org/un-global-accelerator-and-world-bank-social-protection-and-jobs-compass-join-forces-achieve).

investment and funds to cover continuing annual obligations, the latter of which require an adequate long-term revenue flow, which is usually some combination of tax revenue, mandatory contributions, and user fees (notably in healthcare).

But even though domestic resources are the primary funding source, developing countries will often complement them with international funding. Mostly this will be to help finance the investment side of the social services, but countries with limited economic and fiscal capacities may also be able to draw on international donor assistance to help cover their current outlays, as through budget support for key programmes and technical cooperation. In addition, during pandemics, severe economic downturns and other emergency situations, governments will borrow to cover temporary funding shortages or to meet additional outlay needs. While countries with more developed capital markets may be able to mobilize the financing for capital investments or counter-cyclical spending in domestic financial markets, most developing countries will need to draw on international sources, usually in the form of borrowing from international financial institutions, bilaterally from other governments, or from the international financial market. Each of these international modalities should be sources of adequate, effective, efficient, equitable, and sustainable financing. That is not always the case.

Official development assistance

Low- and middle-income countries may access a range of different types of international funding from official providers. At one end of this range are policy and investment loans on near-commercial terms for middle-income countries that are extended by international financial institutions such as the World Bank. At the other end of the spectrum are flows of official development assistance (ODA), mainly provided as grants or highly concessional loans, which may finance investment, or be used for budget support for key programmes or technical cooperation.

ODA is largely provided by the developed countries, either directly or through their contributions to concessional programmes of the international financial institutions. Today, the need for ODA remains great, especially to support low-income and vulnerable countries, but its prospects for increase are not encouraging, which is perforce a concern for adequate assistance for social protection and health programmes.

Contributions by the member countries of the Development Assistance Committee (DAC) of the OECD have remained at levels well below the internationally agreed target of 0.7 per cent of donor gross national income (GNI), with only five countries meeting that goal in 2023: Denmark, Germany, Luxembourg, Norway, and Sweden. Only three of those countries met the internationally agreed target of 0.15-0.20 per cent of GNI for assistance to the least developed countries (LDCs), with the overall DAC funding level for LDCs at about half the target (0.08 per cent in 2022).[49] It is perhaps indicative of the challenge in mobilizing political support in donor countries for *development* assistance that in 2023, while DAC member countries contributed 0.37 per cent of GNI as total ODA, or an estimated US$ 223.7 billion, 34 per cent of that aid was provided for the special situation in Ukraine, to support in-donor refugees, and for humanitarian assistance.[50]

Moreover, history suggests that ODA has not constituted a stable and reliable source of funding for social spending in developing countries, depending as it does on annual budget appropriations in donor countries. But while countries cannot rely on it in the long term, many of them have definite and

[49] UN (2024), *Financing for Sustainable Development Report, 2024* (https://desapublications.un.org/publications/financing-sustainable-development-report-2024), p. 101.

[50] OECD (2024), 'International Aid Rises in 2023 with Increased Support to Ukraine and Humanitarian Needs,' Press Release, 11 April (https://www.oecd.org/en/about/news/press-releases/2024/04/international-aid-rises-in-2023-with-increased-support-to-ukraine-and-humanitarian-needs.html).

substantial need for increased ODA to address social needs in the short to medium run. Thus, while it is imperative that countries develop a robust domestic resource mobilization strategy, and proper governance of their social systems, and reach for sustainability and autonomy in the medium to long term, they also need to be able to draw on significantly expanded ODA for social needs in the interim.

There is a role here as well for expanding the number of partners who collaborate in providing assistance. This includes South-South and "triangular" cooperation (Southern expertise facilitated by a developed country donor). Besides the additional funding support, countries may build on lessons learned for example from culturally relevant experiences in other countries.

> **Policy challenges**: Despite the international community adopting purely financial targets for ODA, donors view their assistance as a package of bilateral priority programmes and contributions to multilateral funding, and not as a transfer of an amount of general purpose financial resources. That had been the original motivation of ODA in the 1960s, in essence as filling a gap between national savings and the "planned" overall investment in the developing economies as a whole.[51] But ODA in the 1960s was also a political tool in the geopolitical competition between developed and centrally planned economies, which on the one hand empowered aid-receiving countries to play off one side against the other, but on the other did not always lead to fully coherent assistance programmes. With the more recent rise of China as a substantial donor and a significant economic partner of most countries, the geopolitical competition in ODA could return. That would be unfortunate for the coherence and thus overall effectiveness of aid programmes, and it is doubtful that renewed competition among donors would raise overall aid levels in this iteration.
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> Calling for more ODA in UN conference outcome documents is boilerplate text that sometimes has little political buy in, but no strong resistance either. Sometimes, however, the text in the outcome document reflects an actual commitment to boost ODA, which had been the case in the original Monterrey FfD conference.[52] Perhaps the case can be made again in FfD4 for more and more coordinated assistance from all development partners for more effective support of the aid-receiving countries.
>
> For that to happen, however, requires that one or more Member State "champions" step forward to rally support in the aid community. In Monterrey, the quid pro quo for additional aid volume was a commitment to greater aid effectiveness, an intergovernmental process that is still ongoing. With initiatives like the INFF and recognizing the coordination challenge from the "more diverse set of providers, different modalities and more complex instruments, which have increased burdens on developing countries,"[53] perhaps a new deal can be struck. It would be a major "win" for FfD4.

Innovative official initiatives

There is a problem in the ODA universe. ODA funds, notably in the health arena, need not always be provided in the most useful ways. Such aid should prioritize strengthening overall health systems, particularly primary care, and avoid focusing narrowly on specific programmes or diseases, which may not be priority concerns in all countries in need of support. However, while the major international development finance institutions have broad lending programmes in the health sector, there are also

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[51] Michael Clemens and Todd Moss (2007), 'The Ghost of 0.7 Per Cent: Origins and Relevance of the International Aid Target,' *International Journal of Development Issues* 6 (1): 3-25.
[52] Herman (2006) op. cit.
[53] UN (2024), *Financing for Sustainable Development Report, 2024*, op. cit., p. 99.

several more or less narrowly targeted public financing arrangements that offer funds, mainly grants, that help to cover both investment and current health expenditures but only for specific diseases or interventions.

Perhaps the oldest such arrangement is GAVI, the Vaccine Alliance (founded in 2000), which was soon followed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (founded in 2002), followed in 2006 by UNITAID, a drug purchasing facility administered by WHO. In addition, a new facility, the Pandemic Fund, was created in 2022 to help finance investments in pandemic prevention, preparedness and response (PPPR) in developing countries. These initiatives may be described as "coalitions of the willing" and as such are voluntary and not universal, but they can also be protective of the "turf" that they mark out for their operations.[54]

Another approach to mobilizing ad hoc groups of donor governments around specific international financing initiatives, deemed "innovative financing," has long been part of the FfD process. It was introduced as a topic for future analysis in the Monterrey Consensus (para. 44), progress on which was acknowledged in some detail in the Doha Declaration on FfD (para. 51) and was welcomed again in the Addis Agenda (para. 69).[55] The "Leading Group on Innovative Financing for Development" that emerged from this process facilitated discussion of several proposals among interested countries, some of which came to fruition, most notably the levy on air passenger tickets collected by participating governments that then transferred the proceeds to UNITAID, the drug purchasing facility at WHO. Other proposals used financial engineering to speed assistance to the GAVI Alliance in advance of donor country budgeting, while other proposals did not quite make it past the legislative stage, such as the proposed financial transactions tax considered by the European Union.[56]

Meanwhile, vertical funds have become controversial in the aid universe. Each new one would likely compete with existing funds that had similar goals. The current proliferation of funds and their fragmentation into many different funding avenues, many with small (and unpredictable) resources, inevitably entail high transaction costs for beneficiary governments that have to apply and then report to a plethora of funds. A recent study pointed to 500 intermediary finance institutions under the World Bank alone.[57] Any new standalone fund would further enlarge the number of already established vertical funds, each competing for the – seemingly limited – amounts of donor finance.

Indeed, not all vertical fund proposals reach fruition. One such is the global fund for social protection, offered in 2012 as a potential solution to the failure to provide an adequate share of development cooperation resources to social protection.[58] Interest in the proposal grew recently in the wake of the COVID-19 pandemic, which demonstrated once again the critical role of social protection systems in protecting people and stabilizing economies. Thus, the International Labour Conference's tripartite constituents asked the ILO in 2021 to "explore options for mobilizing international financing for social protection…based on international solidarity and initiate and engage in discussions on concrete proposals for a new international financing mechanism, such as a Global Social Protection Fund, which could

[54] Helen Murphy (2024), 'Can the World Bank's Pandemic Fund Go It Alone?' *Devex Newswire*, 12 March (https://www.devex.com/news/devex-newswire-can-the-world-bank-s-pandemic-fund-go-it-alone-107224).

[55] Respectively, A/CONF.198/11 (chapter 1, resolution 1, annex), A/CONF.212/7 (resolution 1, annex), and resolution 69/313.

[56] UN (2012), *In Search of New Development Finance*, World Economic and Social Survey, 2012 (https://www.un.org/en/development/desa/publications/wess2012.html).

[57] Kevin Watkins et al. (2024), 'Financing the Fight against Poverty and Hunger - Mobilising Resources for a Sustainable Development Goal Reset,' ODI, 24 July (https://odi.org/en/publications/financing-the-fight-against-poverty-and-hunger-mobilising-resources-for-a-sustainable-development-goal-reset/).

[58] Olivier De Schutter and Magdalena Sepúlveda (2012), 'Underwriting the Poor: A Global Fund for Social Protection,' United Nations High Commission for Human Rights, Briefing Note 07, October (https://reliefweb.int/report/world/underwriting-poor-global-fund-social-protection-briefing-note-special-rapporteur-right).

complement domestic resource mobilization efforts."[59] The consideration at ILO of a global fund for social protection was also mentioned in the UN Secretary-General's *Our Common Agenda*.[60]

However, no political constituency seems to have emerged to actually demand that the new fund be created. One reason might be the fear that such a fund might raise expectations that the funders would not meet. Were a social protection fund created to supplement annual domestic revenues with fund resources, recipient countries would need assurance that adequate funds would be provided to maintain a stable social protection system that was "reliable and available over time." If not, prospective client countries of such a fund might fear the political fallout from not being unable to honour their commitment to provide a promised benefit.[61] A more limited approach might be to create a facility to only provide emergency cash flows that countries in need could channel through their social protection facilities for catastrophe relief. Might this be a politically more attractive option? (it is discussed in a later section of this paper).

Perhaps a sign of the political exhaustion with vertical funds is the recent initiative of Brazilian President Luiz Inácio Lula da Silva in his call at the G20 for a Global Alliance against Hunger and Poverty.[62] The proposal is not a call for new funds but an effort to match existing and potential new funding with developing country proposals for specific anti-hunger and anti-poverty programmes that needed funding, such as to improve food production as by smallholder farmers or reduce hunger as through efficient school lunch programmes. The Alliance, to be launched at the G20 summit on 18-19 November 2024, intends to mobilize relevant expertise from around the world to help countries design "evidenced-based" programmes and then match the programmes with potential funders, including donor countries, international development banks and philanthropies. The Alliance would be based at the Food and Agricultural Organization of the UN in Rome, supported by a relatively small team. The Alliance would plan to "sunset" in 2030.[63]

> **Policy challenges**: Vertical funds came into existence because donor countries could more effectively mobilize politically around specific challenges, some of which, like communicable diseases, potentially threatened residents of the donor countries themselves. The vertical funds have also been a way for individual donor countries to say we are not taking on this responsibility on our own, but jointly with partner countries, an easier sell to legislatures.
>
> This appreciation of the politics of vertical funds, if accurate, might help explain why the case for a special fund for social protection has been less compelling, although perhaps the argument could be made that additional assistance for social protection might discourage the flow of migrants from low-income to rich countries. Even in that case, however, a more compelling argument would be for special assistance for decent job creation in migration source countries. Indeed, that could be an argument for deeper development cooperation writ large, albeit not one to be made explicitly in an outcome document of a UN conference.

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[59] ILO (2021), op. cit., para. 21 (c).
[60] UN (2021), *Our Common Agenda*, Report of the Secretary-General (https://www.un.org/en/content/common-agenda-report/assets/pdf/Common_Agenda_Report_English.pdf).
[61] Nicola Yeates et al. (2023), *A Global Fund for Social Protection. Lessons from the Diverse Experiences of Global Health, Agriculture and Climate Funds*, Working Paper 97 (https://www.ilo.org/publications/global-fund-social-protection-lessons-diverse-experiences-global-health).
[62] Brazil (2024), Brazilian Minister Announces Global Alliance Against Hunger and Poverty to Latin American Leaders at FAO Event' Press release 24 March (https://www.g20.org/en/news/brazilian-minister-announces-global-alliance-against-hunger-and-poverty-to-latin-american-leaders-at-fao-event).
[63] Jorge Valencia (2024), "Inside Brazil's Plan to Cut World Hunger by 2030,' *Devex News*, 3 September, and Brazil (2024), ''*Global Alliance against Hunger and Poverty: Foundational Documents* (https://www.g20.org/en/tracks/sherpa-track/hunger-and-poverty?page=2).

Private international sources

In developed economies, governments finance public capital investments by mobilizing private sources of funds through the sale of government or government-guaranteed bonds or through borrowing from commercial banks. Developing countries have increasingly been able to use this form of financing as well for capital projects, albeit in a limited way for most countries. But governments in developed and developing countries have also entered into various types of financial and operational partnership with private service providers, in particular one type of financial structure known as a public-private partnership (PPP), including in healthcare-related investments. Results with this type of financing have been mixed at best in both groups of countries.[64]

And yet, the major international development finance institutions and many bilateral donors have actively promoted collaboration with private for-profit partners in the form of PPPs. It has been seen as a way to expand development financing from "billions to trillions," although with disappointing results in two senses.

First, as civil society watchdogs have pointed out, there have been various oversight failures by donor country governments and international institutions, despite having monitoring standards that should prevent – or at least quickly correct – failures of oversight. Perhaps the most dramatic recent case in point is the imprisonment of patients until their bills were paid by the Nairobi Women's Hospital, a private hospital funded by a consortium of British, French and German public agencies and the World Bank's International Finance Corporation.[65] This is relevant to the present paper not least because the case cited was a hospital.

Second, there seems to be a limited and declining appetite of private investors in undertaking PPP projects. According to data compiled by the World Bank, the number of PPP projects committed in all economic areas and for all developing countries peaked in 2018 and in terms of investment value committed peaked in 2015.[66] While the value of PPP projects totalled US$ 86 billion in 2023, at the peak US$ 140 billion had been recorded. The Bank reported a few new projects in 2023 in the water and sanitation sector; none were listed in the health or social protection areas. All in all, it seems the proponents of PPPs have misjudged the prospective market.[67]

Even in the heyday of enthusiasm for PPPs, there were warnings. The Addis Agenda averred to concerns about the risks in private financial blending for public-responsibility investments and in particular public-private partnerships. It called on all such projects to "share risks and rewards fairly, include clear accountability mechanisms and meet social and environmental standards [and it committed to] build capacity [in developing countries] to enter into PPPs, including with regard to planning, contract negotiation, management, accounting and budgeting for contingent liabilities…" (para. 48).

It seems that another model for engagement with private finance is needed.

Policy challenges: Developing countries need to be careful when designing capital projects for

[64] Heinrich Böll Stiftung (2018), *History RePPPeated: How Public-Private Partnerships are Failing* (https://www.eurodad.org/historyrepppeated) and Eurodad (2022), *History RePPPeated II: Why Public-Private Partnerships Are Not the Solution* (https://www.eurodad.org/historyrepppeated2).
[65] Oxfam (2023), 'Sick Development,' Briefing Paper, June (https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621529/bp-sick-development-funding-for-profit-private-hospitals-260623-en.pdf?sequence=14).
[66] World Bank (2024), 'Private Participation in Infrastructure (PPI): 2023 Annual Report' (https://ppi.worldbank.org/content/dam/PPI/documents/PPI-2023-Annual-Report-Final.pdf).
[67] Alan Beattie (2024), 'The Magic Pony of Private Finance Fails to Fund the Global Green Transition,' *Financial Times*, 17 October.

social protection (e.g., for a digital information system) or in healthcare (e.g., for an urban medical centre). If envisaging private participation in operations, countries need to undertake careful analysis of the operating revenue on which the sustainability of the project will depend and whether the payments for services can be covered by people of limited means or with what annual subsidy over the life of the project. In addition, the government has to have the capacity to adequately oversee the private management if a PPP structure is contemplated. In cases in which the contents of PPP contracts are not disclosed and public oversight of operations is limited, policymakers should give pause.

For countries that do not have the requisite access to private markets to borrow on their own for social protection and healthcare projects. there are other models than PPPs for “blending” private finance with public monies that return the private financing partner to a purely financial role. For example, the World Bank Group has offered since 1959 what it calls B-loans wherein private investors can take a financial stake in some World Bank projects (actually in projects of the Bank’s International Finance Corporation), although oversight remains with the Bank as it would when the Bank provides the full funding itself. In fact, that Bank oversight is an attraction to the private financiers who invest their funds in B-loans. Today, the Bank offers a variety of co-financing opportunities,[68] which is perhaps just the tip of the iceberg on blended financing opportunities.[69]

It may nevertheless be that the most appropriate form of private financing of social protection and health investments is that provided indirectly when a country borrows from the World Bank or one of the other international development banks that finance themselves with the sale of bonds to the market. These institutions are undertaking reforms to increase their lending capacity under their existing capitalization and are seeking additional capital, as they are seen as perhaps the only practical means for mobilizing private resources at near the level needed to finance the public investments for the SDGs.[70]

However, we should keep in mind that governments have long sought alternatives to borrowing from the traditional multilateral financial institutions in part to free themselves from the invasive policy conditions required by the mainstream official lenders in exchange for their financing, preferring new official lenders or the private markets instead. The content of that “conditionality” is another matter that needs to be addressed. It might be fascinating to consider it in the Preparatory Committee for FfD4, but that lies beyond the scope of the present paper.

The challenge of sovereign debt

During pandemics, severe economic downturns and other emergency situations, governments usually need to borrow to address temporary funding shortages for social protection, health and other services. Indeed, such borrowing was undertaken during the COVID-19 pandemic and many countries have thus found themselves debt-constrained or more debt-constrained than before. Coupled with the effect of the rise in interest rates internationally, governments of 46 developing countries, home to 3.3 billion people, spent more on interest payments than on health in 2020-2022.[71]

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[68] International Finance Corporation (2022), ‘Partnering with IFC Syndications,’ https://www.ifc.org/content/dam/ifc/doc/2022/ifc-syndications-brochure-2022.pdf).

[69] Convergence Blended Finance (2024). *The State of Blended Finance 2024* (https://www.convergence.finance/resource/state-of-blended-finance-2024/view).

[70] OECD (2024), *Multilateral Development Finance, 2024* (https://www.oecd.org/en/publications/multilateral-development-finance-2024_8f1e2b9b-en.html).

[71] UNCTAD (2024), ‘A World of Debt, Report 2024’ (https://unctad.org/publication/world-of-debt)

It is standard for heavily indebted countries to make great fiscal effort to service their debt, even at the expense of cutting social programmes and redirected their funding to debt servicing. This is not only socially unjust, it usually just postpones the day of reckoning when the countries have no alternative but to default on their obligations and enter into debt crises. When governments then have to negotiate with their creditors to reduce their debt burden, that burden should be reduced enough to allow the country to meet its social protection, health and other essential social service obligations. This does not seem to have been an objective in recent cases where social spending, the public wage bill and pension benefits have not been protected.[72]

And yet, the IMF, which guides countries on their adjustment policies to correct unsustainable debt situations, should increasingly be operating under its aforementioned 2019 policy on social spending. Indeed, better protecting delivery on the social obligations of governments seem an obvious way to boost citizen support for the unavoidable strains of adjustment programmes.

> **Policy challenges**: Intergovernmental discussions at the UN under FfD traditionally consider international policy matters that entail action by other international institutions, not only the UN. Recovery from sovereign debt crises and sovereign debt management are two of them. It seems that the IMF (and the World Bank, which cooperates with the Fund on debt crises in low-income countries) should take greater care to protect essential social spending in the workouts from debt crises (or to apply a more realistic definition of "essential" when they seek to protect "essential" social expenditures).
>
> This may require deepening the target level of relief that foreign private and bilateral official creditors need to accept in order to put a country on a path to sustainable development and the SDGs. By the same token, the content of IMF and World Bank debt sustainability analyses (DSAs) undertaken in normal as well as in crisis times should give greater attention to the fiscal imperative to meet the social obligations that its member governments have to their people. There is already discussion on taking account of climate obligations in DSAs and a discussion of adding a module on the impact on inequality has been proposed.[73] A module on protecting essential social protection and healthcare is fully warranted.
>
> In other words, FfD4 should seek stronger commitments to social protection and health spending as part of revised methodologies for preparing DSAs. Perhaps the managements of the IMF and World Bank would even welcome an international consensus urging them to better protect the vulnerable during crises.

Responding to emergencies

One need that has been made manifest by the COVID-19 pandemic is the ability to quickly supplement normal government resources with significant additional funding in times of emergency. Indeed, with IMF and World Bank encouragement (and financing), governments made the largest scale-up in social protection benefits in history and increased health spending, albeit in smaller degrees in poorer countries, while actually cutting back on funding for education.[74] Governments financed the additional spending

[72] For the case of Sri Lanka, see C. P. Chandrasekar et al. (2023), op. cit., and for Argentina, Centre for Legal and Social Studies (2024), 'The Impact of Foreign Debt and Harsh Austerity on Argentina's Social Protection System' (https://www.socialprotectionfloorscoalition.org/wp-content/uploads/2024/10/2024-R2SSC-Case-Studies-Argentina.pdf).
[73] Matthew Martin (2024), 'How to Ensure Debt Sustainability Accelerates Sustainable Development,' Friedrich-Ebert-Stiftung, June (https://library.fes.de/pdf-files/international/21247.pdf).
[74] ILO (2024), 'Social Protection Monitor: Announced Measures throughout the World' (https://www.social-protection.org/gimi/ShowWiki.action?id=3426), and Ugo Gentilini (2022), *Cash Transfers in Pandemic Times: Evidence, Practices, and Implications from the Largest Scale Up in History* (https://documents1.worldbank.org/curated/en/099800007112236655/pdf/P17658505ca3820930a254018e229a30bf8.pdf).

with various combinations of new domestic debt, new foreign borrowing from private and official sources, and the temporary delay by some low-income countries of debt servicing payments to government creditors.

How emergency international financing has been provided

The IMF advises developing countries to build fiscal "buffers," which would help fund shock-responsive spending programmes in times of need.[75] That is a good goal but to be used within limits, as the Fund acknowledges that there can be a significant opportunity cost of maintaining too large a national fund of liquid assets in New York or London or even in the domestic financial market. For most developing countries, some forms of international support in emergencies is warranted.

One such international initiative used during the COVID-19 crisis built on an experience during the global financial crisis, as the central banks of the United States, China, the European Union, Japan, and to a smaller extent a number of other countries activated bilateral swap lines or expanded them to additional partner central banks to boost access to international liquidity on short notice. While the funding through the swaps was very short term and not available to all developing countries, it appears to have served its emergency liquidity purpose to at least partly lean against a new global economic crisis.[76]

Another set of multi-country initiatives had been taken earlier by groups of developing countries, together with donor partners and the World Bank. They jointly prepared for specific emergencies through joint insurance pools, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which insures against hurricane damage. Comparable insurance pools have been created in the Pacific and for member countries of the Association of Southeast Asian Nations, as well as to insure against draught in Africa.[77] Annual premiums must be paid into the insurance pools, but they provide quick disbursing funds when disaster strikes.

The World Bank has also been active in directly offering catastrophe risk insurance to member countries, which the Bank can then finance in the private sector by issuing "catastrophe bonds" (CAT bonds). In this case, the Bank insures a country against a specified class of catastrophes, for which the country pays the Bank an annual premium, and the Bank in essence reinsures the risk by pooling different country risks and issuing CAT bonds to the financial market. The annual insurance premiums pay the interest on the CAT bonds and in the event of a catastrophe, the Bank makes a payout to the country and is freed from repaying that amount to the bondholders. The interest that bondholders receive takes into account the risk of partial or non-repayment of principal. Until the insurance payout, the Bank can use the proceeds of the bond sales for a variety of programmes.[78]

While insurance programmes are a tried and true way to prepare for future catastrophes, so too are pre-arranged special emergency loan facilities with catastrophe triggers. Thus, the IMF was able to quickly provide anti-COVID financing through its "rapid" loan facilities, one each for low- and middle-income countries.[79] Similarly, the International Development Association (IDA) of the World Bank Group offers

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[75] Hideki Nishizawa et al. (2019), 'Fiscal Buffers for Natural Disasters in Pacific Island Countries,' IMF Working Paper, 12 July (https://www.imf.org/en/Publications/WP/Issues/2019/07/12/Fiscal-Buffers-for-Natural-Disasters-in-Pacific-Island-Countries-47011).
[76] Michael Parks et al. (2021), 'Evolution of Bilateral Swap Lines,' IMF Working Paper, August (https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpiea2021210-print-pdf.ashx).
[77] Aliona Cebotari and Karim Youssef (2020), 'Natural Disaster Insurance for Sovereigns: Issues, Challenges and Optimality,' IMF Working Paper, January (https://www.imf.org/en/Publications/WP/Issues/2020/01/17/Natural-Disaster-Insurance-for-Sovereigns-Issues-Challenges-and-Optimality-48925).
[78] World Bank (n.d.), 'IBRD Financial Products: Disaster Risk Management' (https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/disaster-risk-management#2).
[79] IMF (2021), 'The IMF's response to COVID-19, 8 April (https://www.imf.org/en/About/FAQ/imf-response-to-covid-19#Q1).

emergency loans through its "Crisis Response Window," and the Bank and IDA have for decades offered a supplementary contingent credit line for emergency use in their long-term project and policy loans, called the "deferred drawdown option."[80]

An alternative to addressing catastrophes with new cash from abroad is relief from having to pay cash abroad. The G20 and the Paris Club of government creditors offered such an option in the form of a temporary delay of debt-servicing obligations (with interest still accruing), under an initiative for low-income countries called the Debt Service Suspension Initiative (DSSI). It is perhaps suggestive that only 48 of the 73 eligible countries chose to take advantage of DSSI, postponing US$12.9 billion in debt servicing.[81]

Undoubtedly, some of the non-participating countries did not feel the need for the DSSI support, which bunched future repayment obligations a few years down the road, and apparently other governments feared sending a negative signal to their bondholders, fearing they might not buy new bonds. Neither did any of the international development banks offer DSSI relief, although the IMF activated its Catastrophe Containment and Relief Trust, wherein donors paid the debt servicing falling due to the IMF itself by low-income countries.

Moreover, some lenders are offering credits to developing countries that contain options to postpone debt servicing in the event of a specified catastrophe. They were devised for bonds half a decade ago,[82] and were pioneered by the Inter-American Development Bank (IDB) among development finance institutions.[83] Naturally, debtors pay a bit more to their bondholders for the option of possibly delaying payment, which may explain why this type of bond has not become the standard. Nevertheless, Barbados and Grenada have issued bonds with such "hurricane clauses."[84] The World Bank has more recently introduced an option for adding "climate resilient debt clauses" (CRDCs) to its new or outstanding loans, which would delay principal and interest repayments for two years, although only countries that are members of the Small States Forum or are classified as Small Island Developing States are eligible, and the trigger is limited to tropical cyclones/hurricanes and earthquakes.[85] The post-crisis repayment schedules for bonds or the CRDC loans will not entail a subsidy (although the World Bank charges no fee when the CRDC is added to loan contracts), as the net present value of the adjusted repayment schedule will match that of the original contract.

While these and comparable other facilities are worthwhile international financial mechanisms, all of the loans have to be repaid, even if at zero or highly subsidized interest rates for the lowest income countries. However, one multilateral initiative did provide grants, the Pandemic Emergency Financing Facility (PEF Facility). It was a special insurance programme maintained at the World Bank that was created after the

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[80] World Bank (2022), '10 Things to Know About the IDA Crisis Response Window,' 26 May (https://www.worldbank.org/en/news/factsheet/2022/05/26/10-things-to-know-about-the-ida-crisis-response-window), and World Bank (n.d), op. cit.

[81] World Bank (2022), 'Debt Service Suspension Initiative' (https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative).

[82] Clifford Chance (2018), 'Indicative Heads of Terms for Extendable Hurricane Bonds (Coupon Preserving Maturity Extension Version-Bullet Structure)' (https://www.icmagroup.org/assets/documents/Resources/Indicative-Heads-of-Terms-for-Hurricane-Bonds---Bullet-271118.pdf).

[83] IDB (n.d.), 'Flexible Financing Facility' (https://www.iadb.org/en/how-we-can-work-together/public-sector/financing-solutions/flexible-financing-facility-fff#:~:text=Through%20the%20Principal%20Payment%20Option,amounts%20in%20future%20amortization%20installments).

[84] Sui-Jim Ho and Stephanie Fontana (2021), 'Sovereign Debt Evolution: The Natural Disaster Clause,' *Emerging Markets Restructuring Journal*, 11 (https://www.clearygottlieb.com/-/media/files/emrj-materials/issue-11-spring-2021/article_natural_disaster_clause_v3-pdf.pdf).

[85] World Bank (2024), 'Climate Resilient Debt Clause (CRDC),' Product Note, June (https://thedocs.worldbank.org/en/doc/6857abe91ef32973cfab7f689e9f00fe-0340012023/original/CRDC-Product-note-EN.pdf).

Ebola crisis for emergency funding in subsequent pandemics.[86] In this case, the insurance premiums were paid by donor countries and the total amount distributed was a modest US$ 196 million that was shared among 64 countries. The PEF Facility has distributed all its funds and is now closed. A new one is not anticipated.

The resources discussed thus far were all general purpose funds that receiving countries were largely free to use for whatever they needed. There was also an important international effort during COVID-19 to mobilize on an emergency and voluntary basis sufficient funding for the development, production and equitable access to COVID-19 tests, treatments and vaccines. That is, a coalition of governments, scientists, businesses, civil society, philanthropists and global health organizations came together in April 2020 as the "Access to COVID-19 Tools (ACT) Accelerator."[87] It mobilized $17.8 billion for the April 2020-October 2021 budget cycle, but this was $15.4 billion short of need. It mobilized a further $6.3 billion for the period October 2021-September 2022, but this was $10.6 billion short of need.[88] Clearly, the global donor community had not adequately prepared to handle the scope of the challenges of a crisis like COVID-19.

> **Policy challenges**: It is clear that there were many initiatives, some already in place and some new, that aimed to help developing countries weather the pandemic, and yet most developing countries were unable to meet the needs of the day. For example, as of October 2021, around 58 per cent of people in developed economies had been vaccinated against COVID-19, but approximately only 36 per cent in the developing countries, including less than 5 per cent in the low-income countries.[89]
>
> Besides the aforementioned insurance schemes, the initiatives described here involved new loans to developing countries or in the case of the DSSI effectively refinancing already outstanding loans. The ACT-Accelerator was the approach used to mobilize funding specifically for global cooperation to combat COVID-19 and as was seen, it mobilized substantial funds, if less than the targets it set for itself. Will such approaches carry the world through the next crisis?
>
> Moreover, there were additional initiatives that have not yet borne fruit. One has related to easing international trade restrictions on importing COVID-19 tests and treatments in developing countries, which the World Trade Organization members could not agree to even post-crisis as of 2024.[90] In addition, an effort at the WHO that was prompted by COVID-19 to negotiate a treaty on how better to attack the next pandemic has thus far also eluded agreement.[91] This is more than sad, but probably outside the range of what FfD4 can address, beyond expressing disappointment.
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> There was one further initiative, the allocation of the IMF's special drawing rights (SDRs), but that will be discussed below because it is officially not emergency assistance even if that is the way it functions.

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[86] World Bank (2021), 'Fact Sheet: Pandemic Emergency Financing Facility,' 30 April (https://www.worldbank.org/en/topic/pandemics/brief/fact-sheet-pandemic-emergency-financing-facility).
[87]See the webpage of the ACT-Accelerator at https://www.who.int/initiatives/act-accelerator/about#:~:text=The%20Access%20to%20COVID%2D19,tests%2C%20treatments%2C%20and%20vaccines..
[88] WHO (2023), 'Access to COVID-19 tools funding commitment tracker,' 1 June (https://www.who.int/publications/m/item/access-to-covid-19-tools-tracker).
[89] UN (2022), 'Socioeconomic response: Social Protection, Gender, Children, Youth, Health, Education and Human Rights,' Report of the Inter-agency Working Group on Cluster 2 (https://www.un.org/sites/un2.un.org/files/ffdi_cluster_ii_report.pdf).
[90] Weronika Strzyżyńska (2024), 'WTO Fails to Reach Agreement on Providing Global Access to COVID Treatments,' *The Guardian*, 14 February.
[91] Alexandra Phelan (2024), 'Is a Pandemic Treaty Still Possible?' Interview, Johns Hopkins Public Health on Call, 12 August (https://publichealth.jhu.edu/2024/is-a-pandemic-treaty-still-possible).

The SDR as emergency financing

One lesson from the COVID-19 crisis is that the primarily debt-financed funding of the anti-COVID programmes left many countries bearing heavy – in some cases, unsupportable – sovereign debt burdens. Moreover, with the increase in inflation in the United States and Europe in the initial stages of the recovery from the pandemic and the consequent monetary policy responses that increased global interest rates, the fiscal burden of servicing already enlarged government debt rose appreciably. The result has left developing countries with heavy – and in a number of cases, unmanageable – sovereign debt burdens. For the next crisis, greater reliance on non-debt creating financing seems a more appropriate approach.

One such financial instrument that was not a loan – but not a grant either – served well during the crisis and might again be used in subsequent crises. This is the special drawing right (SDR) of the IMF. The SDR is a monetary asset that was created at the end of the 1960s in a world that fixed and managed currency exchange rates and required countries with balance-of-payments surpluses, as in Europe, to absorb into their international reserves unwanted additions of the currency of the major deficit country, the United States. The SDR was intended to be an alternative reserve asset and even become in time the principal reserve asset. However, the “dollar glut” problem disappeared when the “Bretton Woods system” collapsed in 1971 and balance-of-payments adjustments came more through changes in exchange rates. Indeed, no SDRs were issued from the 1980s until two issuances were made to address emergencies, first in 2009 in response to the global financial crisis and second in 2021 in response to COVID-19.

The nature of the SDR is unusual. Countries or their central banks receive SDRs from the IMF when they are issued. If the country uses some of its SDRs to cover an obligation to another government or central bank or the IMF itself, it begins to pay a modest interest rate on the amount by which it’s holdings of SDRs are less than its initial allocation (equally, if a country pays your country in SDRs to cover an obligation, your country starts to receive interest payments on the surplus holding). SDRs are thus in part like a credit line in that using them is not free, although unlike most loans, this one never has to be repaid.

The official criterion for issuing SDRs is a finding that there is a *long*-term *global* need to supplement official reserves. Since the presumed need is global, SDRs are allocated to countries based on their borrowing quotas and voting rights in the Fund. Thus, most of the SDRs are allocated to the advanced economy countries, when their need is actually with other countries. To address this anomaly following the 2021 allocation, much attention has been devoted to ways to re-channel rich country SDRs to benefit developing countries.[92]

In 2009 and 2021, SDRs were created on the winking fiction that there was a global shortage of international reserves. Perhaps the fiction can be repeated in the next crisis, although a more honest approach would be to amend the IMF’s Articles of Agreement so as to redefine the SDR as an emergency liquidity tool for use when needed by some minimum number of countries. Amending the IMF Articles would be no small challenge, as it would require an 85 per cent majority of Fund votes to enact.

> **Policy challenges**: Might the social imperative be enough for FfD4 to at least call for consideration of an alternative allocation trigger and alternative distribution of SDRs to countries in need? Might FfD4 start a discussion on what new criteria might govern when IMF would issue SDRs? Might they be created to ameliorate the social consequences of various emergencies, which can be specified quite precisely, such as the criteria used to trigger disbursements under the

[92] Jürgen Zattler (2024), ‘Getting Special Drawing Rights Right: Opportunities for Re-Channeling SDRs to Vulnerable Countries,’ IDOS Policy Brief, German Institute of Development and Sustainability, April (https://www.idos-research.de/uploads/media/PB_9.2024.pdf).

catastrophe insurance pools mentioned above, or that were required to trigger disbursements from the World Bank's PEF Facility? Or might the decision to allocate SDRs be made by judgement of a credible relevant authority (e.g., WHO in health emergencies)?

An International Emergency Fund?

Another model of international mobilization of funds can be conceived that does not suffer the drawback of the SDR allocation in requiring virtually unanimous assent by all IMF member countries. That is, perhaps a group of interested governments might consider creating an international fund that could disburse grants to help fight health or hunger or weather emergencies wherever and whenever the need were identified by the usual internationally responsible processes, such as WHO for pandemics or the World Food Programme for hunger emergencies. Could that be an attractive proposal if the resource mobilization was relatively painless?

One proposal that could fund an emergency financing facility has been under discussion in the finance track of the G20. It would have governments negotiate an international agreement to impose a two per cent wealth tax on the 3,000 billionaires in the world today.[93] That proposal does not target funding for emergencies per se, but rather calls on the super-rich to pay a less unfair share of their country's taxes. The participating governments could decide to transfer to an emergency pool of funds a pre-set fraction of the additional tax revenues they would collect, or even announce that a given portion of the funds collected could be transferred if needed to a pre-arranged distribution facility. The humanitarian aim of governments contributing a share of such a tax on the wealthy in one way or another for quick-disbursing assistance in emergencies might take the edge off the opposition of the rich. But then, maybe not. It might be optimistic to imagine enacting such a proposal, given the political power of the most privileged to protect their wealth. Nevertheless, since the rich undoubtedly collect more than an annual return of 2 per cent on their wealth, the proposed tax would merely slow the further accumulation of their wealth. In any event, consideration of the tax itself remains on the G20 agenda.

Another proposal could be to negotiate an agreement among countries that host crypto trading platforms in which they would jointly impose a common small tax on crypto transactions and then pool the revenue together in a fund governed by a board of the contributing governments that collect the tax. The reason to target crypto trading is that, unlike other forms of speculative investment that normally stabilize markets in actual commodities, investing in crypto is pure speculation that serves no economic or social purpose. Developing as well as developed economy hosts of crypto platforms would collect the tax and contribute to the fund. The governance model might be more explicitly donor dominated, like that of the OPEC Fund for International Development than, say, the World Bank or ILO.[94] The fund would disburse grants to governments in qualifying emergencies, based on decision rules, such as noted above, set by the oversight board. The idea to tax global crypto transactions may seem a bit fanciful, although India already imposes such a tax, and many countries impose financial transaction taxes of various sorts. In addition, the G20 has adopted a strategy for bringing the crypto trading industry within regulatory and fiscal regimes. It should be clear that investor efforts to avoid the tax would be efforts to avoid helping people in desperate situations.

The objective of the fund would be to have the resources at the ready to make grants for well-defined purposes in well-defined emergency situations (unused resources each year would grow through

[93] Gabriel Zucman (2024), 'A Blueprint for a Coordinated Minimum Effective Taxation Standard for Ultra-High-Net-Worth Individuals,' Commissioned by the Brazilian G20 Presidency, 25 June (https://www.g20.org/pt-br/noticias/proposta-brasileira-no-g20-para-taxar-os-super-ricos-pode-arrecadar-ate-250-bilhoes-de-dolares-por-ano).
[94] See the webpage of the OPEC Fund for International Development at https://opecfund.org/who-we-are/faqs/general-background).

investment in liquid assets). Depending on how much tax revenue would be mobilized by the crypto trading tax, the fund would make a grant contribution to emergency relief that would cover at least some fraction of the additional quick expenditures made necessary by the emergency. The intergovernmental agreement creating the tax should specify what proportion of the tax revenue would be transferred to the international fund. The transfer of the funds from the national tax authority to the fund should then be automatic and not require going through annual national budget negotiations.[95]

> **Policy challenges**: This section presented two proposals for sourcing emergency resources for addressing the human cost of catastrophic events, the wealth tax of the G20 and the transactions tax on trading on crypto platforms. Might either be adopted by coalitions of willing governments? In the remaining time before the FfD4, might there be interest among Member States in beginning to consider such proposals, with appreciation of the fact that such consideration would be exploratory? Much of the early work of the Leading Group on Innovative Financing for Development explored unusual proposals to mobilize additional public resources for the financing of development. In time, consensus grew among enough countries to launch a number of proposals. Could that not be repeated?

From austerity to social imperative in IMF-supported recovery programmes

An important development over recent decades is that the negative social consequences imbedded in the typical fiscal austerity targets of internationally supported macroeconomic recovery programmes have become increasingly intolerable politically. While economic crises are inevitably painful to populations and especially to the most vulnerable, recovery programmes should not deepen the harm to those least able to bear it, nor should they be allowed to erode the capacity of national health, education and other social systems to meet their responsibilities. Short-term austerity can have adverse long-term consequences.

While recovery is a national responsibility, the IMF on behalf of the international community has helped shape recovery programmes for almost 80 years. The approach of the IMF, however, has not been without challenge, including from internal critics, as in the IEO report on social protection noted earlier.[96] Indeed, at least since the 1980s, IMF's country programmes have been charged with limited efficacy and effective indifference to social justice.[97]

As the world became more and more alarmed by the extent of poverty in the developing world, as evidenced by the World Summit for Social Development, convened in 1995 by the United Nations,[98] and the other major UN conferences with social themes in the 1990s, and with increasing acceptance that the poorest people in the poorest countries were caught in a poverty trap as well as a sovereign debt trap, IMF staff also increasingly took notice. The state of thinking as of the late 1990s was captured in *The IMF and the Poor*,[99] which may be read as the Fund giving itself a research agenda for policymaking, culminating albeit two decades later in the 2019 official policy statement noted earlier on IMF engagement on social

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[95] Barry Herman, (2024) 'An International Tax on Crypto Trading to Help Social Protection Respond to National Emergencies,' *Global Social Policy*, forthcoming.
[96] IEO (2017), op. cit.
[97] Giovanni Andrea Cornia et al. (1987), *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth*, Oxford University Press for UNICEF; Alexandros Kentikelinis and Thomas Stubbs (2023), *A Thousand Cuts: Social Protection in the Age of Austerity*, Oxford University Press.
[98] UN (1995), World Summit for Social Development, Copenhagen, Denmark, 6-12 March (https://www.un.org/en/conferences/social-development/copenhagen1995).
[99] IMF (1998), *The IMF and the Poor*, Pamphlet Series, No. 52, 1998 (https://www.imf.org/external/pubs/ft/pam/pam52/contents.htm).

spending.[100]

The IMF rethinks social spending[101]

By adopting its new policy on social spending, IMF management intends to ease the social stress of macroeconomic adjustment programmes on crisis countries and assist countries to strengthen the "adequacy, efficiency and sustainability" of their social spending in non-crisis periods. IMF management envisaged preparing guidance notes to help direct staff on country missions, but this had to be delayed by the onset of the pandemic. The Fund did adapt its lending policies to help countries address the pandemic, as noted above, and by 2022 was able to issue two notes to guide staff in helping countries address issues during surveillance and country missions regarding public pensions and budget-based cash transfers, which the IMF refers to as "social safety nets."[102] The Fund followed with a similar guidance note on health spending in late 2023.[103]

Despite the new IMF policy, country recovery programmes that the IMF agreed to support following the worst of the pandemic have been slow to change.[104] However, there are important indications of a possible policy shift in that the IMF issued a new guidance note in January 2024 for its country mission staff on how to negotiate agreements on the policy reforms that the Fund requires as the quid pro quo for receiving an IMF loan. In particular, the Fund now says its country teams "should seek to protect social spending and mitigate the adverse effects of program measures on the poor and vulnerable," should carefully define quantitative targets for social spending floors, and "be mindful of the positive macro impact of social spending, via relatively high fiscal multipliers."[105]

IMF followed this up in April 2024 by issuing its long-awaited guidance note on implementing the IMF policy engagement on social spending.[106] Moreover, the Fund's Independent Evaluation Office launched a new assessment on "IMF Advice on Fiscal Policy" on 3 May, which aims to assess criticisms of that advice.[107]

In fact, there seem to be a number of hopeful features in the IMF guidance note on social spending. One is that the Fund seems less wedded than in the past to certain policy preferences, in particular, on whether social protection schemes should be universal or targeted on the poor. The guidance note devotes a box to the issue, noting that "While social assistance benefits tend to be targeted in most countries (though a

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[100] IMF (2019), op. cit,

[101] This and the following section draws on Barry Herman (2024), "A Note for CSO Advocacy on Engaging with the IMF on Social Spending," Global Coalition for Social Protection Floors (https://www.socialprotectionfloorscoalition.org/campaigns/social-security-for-all-key-pillar-for-new-eco-social-contract/resources/).

[102] IMF (2022), 'IMF Engagement on Pension Issues for Surveillance and Program Work,' Technical Notes and Manuals (https://www.imf.org/en/Publications/TNM/Issues/2022/06/15/IMF-Engagement-on-Pension-Issues-in-Surveillance-and-Program-Work-519530), and IMF (2022), 'IMF Engagement on Social Safety Net Issues for Surveillance and Program Work,' Technical Notes and Manuals (https://www.imf.org/en/Publications/TNM/Issues/2022/10/03/IMF-Engagement-on-Social-Safety-Net-Issues-in-Surveillance-and-Program-Work-524087?cid=em-COM-456-45461).

[103] IMF (2023), 'IMF Engagement on Health Spending Issues in Surveillance and Program Work,' Technical Notes and Manuals (https://www.imf.org/en/Publications/TNM/Issues/2023/12/22/IMF-Engagement-on-Health-Spending-Issues-in-Surveillance-and-Program-Work-541112).

[104] Human Rights Watch (2023), *Bandage on a Bullet Wound: IMF Social Spending Floors and the Covid-19 Pandemic*, September (https://www.hrw.org/sites/default/files/media_2023/09/ejr_imf0923web_1.pdf).

[105] IMF (2024), 'Operational Guidance Note On Program Design and Conditionality,' 30 January (https://www.imf.org/en/Publications/Policy-Papers/Issues/2024/01/30/Operational-Guidance-Note-On-Program-Design-and-Conditionality-544122).

[106] IMF (2024), 'Operational Guidance Note for IMF Engagement on Social Spending Issues,' 30 April (https://www.imf.org/en/Publications/Policy-Papers/Issues/2024/04/30/Operational-Guidance-Note-for-IMF-Engagement-on-Social-Spending-Issues-548431).

[107] IEO (2024) 'IMF Advice on Fiscal Policy,' Draft Issues Paper, 3 May (https://ieo.imf.org/en/Evaluations).

growing number of countries have adopted universal guaranteed minimum income schemes), education and health benefits are typically universal" (p. 24). Reading between the lines, it does not seem that the Fund is ready to abandon targeting, albeit acknowledging its imperfections. However, it appears that when a country wants a universal system, the Fund should not oppose it and should offer advice on how to afford it.

A second interesting feature in the guidance note pertains to the types of "conditionality" commitments that countries agree with the IMF in their economic recovery programmes. Increasingly specific conditions can be included for government social programs, and they can be stated in more or less powerful ways. The guidance note says that the Fund is not averse to setting "quantitative performance criteria" (QPCs) or "prior actions" (PAs) on social spending when "social spending is critical to achieve programme objectives" (p. 26). The Fund can also agree to "indicative targets" (ITs), which are quantitative but on which the country is held to a less rigorous standard of implementation. ITs have been the more common approach in the past. The Fund can also seek "structural benchmarks" (SBs) for particular reforms that may take time to implement, such as improving the operations of the public health system in some particular way. SBs can also be set as prior actions, such as adopting certain enabling legislation for appropriate budgeting for social protection.

PAs need to be achieved before the IMF will approve a country recovery loan and QPCs that are not met can stop the disbursement of the next tranche of an IMF loan. ITs are "flexible numerical trackers" that may be useful when there is "heightened uncertainty and limited capacity" and can be converted into QPCs "with appropriate modifications" when conditions permit (p. 26n). Clearly, QPCs are the toughest spending conditionality as not meeting them has potentially very serious consequences. QPCs are also seen as helping to "enhance commitments and ownership of the authorities" (p. 27).

> **Policy Challenges**: Perhaps many readers, especially from civil society, will think, Is this serious? The policy has been discussed a lot in Washington, but is there a change in country programmes? Moreover, even if the official Fund position is changed, do governments actually want it? Would not a strong internationally agreed statement of support for the new perspective from FfD4 help change the policy discussion in country missions?

IMF and external collaboration

A third notable feature of the guidance note is the attention it gives to collaboration with external development partners. In particular, while the Fund has expertise in some social policy areas, it calls for "close engagement" with other international development institutions (IDIs), naming the World Bank, ILO and the World Food Programme (there is a history of collaboration at country level as well with the United Nations Children's Fund (UNICEF) and probably other organizations that might have been mentioned). The issue here is not only drawing on external technical expertise, but also taking account of different views owing to "differences in institutional focus" than that of the Fund. As the guidance note states,

> "It is thus important to exchange views – better understanding each other's policy objectives and line of thinking – and look for common grounds. Consistent policy messages from the Fund and IDIs send a more powerful signal to the authorities and the public and can help improve policy traction. The opposite, on the other hand, can lead to confusions and policy inaction.
>
> "Many IDIs have deep knowledge and experiences in certain social spending issues, particularly related to detailed designs and implementation of social spending schemes. In addition, IDIs also have been engaging on social spending issues for many decades,

> much longer than the Fund, have greater presence in the field, and thus have a better understanding of country-specific institutional settings, past experiences and contexts of social spending issues, have a closer relationship with country authorities, and often have better access to the data" (pp. 34-5).

The guidance note goes further and asks the Fiscal Affairs Department to identify relevant counterparts and also "help country teams identify relevant experts" and "facilitate collaboration at the country level."

In fact, this collaborative policy is already in effect. Since 2022, the ILO Universal Social Protection Department has engaged in a fruitful country level collaboration with the IMF's Strategy, Policy and Review Department. The first phase of the collaboration included joint activities at the country level, including a study on pension reform (Iraq), which was presented in a joint IMF/ILO/World Bank Analytical Note.[108] It also involved helping to set social protection spending targets in Mozambique, classifying social protection expenditure in Togo, and analyzing fiscal space for social protection in Uzbekistan. Given this encouraging experience (Box 1), the ILO-IMF collaboration entered a new phase, focusing on nine countries: Cambodia, Comoros, Eswatini, Lebanon, Morocco, Mozambique, Paraguay, Senegal, and Thailand.

Box 1. ILO-IMF collaboration on social protection, 2022

In **Iraq**, in the context of IMF surveillance work and an ILO technical assistance project, the ILO-IMF team focused on options for pension reform, considering the key criteria of sustainability, equity and adequacy of benefits. Both teams, together with the World Bank, have worked on different scenarios of pension reform, informed by actuarial valuation.

In **Mozambique**, the IMF included in its Article IV report (2022) a special attention to the extension of social protection, followed by the negotiation of an Extended Credit Facility agreement with the Government, including a three-year program. In this context, the ILO supported the IMF in setting a social protection expenditure target that provides fiscal space for the extension of social assistance expenditure.

In **Togo**, although the negotiations between the IMF and the Government were postponed, the ILO, IMF and the Government collaborated nevertheless on the classification of social protection expenditure. The ILO also initiated an actuarial health evaluation, to support the Government plans related to the promotion of universal health coverage, which would be included as an indicator in a future IMF program. The project aimed to finalize the actuarial work in the second quarter of 2023.

In **Uzbekistan** the ILO and the IMF have worked on a joint report to extend fiscal space for social protection in the context of many social protection and tax reforms being undertaken in recent years; the report was expected to be finalized by April 2023. A specific focus was also given to social protection in the 2022 IMF Article IV report.

In the same vein, cooperation might be deepened with WHO, which has increased its focus on macroeconomic aspects of health issues, including on increasing fiscal space through public financial management (PFM),[109] and on the health impacts of social and economic policies. For example, since

[108] IMF et al. (2024) 'Toward an Inclusive, Equitable, and Sustainable National Pension System in Iraq,' 30 April (https://www.imf.org/en/Publications/analytical-notes/Issues/2024/04/30/Towards-an-Inclusive-Equitable-and-Sustainable-National-Pension-System-in-Iraq-544930).

[109] Hélène Barroy and Sanjeev Gupta (2021), 'Fifteen Years Later: Moving Forward Heller's Heritage on Fiscal Space for Health,' *Health Policy and Planning*, 36, 1239–1245.

2020, WHO has promoted consideration of ways in which countries can take account of the impacts of social and economic policies on the social determinants of health. Initial work has begun on the ground and is currently underway in three WHO regions: Americas (Chile, Colombia, Costa Rica, Peru), Eastern Mediterranean (Morocco), and Asia (Lao PDR and the Philippines).

A final notable feature of the IMF guidance note is its outreach to civil society. This refers firstly to the semi-annual and other discussions at headquarters where the Fund can explain its views and "counter any unfounded and unfair criticism of Fund engagement." But more important is the recommendation that country teams engage with civil society organizations, academics, labour unions and local experts during country missions, not only to explain Fund thinking, but also to "gather information to better understand social needs and the political economy" (p. 36).

This puts an obligation as well on civil society in developing countries to engage with the Fund, and indeed with their own finance ministries. To this end, a noteworthy initiative was undertaken by the Global Coalition for Social Protection Floors, in a joint program in 2019-2023 with ILO and UNICEF that the European Union funded to help train civil society and trade union members in four countries on issues of government budgeting and other aspects of public financial management, precisely so they might engage more effectively with their government administrations and legislators.[110] This is an initiative that might well be emulated.

A separate issue that the Fund does not raise is, not so much collaboration, but sending messages to another class of stakeholders. That is, it may be said that it is not possible to tackle the social agenda without exerting more influence on commercial actors, whether it be for increasing fiscal space through fairer taxation of firms, including in the health sector, or in protecting public and common goods for health from commercial exploitation and undue commercialization. Addressing supply and demand side commercial practices that undermine health and health equity in the management and distribution of public and common goods for health are also essential to consider in social policies for well-being.

Finally, it will be interesting to monitor how the new IMF policy plays out, how much IMF programmes move toward the priorities of human rights driven agencies, as opposed to the more familiar terrain of the World Bank, to what degree social spending – whether social protection or the wage bill of teachers, nurses and other service providers or their pensions – is protected during recovery programmes, to what extent taxes on the part of the population and companies that can afford to pay more do pay more, by diversifying sources of taxation away from regressive consumption taxes towards progressive income and wealth taxes, to how much external creditors are made to contribute their fair share to return the country to debt sustainability. While there is reason to fear that "what happens in Washington, stays in Washington," the IMF's new directives can become a significant reform. If they receive sufficient international attention, the staff will feel impelled to implement them and the Executive Board will feel the need to endorse them in staff assessments and programmes for member countries.

> **Policy challenges**: The policy challenges are embedded in the discussion above. Should FfD4 endorse, encourage and pledge Member State cooperation in the new era of collaboration among international institutions and with civil society regarding macroeconomic policies and social spending? FfD4 would not so much make a new international policy, as mark a major agreed redirection of it.

[110] Chandranshu et al. (2023), *Bridging the Divides: Strengthening Civil Society Advocacy Networks for Universal Social Protection: Experiences from Cambodia, Nepal, Senegal, and Uganda, Global Coalition for Social Protection Floors*. June (https://www.socialprotectionfloorscoalition.org/wp-content/uploads/2023/11/2023-Bridging-the-Divides_GCSPF_SPPFM-learning-report.pdf).