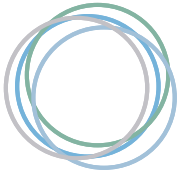


Committee for
Development Policy
POLICY NOTE

**Development Policy
and Multilateralism
after COVID-19**





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UNITED NATIONS
JULY 2020

About Committee for Development Policy

The Committee for Development Policy (CDP) is a subsidiary body of the United Nations Economic and Social Council (ECOSOC). It advises the Council on a range of issues related to development policy and sustainable development, including periodically reviewing the criteria for and composition of the least developed country (LDC) category. The 24 members of the CDP are nominated by the United Nations Secretary-General in their personal capacity and are appointed by ECOSOC for a period of three years. Membership is geared to reflect a wide range of development experience as well as geographical and gender balance. The Secretariat of the CDP is part of the Economic Analysis and Policy Division (EAPD) of the United Nations Department of Economic and Social Affairs (UN DESA). More information can be found on <http://cdp.un.org/>.

This CDP Policy Note assembles analysis by CDP members and co-authors on different angles of the COVID-19 crisis and the challenges and opportunities it presents for development policy and multilateralism.

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Foreword

The COVID-19 pandemic has undeniably added to the challenges of meeting the Sustainable Development Goals. At the same time, it has made it even more evident that meeting the Goals in all countries—developing and developed—is a matter of urgency. The pandemic has also sharpened our awareness of global interdependence and of the importance of our collective pledge to leave no one behind. The profound changes that are needed in our economies and societies demand new ways of thinking about development policy and multilateralism.

As a subsidiary body of the Economic and Social Council (ECOSOC), the Committee for Development Policy (CDP) is a channel for innovative thinking within the United Nations system. It brings together experts from all over the world who are driving new ideas and research from within academic and other institutions. This volume contributes to the ongoing efforts to build back better by offering both a collective view by the CDP, and contributions by individual CDP members, on different aspects of the pathway towards a sustainable, equitable and resilient future in the wake of the pandemic. The document addresses, among other issues: new ways of designing the relationship between governments and private actors that puts public interest at the center; principles and concrete ideas for a multilateral response to COVID-19 as well as for a new multilateralism going forward; and how to respond to COVID-19 in a context of severe inequalities, including gender-based inequalities.

We hope the ideas in this document will help in the design of national and multilateral solutions to overcome not only the impacts of COVID-19, but also the longstanding challenges that have kept us from advancing towards equality and sustainability.



Liu Zhenmin
Under-Secretary-General for Economic and Social Affairs
United Nations
June 2020

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Explanatory notes

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The term “country” as used in the text also refers, as appropriate, to territories or areas. The designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgment about the stage of development reached by a particular country or area in the development process. The views expressed in this publication are those of the authors and do not necessarily reflect the opinions and policies of the United Nations.

The following abbreviations have been used:

CDP	Committee for Development Policy
GDP	gross domestic product
IMF	International Monetary Fund
LDCs	least developed countries
LLDCs	landlocked developing countries
NGOs	non-governmental organizations
OECD	Organisation for Economic Co-operation and Development
PPE	personal protective equipment
R&D	research and development
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SIDS	Small Island Developing States
TRIPs	Trade-related Aspects of Intellectual Property Rights
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
WHO	World Health Organization
WTO	World Trade Organization

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1 Originally published in the Future Development blog, Brookings Institution, 26 March 2020.

2 Originally published in Project Syndicate, 8 April 2020.

3 Originally published in the OECD Development Matters series on Development in Transition, 23 April 2020.

4 Full text originally published in South-South Galaxy, April 2020.



Chapter I

DEVELOPMENT POLICY AND MULTILATERALISM AFTER COVID-19

by the Committee for Development Policy

The global COVID-19 pandemic is plunging the world into a socio-economic and financial crisis of an unprecedented scale, in addition to the acute health crisis. Many of the gains achieved under the banner of the Sustainable Development Goals (SDGs) are under threat. The crisis has exposed and exacerbated vulnerabilities and inequalities in both developing and developed countries, deepening poverty and exclusion and pushing the most vulnerable even further behind. This is a watershed moment. A sustainable, equitable and peaceful future hinges on the right national and international policy decisions.

For many, the impacts of this crisis are more tangible—given their immediacy and proximity—than the similarly severe damage and threats of climate change or the persistent plight of poverty, hunger and insecurity from which large numbers of people suffer chronically. Even before the pandemic, inequalities in income and multiple other dimensions of well-being, including security of employment and exposure to violence and crime, were rising. The abundant scientific evidence of the catastrophic potential of climate change contrasted sharply with the weak global response. Failure to address these mutually reinforcing problems was pushing people behind and threatening to reverse the already insufficient advances on the 2030 Agenda.¹

COVID-19 forces a collective lucidity on the depth of global interdependence; on the fact that the world is only as resilient as the least resilient country and person; and that in a context of widespread vulnerability, we are reaching tipping points in different dimensions—social, economic and environmental.^{2,3} This moment of clarity must be taken advantage of to effectively reboot development towards the people-centric, inclusive, rights-based, participatory development envisioned in the 2030 Agenda for Sustainable Development.

There could be an inclination in the current context to use the COVID-19 crisis as a justification for failing to meet the SDGs and not

¹ United Nations, Committee for Development Policy (2020), Report on the twenty-second session (24-27 February 2020), Economic and Social Council, Official Records, Supplement No. 13, *E/2020/33*.

² Marc Fleurbaey (2020), *We are all in this together? More than you think*, 6 April.

³ Arunabha Ghosh (2020), Multilateralism for chronic risks. See page 29 of this Policy Note.

implementing the Paris Agreement on climate change. The response must instead be to put the SDGs first and foremost, building equal and inclusive societies that are resilient in the face of future pandemics, climate-related disasters and other acute and chronic challenges the world will face within our lifetimes and those of the next generations⁵. Now is the time to step up international cooperation and strengthen mechanisms that will enable the poorest countries to address the immediate health crisis, stem its social and economic impacts and accelerate SDG implementation.

COVID-19's ruthless sweep across the world demands a bold multilateral response. There are immense inequalities in the capacities of governments to respond both to the health emergency and to the social and economic fallout. The social and economic damages of COVID-19 will be particularly pronounced in countries with weaker health systems, higher levels of debt, less fiscal space to organize stimulus packages, less easy access to international liquidity, and weak productive capacity and associated low incomes. A strong commitment is needed to maintain open and free trade; to keep open borders, with restrictions only for clear health reasons; and to help the poorest countries, particularly least developed countries (LDCs), weather the economic shock they are facing.⁴ Measures already under way are encouraging. These include those under the United Nations health response, the COVID-19 Global Humanitarian Response Plan, the United Nations global framework for the immediate socioeconomic response to COVID-19, and the G20 debt moratorium. The response should also include an issuance of the International Monetary Fund's (IMF) Special Drawing Rights by at least \$500 billion, and for the advanced economies to put their shares into a trust fund to finance programs in emerging market and developing economies;⁵ the establishment of a multilateral currency swap facility within the IMF; debt restructuring and greater debt relief for developing countries; and coordinated use of capital controls. Critically, in the direct response to the pandemic, rapid universal access to quality-assured vaccines, treatments and diagnostics must be ensured in all countries, with need prioritized over the ability to pay, in line with the 2030 Agenda pledges of leaving no one behind and reaching the furthest behind first.⁶

The COVID-19 crisis only strengthens the call for a new multilateralism in which global rules are calibrated towards the overarching

4 United Nations, Committee for Development Policy (2020), op.cit.

5 Kevin P. Gallagher, William R. Kring, and Jose Antonio Ocampo (2020), *Calibrating the COVID-19 Crisis Response to the SDGs*, 11 April; Kevin P. Gallagher, Jose Antonio Ocampo and Ulrich Volz (2020), *IMF Special Drawing Rights: A key tool for attacking a COVID-19 financial fallout in developing countries*, Future Development/Brookings, 26 March (reprinted on page 34 of this Policy Note); Jose Antonio Ocampo, Kevin Gallagher and Ulrich Volz (2020), *It's time for a major issuance of the IMF's Special Drawing Rights*, Financial Times Alphaville, 20 March.

6 Oxfam International (2020), *Open Letter: Uniting Behind a People's Vaccine Against COVID-19*, 14 May.

goals of social and economic stability, shared prosperity and environmental sustainability (see the box on “A new multilateralism” on page 5) and where chronic risks are recognized and addressed, for example, through the risk pooling reserve fund proposed further in this document, enabling the protection of the most vulnerable countries.⁷

At the national level, the COVID-19 crisis gives governments a unique opportunity to set the terms of public, private and third sector interaction, making the SDGs the missions to achieve and adopt innovative approaches to policy, regulation and partnerships. Fundamentally, the COVID-19 crisis is an opportunity to re-evaluate how public and private sectors collaborate to shape a better kind of capitalism.⁸

Beyond the immediate crisis and the need to strengthen social protection systems and provide specific support for the poor and vulnerable during the crisis, governments must reclaim their role in supporting the development of productive capacities to ensure structural transformation and resilience. The COVID-19 crisis is laying bare how too many countries cannot take care of the basic needs of their own citizens (e.g., medicines, personal protective equipment, ventilators) and how export-oriented economies cannot rely on other countries to supply basic medical supplies or roll-over finance when they need it the most. Strategic industrial strategy can help build structural resilience and capacity in manufacturing food, health services, energy and financial services. The more than 400 national, regional and multilateral development banks around the world can play a vital role not only in minimizing economic decline and supporting recovery but also in financing structural transformation, helping to lay the foundations for a financial model that is conducive to an equitable and greener economy.⁹ The benefits of globalization will be enhanced in the longer run if the multilateral system and national industrial policies support the development of productive structures that address the great challenges faced by the global community.¹⁰

Nationally and internationally, action to address both the COVID-19 health crisis and its social and economic implications must be guided by the principles of the 2030 Agenda for Sustainable Development and respect the pledge to leave no one behind and safeguard human rights. Approaches that establish economic recovery and the protection of health in opposition

⁷ Arunabha Ghosh (2020), op. cit.

⁸ Mariana Mazzucato (2020), A challenge-led response that puts the economy and society's challenges on the same footing (see page 7 of this Policy Note); *Capitalism's Triple Crisis*, Project Syndicate, 30 March; and The COVID-19 crisis is a chance to do capitalism differently, *The Guardian*, 18 March.

⁹ Ibid.

¹⁰ Kori Udovički (2020), The fragility of global value chains: more reason to guide and develop productive capacity. See page 11 of this Policy Note.

to each other can create additional challenges to formulating effective responses by distorting policy discussions and leading to polarization.

The response must include special measures to address the particularly high burden of the crisis on women and girls. Women compose the vast majority of health and care workers, paid or unpaid; are subject to domestic violence that has been reported to have increased over periods of lockdown; and, are overrepresented in informal, more vulnerable and low-paying jobs. The crisis risks halting and even reversing progress on gender equality. Response to the crisis needs to include women in decision-making.¹¹

Just over a decade ago, in the context of the economic and financial crisis that began in 2008, there were efforts towards what former United Nations Secretary-General Ban Ki-moon referred to as a global green new deal. The relaunching of the global economy was an opportunity to redirect investment towards a greener and more equitable future. Efforts were insufficient then, and business-as-usual prevailed in the response. An opportunity was lost to set the world on a sustainable and more equitable development path. Having learned from that failure, now is the time for strong, concerted multilateral and domestic action towards a profound change in the direction of green and equitable global development. The articles in this Policy Note show pathways in that direction.

11 Diane Elson and Amina Mama (2020), COVID-19 and gender inequality. See page 21 of this Policy Note. Adriana Abdenur (2020), Women and the Pandemic in Latin America and the Caribbean: Gender and Biosecurity. *Boletín Colaborativo Amassuru No. 1, Marzo/Abril 2020.*

A new multilateralism

The CDP supports five principles to guide the design of a new multilateralism. Formulated before the COVID-19 crisis, these principles remain relevant:^a

- I. Global rules should be calibrated towards the overarching goals of social and economic stability, shared prosperity and environmental sustainability and protected against capture by the most powerful players;
- II. States share common but differentiated responsibilities in a multilateral system built to advance global public goods and protect the global commons;
- III. The right of States to policy space to pursue national development strategies should be enshrined in global rules;
- IV. Global regulations should be designed both to strengthen a dynamic international division of labour and to prevent destructive unilateral economic actions that prevent other nations from realizing common goals;
- V. Global public institutions must be accountable to their full membership, open to a diversity of viewpoints, cognizant of new voices and have balanced dispute resolution systems.

Issues that need to be urgently reformed are:

- a) Rules that limit the capacity of countries to implement progressive tax systems, mobilize fiscal resources, manage international capital flows and curb illicit financial flows;
- b) Provisions in global, regional and bilateral trade and investment agreements that limit the ability of countries, in particular least developed and other developing countries, to adopt policies to develop their productive capacities and industries in a way that would enable them to move towards equitable and sustainable development;
- c) Intellectual property rights rules that limit access to or increase the cost of technology related to essential goods, including medicines and inputs for smallholder farmers;
- d) The current fragmentation of environmental multilateralism, including the climate change architecture, which is incompatible with the interdependencies between global environmental problems. The environment should not be relegated to a secondary status in the multilateral system;
- e) Governance arrangements that do not guarantee adequate representation of developing countries in international institutions.

Source: United Nations, Committee for Development Policy (2020), Report on the twenty-second session (24-27 February 2020), Economic and Social Council, Official Records, Supplement No. 13, *E/2020/33*, chap. 2.

^a These five principles were originally formulated through a series of consultations led by the United Nations Conference on Trade and Development (UNCTAD) and the Global Development Policy Center at Boston University. The results are reflected in Kevin Gallagher and Richard Kozul-Wright (2019), *A new multilateralism for shared prosperity – Geneva Principles for a Global Green New Deal*.

Chapter II

RE-EMPOWERING GOVERNMENTS FOR GREEN, EQUITABLE AND RESILIENT DEVELOPMENT



A challenge-led response that puts the economy and society's challenges on the same footing

by *Mariana Mazzucato**

The world is in a critical state. The COVID-19 pandemic has spread across countries, with a scale and severity not seen since the devastating Spanish flu of 1918. To contain both the health crisis and the consequential economic one, we need coordinated global action, and to draw on the strong capacity from public and private institutions to put the public interest at the heart of much-needed collaborations.

While States are injecting stimulus into the economy, and stepping up in unprecedented ways, the intervention needs more than just money. It needs a market shaping lens that goes beyond the one economic theory that has predicated since the 1980s, in which the role of government is narrowly reduced to just 'fixing market failures' and then getting out of the way to let the private sector engage in the market, and in innovation activity.¹² Market shaping means instead that the State is active in governing both the supply side of the economy (investments) and the demand side (government as purchaser) so that citizens benefit.

Indeed, the idea of 'key' or 'essential' worker applied to social care workers, health care workers, supermarket clerks and delivery drivers in the COVID-19 crisis can be extended to the entire economy. We must understand how to better identify and value the key/essential parts of the economy, and build a truly symbiotic and mutualistic partnership between the public and private sectors, that help us not only ensure economic growth and an economic recovery, but direct that growth towards the greatest challenges of our time.

* Mariana Mazzucato is Professor of Economics of Innovation and Public Value and Director of the University College London (UCL) Institute for Innovation and Public Purpose (IIPP). She is a member of the CDP.

12 Mariana Mazzucato (2016), From Market Fixing to Market-Creating: A new framework for innovation policy, Special Issue of Industry and Innovation: Innovation Policy – can it make a difference?, 23 (2).

The crisis is throwing multiple problems at us, both medical and social. Loneliness of people in lockdown (or conversely situations where self-isolation is an impossibility), the digital divide for students without the technology and expertise in their homes, and the production of enough personal protective equipment (PPE) and testing to make sure we get ‘ahead of the curve’. It is also forcing us to confront the dramatic inequalities of our time. Many of the ‘key workers’ are amongst the lowest paid in our communities, and the most vulnerable to exploitation by unscrupulous employers. In countries where employment is predominantly informal, COVID-19 will put huge pressure on already vulnerable populations; with worries that starvation may cause more suffering than the virus itself.

Key will be finding a way to use these challenges to be part of the recovery, or, as it can be better framed, the economic ‘renewal’ that we need to achieve. An outcomes-based challenge-led economy can benefit from a mission-oriented approach that recognises that growth and innovation have not only a rate but also a direction.¹³ That direction can be set by ‘purpose’ to solve a problem (or achieve a mission) that is inspirational, catalysing investment by multiple sectors in the economy.

Going to the moon was not just NASA, it was also massive innovation by firms in the electronics, material, nutrition and software sectors. Pivotal was government setting a clear mission, and then using the full power of its tools—from grants, loans and procurement—to nurture bottom-up experimentation to solve the many problems along the way. The same can be done today. Redesigning procurement so that it can help fuel innovation around the many social, organisational and technological challenges we are facing can help fuel not only solutions but also economic growth. At the Institute for Innovation and Public Purpose (IIPP) which I founded at University College London in 2017, we have worked with governments around the world on this very issue of transforming societal challenges into missions for investment, including the UK Government’s **mission-oriented Industrial Strategy**,¹⁴ and the European Commission’s Horizon Europe missions.¹⁵

This type of investment in innovation does not come from the risk-averse private sector: we need long term, public, patient finance, which acts

13 Mariana Mazzucato (2017), *Mission-Oriented Innovation Policy: Challenges and Opportunities*, IIPP Working Paper WP 2017-01, University College London: Institute for Innovation and Public Purpose.

14 University College London, Commission on Mission-Oriented Innovation and Industrial Strategy (MOIIS) (2019), *A Mission Oriented UK Industrial Strategy*. IIPP Working Paper 2019-04, University College London: Institute for Innovation and Public Purpose.

15 Mariana Mazzucato (2018), *Mission-Oriented Research and Innovation in the European Union*, Brussels: European Commission.

as a lender of first resort, and mobilises private finance over time.¹⁶ Markets will not move in a green, inclusive or sustainable direction by themselves: public policy and investment are key to shaping the way and providing long-term business confidence. Just as the IT revolution would not have happened without sustained early-stage investment by the State, a COVID renewal will not happen in a green and equitable direction without market-shaping activity from government.¹⁷

The COVID crisis is an opportunity to re-evaluate how public and private sectors collaborate to shape a better kind of capitalism. This is the time to walk the talk on stakeholder capitalism,¹⁸ and direct dialogue with trade unions and other civil society organisations should provide social support. In the COVID-19 pandemic, governments have the upper hand for the first time in a generation.¹⁹ They should use this to renew their economies and societies in a just and sustainable direction, and to ensure the resilience that will be necessary against future crises: COVID-19 will not be the last.

This calls for the strategic use of conditionalities in bailouts to shape markets for a more healthy, innovative and sustainable economy. When conditionalities are done well, they align corporate behaviour with the needs of society. In the short term, this focus on preserving employment relations during the crisis and maintaining the productive capacity of the economy, whilst avoiding extraction of funds to financial markets and executive compensation. In the long-run, it is about ensuring that business models lead to more inclusive and sustainable growth. Bailouts to the airlines can make sure that there is a commitment to lower their future carbon emissions and to secure jobs (as is being negotiated in Austria, France and the United States at the time of writing), and bailouts to companies that have used tax havens and/or excessively focussed on share-buy-backs, should be conditional on a change of behaviour that rewards value creation over value extraction (see Denmark for the conditions on tax havens). Governments must prioritise public value creation,²⁰ not private benefit, in their bailout conditions: this is a learning we need to take from

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- 16 Mariana Mazzucato, and L. Macfarlane (2019). Patient Finance for Innovation-Driven Growth, IIPP Policy Brief 01, University College London: Institute for Innovation and Public Purpose.
- 17 Mariana Mazzucato, and M. McPherson (2019). The green entrepreneurial state: What the Green New Deal can learn from the IT revolution, IIPP Policy Brief 08, University College London: Institute for Innovation and Public Purpose.
- 18 Mariana Mazzucato (2019), *Let's get real about purpose*, Project Syndicate. 14 January.
- 19 Mariana Mazzucato (2020), The COVID-19 crisis is a chance to do capitalism differently, *The Guardian*, 18 March.
- 20 Marian Mazzucato, and R. Kattel (2019), *Getting serious about value*. IIPP Policy Brief 07, University College London: Institute for Innovation and Public Purpose.

the response to the 2008 financial crisis, in which many governments did not prioritise public value, but instead structured unconditional bailouts, damaging long-term austerity policies.²¹

And in producing the needed tests, medicines, and vaccines, governments must take responsibility to make sure that such production is governed in ways that benefit the common good. Any coronavirus vaccines should be accessible and affordable on a global scale,²² and digital platforms—being used more than ever during lockdown—must be governed so they do not create even greater monopoly power amongst the top tech companies.

Critically, now is the time for the green deals being shaped across the world to be put into action as green renewal strategies. The twin challenges of recovery from the coronavirus economic shock and a just transition to a low-carbon economy are why a ‘Healthy Green Deal’ is so essential as the direction for our COVID-19 economic renewal. These are not separate challenges, but deeply interlinked, and our response to COVID-19 will shape our resilience to the impending climate emergency. COVID-19 has prompted a bold state response, and to be successful, a Healthy Green Deal will require a rethink on a similar scale of how governments negotiate with business. Strategies in which risks and rewards are shared fairly among all actors are vital for fostering the dynamic and sustainable investments that are needed across the long and uncertain process of innovation, and for producing a symbiotic, collaborative relationship between the public and private sectors.²³

Civil society, too, is a vital part of the innovation picture. In our most recent publication for the European Commission, *Governing Missions in the European Union*,²⁴ the IIPP addressed the importance of engaging citizens in the innovation process, both in terms of defining the direction of transformation, but also in its implementation and evaluation. In the context of the green deal, in this sense, the ‘deal’ part of the Healthy Green Deal being developed is just as important as the ‘green’ and ‘healthy’ parts.

21 New Statesman (2020). *Top Economists warn the UK not to repeat austerity after the COVID-19 crisis*. New Statesman, May.

22 Mariana Mazzucato, and Els Torrelee (2020), *How to develop a COVID-19 vaccine for all*, Project Syndicate, 27 April.

23 The Institute for Innovation and Public Purpose (IIPP) has explored this topic in depth in a study of innovation in the pharmaceutical sector. See, University College London Institute for Innovation and Public Purpose (2018), *The People's Prescription: Reimagining health innovation to deliver public value*. IIPP Policy Report 2018-10, London: IIPP, Global Justice Now, Just Treatment, StopAIDS.

24 Mariana Mazzucato (2019), *Governing Missions in the European Union*, Brussels: European Commission.

The fragility of global value chains: more reason to guide and develop productive capacity

by Kori Udovički*

In defining the 2030 Agenda for Sustainable Development, the global community was acutely aware of the need to confront the compounding challenges of deepening global inequalities, accelerating climate change and other forms of environmental degradation. The mutual interconnectedness of these challenges has also been recognized. However, there was still no consensus on the role that the deliberate steering of structural change could play in overcoming them. Now the COVID-19 pandemic has confronted the world with one more powerful reason for that role to be a central one. It has woken the world up to the fact that the global division of labour rests on value chains that have proven too fragile in the face of extreme but inevitable circumstances, and at great cost. It has also become more evident than ever that multilateral action and national policies need to go beyond corrective action. Building productive capacities and reshaping the global division of labour to close all the gaps need to be put at the centre of the 2030 Agenda if the global community is to thrive, not fracture, under the cumulative pressures of these challenges.

The SDGs do establish a clear linkage between productive structures and environmental sustainability, calling for the guiding of structural change—i.e., market intervention—to reduce and reverse the negative impact that current production and consumption practices have on the environment. In international development circles it is well understood and accepted that the operation of market forces can and should be deliberately framed so as to accomplish environmentally sustainable outcomes. If progress is not faster, it is not for lack of expert consensus of what needs to be done.

Structural change also needs to be guided and accelerated if we are to bridge the huge productivity gap in the global division of labour. Productive capacity is built through investment, and while the bulk of investment is best guided by market forces, it is largely the investments made by governments

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that frame its potential, by giving it direction:²⁵ What a nation makes and how it has an effect not only on the income it is able to earn today but also on its longer-term development potential.²⁶ For example, a country producing metal or electronic parts has a better start on the path of the cumulative learning that leads to high-income earning know-how than a country producing textiles (all else being equal). Hence, a government's choices about not only the level, but the quality and sectoral sequencing of investments in education, acquisition of know-how, or physical and institutional infrastructure have disproportionate long-ranging effects. So does the conduct of more direct industrial policies.

Yet another reason for deliberate action is that while global-scale value chains give rise to increased global productive efficiency, they also give rise to monopoly power and its abuse. At a minimum, this has contributed to the shrinking share of income earned by labour in the production segments of global value chains, the ones typically located in less developed nations.²⁷ Moreover, as always, monopolistic power is likely to ultimately reduce the efficiency of the value chain overall. Finally, increases in productivity are questionable accomplishments when they rest on the ability of powerful players not only to affect markets, but also consumer preferences.

Now, the costly fragility of global value chains uncovered by the COVID-19 pandemic needs to be added to the list of reasons for deliberate policies to steer structural change. One aspect of this fragility derives from the high level of centralization of production that some value chains rely on: imports of telephone apparatus²⁸ by the United States in February 2020 stood a third lower than a year earlier, well before its lockdown started, owing to the lockdown in China which produces the bulk of the equipment or components; Jaguar took to transporting essential components in suitcases once conventional routes became interrupted.²⁹ Another aspect of this fragility derives from the fact that in times of shortage the value

²⁵ This reflects the conceptualization in Mariana Mazzucato (2020), *A challenge-led response that puts the economy and society's challenges on the same footing*, on page 7 of this Policy Note.

²⁶ Ricardo Hausmann, Jason Hwang and Dani Rodrik (2007), *What you export matters*, *Journal of Economic Growth*, vol. 12(1), pp. 1–25.

²⁷ UNCTAD (2018), *Trade and Development Report 2018: Power, Platforms and The Free Trade Delusion*, Sales No. E.18.II.D.7, Geneva. See also, Joonkoo Lee, and Gary Gereffi (2015), *Global value chains, rising power firms and economic and social upgrading*, *Critical Perspectives on International Business*, vol. 11, Issue 3/4, pp. 319–339.

²⁸ These products may include cordless and wire telephones (except cellular), PBX equipment, telephone answering machines, LAN modems, multi-user modems, and other data communications equipment, such as bridges, routers, and gateways.

²⁹ Adnan Seric, Holger Gorg, Saskia Mole and Michael Windisch (2020), *Managing COVID-19: How the pandemic disrupts global value chains*, UNIDO Industrial Analytics Platform, April.

of some goods reveals itself to be drastically higher than their usual price. Governments across the global spectrum have been taking what measures they have found available, including export restrictions and aggressive international procurement practices, to secure strategic goods, such as critical medical supplies and food, in the context of the crisis.

The world is now leaning over the abyss of spiralling nationalism and protectionism. Whether we fall into it, or not, depends on what lessons exactly we do learn from the crisis. It is unfortunate but unsurprising that under the current system some have reneged on multilateral and free trade commitments in the face of acute national vulnerability. All too easily these commitments appeared to come into conflict with the duty of governments to ensure social and economic protection. However, the multilateral system can secure the benefits of globalization and interdependence while providing for greater productive decentralization. This would go together with a more equitable division of labour.

To protect global economic integration, we need to recognize that globalization and free trade are not the ones to blame for the deepening challenges of inequality, environmental degradation, and the newly evident risks of interdependence. Rather, the culprit is their interpretation as the obligatory absence of deliberate action aimed at steering structural change (by multilateral actors, national governments, and/or other collective actors). This interpretation, in turn, is based on the view that markets, and only markets, “know best”. Yet, the COVID-19 crisis has been an object lesson in the untenability of the market principle that a dollar earned by, for example, somebody’s ability to influence others’ preferences is equivalent to a dollar earned by another person’s ability to produce food.

The global community needs an open-minded assessment of the many ways in which productive capacity and structures should and can be shaped to accomplish the SDGs. Dominant players in the international development community are finally overcoming the premise that governments cannot know enough to justify the conduct of industrial and other policies guiding structural change. On the contrary, governments and the global community need to invest in this knowledge.

However, we have yet to embark in a wholehearted and systematic effort to learn and exchange knowledge and experience about the conduct of policies that guide structural change. What are the options to accomplish greater environmental sustainability as well as a closure in global productive capacity gaps? How are these gaps linked to the fragility of global value chains? How do we weigh the risks and benefits of alternative structures, and alternative paths in building them? The answers to these questions should sit at the heart of the international development community’s action in support of the accomplishment of the SDGs.



Chapter III

ADDRESSING INEQUALITY AND PUSHING NO ONE BEHIND IN THE RESPONSE TO COVID-19

COVID-19 and global inequality

by *Sakiko Fukuda-Parr**

Interview for Global Research Program on Inequality (GRIP)³⁰

The discourse on COVID-19 has taken on isolationist framing, closing national borders as the first line of defence, and building resilience by building up our national resources. But the pandemic is a fundamentally global issue and one that is exposing the inequalities that already exist in today's society. This pandemic, which comes on top of the ongoing global crises of inequality and climate, is affecting people in very unequal ways. We talk about being in this together, but there are wide disparities in how the burdens are experienced. For example, social distancing can be punitive for some households.

The crisis of inequality is a structural problem of our age. Inequalities have been rising since the beginning of the 21st century, clearly linked to the neo-liberal economic model. This is creating societies that are very troubling in terms of the capacity to provide equitable opportunities for everybody. Data from the World Inequality Lab show that gaps have been rising, with the income share of the bottom 50 per cent remaining stable or declining, and that of the top 1 per cent and the top 0.1 per cent increasing. In that kind of a world, what kind of social solidarity can you have? How can you pretend to have every child born with the same kind of opportunities for achieving their potential? Inequalities have economic costs. For a long time, economists believed that the Kuznets hypothesis of the inevitability of inequality rising with economic growth. That has been challenged and we

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30 Full interview conducted on 30 April 2020 may be accessed at <https://gripinequality.org/interviews/>.

know now that inequality can undermine economic stability and become a threat to economic prosperity.

We need to look at the response to the pandemic in this context under a logic of public health and the human right to health. Public health is a public good—your health affects my health, as pandemics like this one make abundantly clear—and does not respond well to the logic of the market. Essential resources—hospital beds, ventilators, personal protective equipment—are in short supply. The logic of the market is for agents to bid each other up. This has meant states within the United States, for example, compete against each other to acquire the necessary equipment, rather than the coordination and priority-setting in the allocation of these scarce resources that would be essential in times of crisis but goes against the notion of a free market. The logic of public health has to apply to the international level as well. If we jump to issues that are more global, we are going to be investing in the development of vaccines. Who is going to develop them? Who is going to be able to sell them? At what price and with what kind of intellectual property protection? We need international cooperation to make sure that vaccines are universally available, to all people and all countries.

A number of structural challenges affect how the poorest countries are able to react to the pandemic. In terms of international cooperation and governance, there have been positive experiences such as the cooperation among scientists, but better international coordination is needed to support developing countries on economic issues. Much more progressive debt relief is needed for developing countries, which requires action by governments of the creditor countries and the parties that dominate decision-making in organizations like the International Monetary Fund (IMF) and the World Bank. On issues like debt crisis, and access to vaccines, treatment and diagnostics, we need international coordination and policy agreement that takes this public emergency out of the logic of the market. At the moment the system of financing research and development (R&D) in the health sector is structured around the institutions of the market and regulated by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) of the World Trade Organization (WTO), which ironically enforces patents, which are not an instrument of the free market but rather an instrument to secure monopolies for private investment in R&D. Developing countries that are debtors as opposed to creditors, users of technology as opposed to developers, need a greater voice in the institutions that write these rules. There also needs to be more cooperation with the private sector. More broadly, there is a need for new kinds of multilateralism and decision-making processes that favour the voice of the poorer countries while allowing for consensus and buy-in from corporations.

Imagining the world to come³¹

The COVID-19 pandemic is deepening inequalities. The digital divide, for example, means that even in a setting such as New York, there are large disparities in the access students have to internet connection and equipment. Students from lower-income backgrounds risk significant disadvantages. More importantly, reliance on digital technologies has much more deeply embedded systemic effects. Given the digital divide, the greater reliance on telemedicine means a deepening of inequalities in access to health. On another level, there are biases built into the collection of data through the big data that drives artificial intelligence systems. These inequalities that are structurally embedded in our societies end up shaping social outcomes.

Inequality is entrenched but is not immutable and depends very much on the kind of social institutions we have. For instance, the health system in New York includes three categories of hospitals—private hospitals, public hospitals and safety-net hospitals—that service different population groups. The incidence of COVID-19 is highest in the area of the city most served by the safety-net hospitals that are the least well-provisioned, least well-equipped, with the least resources; an area where low-income and minority groups are concentrated. It has become an issue of public debate that populations that are disadvantaged, vulnerable or already marginalized are at a disproportionately higher risk of contracting the illness, suffering from it severely and dying. Research confirms that health is not just a product of biology and access to medications, but it depends on the conditions of life and work. The deeper social structures are driving inequalities.

Beyond the health sector there are the economic consequences to the pandemic. The loss of income, jobs, and disruption of education is also disproportionately borne by the marginalized groups. For example, with reduced demand in the garment industry, the burden of cancelled orders has fallen on sub-contractors and workers, not the big brands. There has been a large mobilization of concerned people and civil society organizations to ensure that factories are paid, but not all of them have been. In the latest assessment, about half of the orders were not going to be paid. The costs are borne disproportionately by people at the very bottom of the value chain who can least afford to absorb the shock. This is not just a short-term phenomenon but a longer-term structural issue that could make the future more unequal. The fact that the loss is borne by the people at the bottom is due to the social institutions that we have, of political bargaining and power asymmetries. In the case of the garment industry, in many cases contracts had provisions for cancellations, but buyers declared force majeure. They have advantages in terms of both money and expertise, including the

capacity to hire international lawyers to defend these decisions. In this market, the least well-resourced players are the least able to negotiate for their rights. This is an issue of human rights. We need institutions that protect those rights and provide a safety net, or we will end up with a more unequal world than we have today.

Could the pandemic motivate real change? We can learn lessons from other crises. The HIV/AIDS crisis led to a mobilization to protest the high prices of the antiretrovirals. Civil society groups and governments of the global south were able to build alliances with concerned citizens and develop a sense of solidarity based on the basic principles of human rights and the priority for protecting and realizing human rights. It was a moment that motivated legislative change and certain kinds of movements in international trade agreements about how the TRIPS Agreement and flexibilities should be interpreted and implemented. As a result, some of the essential medicines became much more accessible. But there hasn't been enough of a systemic change. Provisions made for a particular disease or medicine are not enough. Today we are again discussing who will be setting the prices of the vaccines when they are developed. Who will pay for the development of the vaccines? Even though it involves taxpayer money, as a number of governments are pledging to fund the development of vaccines, it is still unclear if there are provisions in the agreements to ensure vaccines will be priced at an accessible level for low-income people and countries.

Meaningful change after COVID-19 requires delinking challenges like health and preventable death from the logic of the market. These are not commodities that you trade away. Human rights, particularly economic and social rights, the right to health and the right to life, to a decent wage, to fair working conditions, to education, these economic and social rights cannot be traded away. Human rights are not on the same plane as money and the economy. Policy analysis needs to reflect that there is no contradiction between securing the right to life and health and securing a healthy economy. Many countries have had very sound economic performance while protecting health. In Japan, the robust economic growth from the 60s to the 80s was based on huge improvements in health and education standards. The same happened in the Republic of Korea and many other countries. These are not contradictory objectives. On the other hand, the institutions of the free market are not adequate to ensure that this complementarity materializes. You do need institutions and safety nets. You need to consider health as something that is not a private commodity but a public good. You cannot consider a vaccine to be a free market commodity like any other. In the last few decades, fewer and fewer companies were producing vaccines as they are not profitable. Yet they are essential public goods for health. We need public institutions to supply the public goods that the market will not provide.

I hope the pandemic will reveal the importance of solidarity within communities and countries, as well as globally. We are not only interdependent in terms of public health within our communities and countries but also across countries. This is a moment where international cooperation and international solidarity are essential.

Supplementary resources

COVID-19 and Global Inequality. Global Pandemics in an Unequal World webinar series. The New School.

Fukuda-Parr, Sakiko (2020). The Future of SDGs. In *The World After Coronavirus: A Pardee Center Video Series*. Boston University.

COVID-19 and gender inequality

by Diane Elson* and Amina Mama**

Men die more from the virus, women die caring

In terms of COVID-19 deaths, the emerging evidence is unsurprising. The virus does not respect borders; but its *effects* do reflect existing structural inequalities; higher for poor people than for rich people, higher for minority communities than for the majority, higher for older people, than for younger people, higher for those already suffering from ill health than for those enjoying good health. For reasons not yet clear, COVID-19 kills more men than women. So, beyond adding to the number of female-headed households, what other effects are the pandemic, and the responses to the pandemic, having on gender relations?

The enormous care burden that accrues from both the pandemic and the measures to contain it, are profoundly gendered. Women are carrying the burden and the toll at home and in the professional sphere.³² The health workers caring for those suffering from the virus are predominantly women, and in the West, there is a concentration of immigrant and minority health service workers. Globally, women make up 70 per cent of the health workforce and are more likely to be front-line health workers, especially nurses, midwives and community health workers. Women also predominate among ancillary workers in hospitals, such as cleaners, and those doing laundry and providing meals. Deaths from COVID-19 are high among these women who are on the front line.

In addition, unpaid care work is increasing, as governments close schools and order people to stay at home. With children out of school, and increasing numbers of family members who are ill, it is women and girls all over the world who are called upon to provide most of this unpaid care. Women—especially lower-income, immigrant and minority women—often have no choice but to combine more unpaid work with continuing paid work. Many cannot stay at home because they are essential workers in health and a wide range of other services that must continue to operate. Others are teleworking from home, many trying to look after children at the same time.

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32 United Nations (2020), *Policy Brief: The Impact of COVID-19 on Women*, 9 April.

Violence against women during lockdowns

Lockdown measures bring increased risks of violence to women within their homes. It is estimated that globally, prior to COVID-19, 243 million women aged 15–49 had experienced sexual and physical violence perpetrated by an intimate partner in the previous 12 months.³³ Many of those women are now trapped at home with their abusers, and more women are now at risk as health and money worries heighten tensions in cramped living conditions. Reports are emerging from all parts of the world of increased violence against women in locked down households, as much in high-income as in low-income nations.³⁴

Reported cases are likely to substantially understate the problem, because so many women are not in a position to report violence in the home. The United Nations Population Fund (UNFPA) estimates that, globally, there may be an additional 15 million cases of intimate partner violence for every 3 months the lockdown continues.³⁵ This is grim. It backs the demands of all the women's organisations calling for measures to facilitate better responses to abused women and families, notably the maintenance and expansion of all aspects of the services they provide, including medical, legal and healthcare advice and advocacy services, all of which are more than ever in need of resources.

The following measures can be taken: allocate more resources so the current services can be kept running; extend the current shelter capacity; strengthen helplines including through the use of messaging services and applications that can be used in a more surreptitious manner to avoid detection; raise awareness so that service providers, police and the judiciary fully recognise the link between COVID-19 lockdown and domestic violence; spread the message about where women can go for help; ensure support for grassroots women's organisations who work at the community level; place women and their vulnerabilities at the centre when framing policies and long-term solutions around social and economic recovery.³⁶ In many countries governments and civil society are already taking some of these measures.

Domestic violence is rooted in systems of misogyny and patriarchal power, but its prevalence is likely to be exacerbated by the stresses that come from precarious livelihoods, from dispossession and displacement, from the anxiety of competing in merciless markets, from being left behind

33 Ibid.

34 Ibid.

35 UNFPA (2020), *Impact of the COVID-19 Pandemic on Family Planning and Ending Gender-based Violence, Female Genital Mutilation and Child Marriage*. Interim Technical Note.

36 Sohela Nazneen (2020), *COVID-19 and domestic violence: Caring states?*, Effective States and Inclusive Development, 30 April.

and being pushed behind.³⁷ Studies of the Ebola outbreak in 2014; Zika in 2015–2016; and recent outbreaks of SARS, swine flu, and bird flu episodes, all found that these events had deep, long-lasting effects on gender equality and violence against women, effects that cannot be passed off as purely “domestic” and attributed only to power relations in the private sphere.

International cooperation

Redeployment and expansion of international development assistance is vital. In partnership with the European Union, the United Nations will use the Spotlight Initiative—the largest single international investment in ending violence against women and girls, to address the new challenges posed by COVID-19 and associated lockdowns.

However, addressing the challenges to gender equality posed by COVID-19 also requires forms of international cooperation that are not specifically targeted to gender equality. International cooperation to end conflict is critical: The United Nations Secretary-General has called for a global ceasefire to reduce the spread of COVID-19 and allow medical interventions and quarantining to take place.

There must be support for a large increase in public investment in public health care. African nations—a number of which are least developed countries—have learned hard lessons from their encounters with Ebola, Lassa fever, and Cholera about the importance of investment in primary health care systems, not only to address infectious diseases but also to strengthen other services. During the Ebola epidemic in Sierra Leone between 2013–2016, for example, more women died of obstetric complications than the infectious disease itself. There also needs to be investment in health education to counter the high level of misinformation and conspiracy theories flooding the global social media. Support for public investment in health should not come with conditions that require further outsourcing of health provision to large corporations. Support for the World Health Organization is more vital than ever, so the withdrawal of funding by the United States is a step in the wrong direction.

As well as health care, there must be support for public investment in other kinds of care: childcare; care for frail, elderly people; and care for those living with long-term illness and severe disabilities. During the period of lockdown, school feeding programmes could be replaced by distributing rations to households or providing vouchers that can be used in food stores. Schools could be kept open for children of essential workers, such as healthcare workers.³⁸

³⁷ Diane Elson (2019), *Push No One Behind*, *Journal of Globalization and Development*, vol. 9, Issue 2.

³⁸ United Nations (2020), *op. cit.*

There must also be international cooperation to develop a *People's Vaccine*, free to all humanity, as called for by Winnie Byanyima, Executive Director of UNAIDS, and supported by 140 world leaders and experts.^{39,40} The competitive market for access to protective equipment has already shown that poor nations are least able to afford vital supplies, even for frontline health workers. Byanyima calls for international cooperation that:

1. Ensures mandatory worldwide sharing of all COVID-19 related knowledge, data and technologies with a pool of COVID-19 licenses freely available to all countries. Countries should be empowered and enabled to make full use of agreed safeguards and flexibilities in the Doha Declaration on the TRIPS Agreement and Public Health to protect access to medicines for all.
2. Establishes a global and equitable rapid manufacturing and distribution plan—that is fully-funded by rich nations—for the vaccine and all COVID-19 products and technologies that guarantees transparent 'at true cost-prices' and supplies according to need. Action must start urgently to massively build capacity worldwide to manufacture billions of vaccine doses and to train and recruit the millions of paid and protected health workers needed to deliver them.
3. Guarantees COVID-19 vaccines, diagnostics, tests and treatments are provided free of charge to everyone, everywhere. Access needs to be prioritized first for front-line workers, the most vulnerable people, and for poor countries with the least capacity to save lives.

This kind of international cooperation would provide a strong basis for making sure that no one is left behind, and that progress towards gender equality can be sustained.

39 UNAIDS (2020), *World leaders unite in call for a people's vaccine against COVID-19*, 14 May.

40 Winnie Byanyima was a member of the CDP in 2019, prior to her appointment as Executive Director of UNAIDS.

Must governments choose between saving lives and saving the economy?

by Marc Fleurbaey*

The COVID-19 crisis puts all governments in a difficult position. In absence of extensive testing capacities, they have to resort to blind lockdown and social distancing measures which exact a toll on economic activities and people's livelihoods. While developed countries have the possibility to provide temporary support to prevent businesses and workers from lack of liquidity, most developing countries cannot do this and the choice between lives and livelihoods is much starker for them.

However, a few countries and States, such as Viet Nam and Kerala, have managed to ward off the first wave of the pandemic by relying on quick and swift measures of quarantining travellers, testing and labour-intensive contact tracing, before the number of infections could go off to unmanageable levels. And they managed to do so even when their first cases appeared in January, before most other countries started to seriously think about any measure. They also counted on the cooperation of populations used to public health campaigns and protections against infectious diseases. Many developing countries have benefited from a longer warning period and could emulate these successful strategies.

For many countries, especially in the developed world, in spite of more modern-equipped health care facilities, it is too late to control the infection before it spreads, so that the tension between lives and livelihoods is now vivid, and political unrest is growing, even in a relatively successful country like Germany. Is it really too late to attempt to quash the pandemic once that point is reached? Actually, it is never technically impossible to control the pandemic. In theory, separating every person from everyone else for two or three weeks would immediately stop the infection. This is totally impractical, but lockdown measures observed in many countries do reduce the reproduction rate of the pandemic to low numbers that guarantee the extinction of the pandemic in a few months. It is also possible to keep the pandemic under control by a stop-and-go policy of repeated lockdown episodes of a few weeks, until a vaccine is found. The problem is: Are these measures worse than the health crisis itself?

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In order to examine this problem, a model⁴¹ simulating the pandemic as well as the lockdown and testing policies is available, which includes a set of evaluation tools for the comparison of various policy options. The model takes account of inequalities in income and life expectancy across social groups, and allows for various assumptions about the distribution of the economic cost and the fatality burden among these groups. Such assumptions relate to policy choices about social protection, income support, as well as access to health care.

The evaluation tools included in the model belong to two approaches, which are the most widespread for such assessments. First, basic cost-benefit analysis can rely on a direct comparison of the total value of lives lost, or life-years lost, or quality-adjusted life-years (QALYs) lost, to the economic cost of policies. This analysis is straightforward. Take for instance the calculus relative to life-years: The number of life-years lost is equal to the number of fatalities multiplied by the average longevity loss incurred by patients who die of the disease. Since the fatality rate is much higher among elderly people, the average longevity loss is around 10 years per death. The value of a statistical life-year (VSLY) varies across countries but is generally between 1 and 5 times the annual income per capita of the country. In proportion of national income, the value of life-years lost is therefore between 10 and 50 times the excess mortality rate.

With an uncontrolled wave which could overwhelm health care facilities, the excess mortality rate can come close to 1 per cent, meaning that the value of life-years lost would then be worth between 10 per cent and 50 per cent of the country's income. What about the cost? A policy that quashes the pandemic by a sufficiently long lockdown period accompanied by extensive testing of the symptomatic persons and their contacts can cost up to 10 per cent of GDP, taking into account the fact that the unchecked wave would trigger a severe recession anyway, given the disruption in social relations and economic activities that occur when mortality suddenly rises.

Therefore this evaluation is generally positive for a strong policy which quashes the pandemic, and more positive than for a less ambitious policy that keeps the pandemic under control with repeated lockdowns, exacting a greater economic cost and achieving much less on the health front—unless effective treatments are discovered soon, enabling a decoupling between infections and fatalities. It must be stressed that although uncertainty about the economic consequences is important, the key parameter in the evaluation of such policies is the value of a life-year, which is a normative

41 The model is contained in a simple Excel spreadsheet and can be downloaded from <https://sites.google.com/site/marcfleurbay/Home/COVID>. Users can change all parameters and assumptions and determine the timing and intensity of contact reduction and testing policies.

parameter reflecting the population's values on trade-offs between health and income.

The evaluation with the value of statistical lives (VSL), which attributes the same value to every death independently of the age of the patient, is even more positive, because the value of every fatality is then counted at about five times the value in terms of life-years lost (since the value of a life is generally around 50 times the value of a life-year). But this seems exaggerated for the case of a disease for which the average age at death is close to 80 and patients lose only 10 years of life. Although it is controversial among public health experts to give lower value to deaths occurring late in life, this corresponds to a rather common moral judgment.

The second approach implemented in the model relies on a social welfare function, which has an important advantage over the previous method. It makes a coherent assessment of the situation of the population in the various scenarios, whereas cost-benefit analysis adds up values without paying attention to the distribution of costs and benefits. With a social welfare function, one can decide how much priority is given to the worse-off in the evaluation of policies.

The model calibrates the measure of individual well-being in a way that guarantees that the average willingness to pay of the population for a life-year is equal to the same VSly used in the other method. In this way, in absence of priority for the worse-off, the VSly approach and the social welfare approach deliver very similar assessments. But when a degree of priority for the worse-off is introduced, the evaluations come apart. The social welfare approach is then sensitive to four considerations. First, the worse-off include the victims of the virus, because their loss of longevity is a very substantial cost for well-being, and therefore this approach puts a greater weight on health outcomes than economic outcomes. Second, inequalities in life expectancy, as well as inequalities in fatality rates across social groups reinforce this strong concern for health, because the worse-off in income then incur a double penalty through a greater health toll. Third, inequalities in the economic cost of lockdowns may attenuate the previous considerations, and this approach therefore pushes for strong social protection measures for a more equitable distribution of the economic cost. This particular model does not include the long-term and indirect effects on people's health and other long-term outcomes, but it does include the additional deaths not due to the virus but caused by the disruption of health care (either on the supply side or on the demand side, when patients for other conditions shun health care facilities out of fear).

Such a model makes it vivid how early action is key to quash the pandemic before it really starts and at little cost. It more generally shows how sensitive the path of the pandemic is to the various parameters, reflecting

how much uncertainty there is, which makes it quite hard to handle for policymakers. What is especially difficult for policy leaders is the following: Until an effective treatment or a vaccine is available, the efforts required to control the pandemic are almost always in vain, because they only push the wave further, unless they are sufficiently strong to extinguish the infection, or are repeated several times. Only when the pandemic is really vanquished can victory be celebrated. Viewed from a policy perspective, this means that going down the road of controlling the pandemic is imposing a cost on the population which may turn out to be mostly wasteful if the nation does not have the strong collective spirit needed to persist until the virus is extinguished. In order to avoid these botched efforts to be totally wasteful, one needs to repeat them at regular intervals, every time the infection spread resumes. Such requests for repeated shutdowns may be ultimately as hard, politically, as keeping tight on the initial effort to quash the infection completely, unless the population comes to accept that the death toll is not bearable.

In summary, the options for policymakers rank from 1) difficult and excruciating efforts to quash the pandemic; 2) prolonged and repeated disruptions to control the pandemic and keeping it under reasonable proportions; 3) letting go and endure a dramatic fatality rate (the equivalent of about an extra year of mortality). Option 1 clearly dominates the other two options, and option 2 is still substantially better than option 3. But option 1 requires very clear leadership and a high degree of cooperation between jurisdictions and more generally among the population, and this may be quite inaccessible for many countries. A greater intensity of effort may make it possible to reduce the length of shutdown a lot, and this may depend heavily on the quality of leadership and the level of cooperation.

It should be emphasized that extensive testing can substantially reduce the needed length and intensity of the shutdown and social distancing efforts and make options 1 and 2 much more attractive. And, as already mentioned, option 2 looks better if an effective treatment arrives soon, and even better if a vaccine can be designed promptly.

The case of developing countries in which the demographic transition is not completed is more favourable in one respect. The fatality rate is lower thanks to the lower proportion of elderly in the population. This can reduce the death toll by a factor of five, compared to developed countries. In this case, one may wonder if a very aggressive policy requiring a lot of efforts would be worth the cost. This is not because the value of life is lower in a poorer country, because as a proportion of income it is as high as in richer countries, but simply because the health benefits of crushing the pandemic are lower. But the model evaluations suggest that, for a high degree of priority to the worse-off, the benefit of protecting the population against the

pandemic is still very high, and even a strong effort to quash the pandemic is worth the cost. This is because the lower life expectancy in a developed country makes it particularly hard on the victims to die prematurely. This induces a great priority for saving lives, which compensates the fact that the average fatality rate is lower. Therefore, even though the basic health impact appears lower whereas the economic and social cost of shutdown efforts are greater, one should be cautious before jumping to conclusions about important differences in the policy outlook for developing countries. Health is very important when life expectancy is low and the victims are worse-off—due to the years lost—than the survivors.

In conclusion, although the trade-off between lives and livelihoods is very hard in the current crisis, especially for governments in fragile states with frail leadership and a low degree of cooperation in the population, it is possible to lay out the main considerations guiding policy, including the key normative issues about valuing lives and giving priority to the worse-off. It is particularly interesting that a high degree of priority for the worse-off reinforces the value of saving lives with ambitious epidemiological measures and reduces the difference between rich and poor countries related to the lower fatality rate in the latter.



Chapter IV

MULTILATERALISM AFTER COVID-19

Multilateralism for chronic risks

by Arunabha Ghosh*

The 75th anniversary of the United Nations gives us an opportunity to re-orient multilateralism towards the most pressing challenges rather than overhauling the entire global governance architecture. For new forms of international cooperation to emerge, we must focus on chronic risks that all countries would have an interest in avoiding.

The international environment is beset with traditional security concerns. But the biggest threats are no longer states; nor are they non-state terrorist groups. The gravest of concerns are about tail-end risks. These have low probabilities but can be catastrophic. The COVID-19 pandemic is one such; others include severe climate shocks. With growing environmental and health stresses, such calamitous events are likely to occur more often and overlap with one another, overwhelming individual state—and international—capacity to respond.

In climate science, scientists refer to tipping points. These are thresholds in Earth's physical climate system and impacted ecosystems, which when crossed can trigger self-reinforcing feedbacks (say in the carbon cycle, planetary reflectivity and global mean surface temperature) and set off tipping elements (say, in melting of ice sheets and sea level rise). The World Meteorological Organisation estimates that rise in surface temperature could be up to 1.65°C by 2030.

Several additional stressors could compound persisting troubles. Water stress fuels transboundary tensions. Unseasonal rains or a poor monsoon would impact agricultural output, further depressing rural consumer spending. While low oil prices are a temporary boon for large importers, governments must decide whether to increase duties on petroleum products to shore up revenues or pass on lower prices to boost demand. Past shocks and the current pandemic underscore that tipping points need not be physical alone. It certainly matters what we do to the planet and what the planet does to us. What really matters, though, is what we do to each other.

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A perfect storm

Even before the COVID-19 pandemic hit, 2020 had already begun on uncertain terms. Australia's forest fires were raging, having now burned through 186,000 square kilometres. In February, maximum temperatures in Antarctica hit a highest ever 18.3°C, signalling worsening climate change. Commodity prices were struggling. A slowing global economy had translated into lower demand—and depressed prices—for oil. As the disease escalated, cities, countries and regions went into lockdown. Commodity prices have crashed, giving temporary relief to large importers but making exporting countries even more vulnerable. With borders closing and supply chains disrupted, strained flows of goods, services and people are likely to get worse before getting better.

This is what a perfect storm of shocks looks like: A series of environmental, economic and social crises that overwhelm the capacity of states and communities to respond, adapt and rejuvenate. The coronavirus did not trigger an economic crisis; instead, it tipped the scales when conditions were already vulnerable.

The world has turned on its head in many ways, particularly in terms of our paradigms. Despite the end of the Cold War, our paradigms had not changed. Foreign policy experts remained obsessed with “hard power”, making strategic calculations about military superiority and economic dominance. So-called “softer” issues, such as public health or environmental degradation were scoffed at as “low politics”. The biggest armies and the biggest economies failed against a microscopic virus—the weakest link undid decades of progress.

Source: Ghosh, Arunabha (2020). *This is what a perfect storm looks like*. *Business Standard*, 17 March.

Common aversions

In the aftermath of the COVID-19 pandemic, the core objectives of countries and companies will undergo major shifts. Axioms of free trade, free movement of capital, or freedom of energy supplies will be questioned against a cruder metric: “What’s in it for me?”. The 1944 Bretton Woods conference succeeded because in a frayed global economy, many countries were dependent on the United States, whose objectives in turn aligned with financial stability, freer trade and global development. These conditions gave birth to post-war multilateralism. That has changed now.

For the time being, we have to settle for *de minimis* multilateralism: What is the minimum on which our interests converge? In the post-pandemic era, multilateralism has no guarantees. Many issues were already segregated by sector (energy, finance) or increasingly partitioned by geography (trade). There is now very limited scope for grand bargains. But we can still drive international cooperation, on specific issues of common concern.

We now have an opportunity to shift international conversations away from dilemmas of common interests and towards issues of common aversions.⁴² Common interests, such as trade, finance and technology, bring countries to the negotiating table. But worries about relative gains and losses, about who provides versus who free rides, often results in inertia. Common aversions—outcomes we all wish to avoid—changes the game to one of coordination (everyone must follow the same rules to avoid a car crash). We all have an interest in avoiding pandemics, extreme weather events, or a collapse in agricultural output. When international cooperation is ebbing, renewed drive for collective action can come from how we organise multilateral institutions to respond to shocks, whether health-related, environmental, or financial. We must now develop the multilateral platforms that can prevent environmental crises of planetary scale and significance.

Two pillars

Multilateralism for chronic risks would rest on two pillars, the principle of transparency and the principle of risk pooling. We recommend a Climate Risk Atlas for Developing Countries, and a Global Risk Pooling Reserve Fund.

Climate Risk Atlas for Developing Countries⁴³

The COVID-19 pandemic underscores the need for information, assessment and transparency before, during and after a shock. When such salient information is not available or not provided, the consequences are both damaging and have spillover effects in other geographies as well. For climate risks, the challenges are greater, because the nature of risk shifts with time, the frequency and intensity of shocks rise with time, and the resilience of communities erodes with time (unless corrective measures are taken).

Existing multilateral mechanisms do not cope with non-linear climate risks. Loss and damage due to anthropogenic climate change are the flipside of resilience—and even harder to finance.⁴⁴ From an equity perspective, moreover, risk and vulnerability are related but different. Most losses from natural disasters in developing countries remain uninsured. This disguises the damage, compared to if vulnerable communities had been covered. A

42 Arunabha Ghosh (2020), *New multilateralism with old paradigms?*, *Business Standard*, 17 April.

43 Arunabha Ghosh (2019), Plugging gaps in environmental multilateralism, United Nations Committee for Development Policy, 17 December.

44 Arunabha Ghosh (2019), The missing link in the climate battle, *Hindustan Times*, 27 October.

range of risks could drive up insurance premiums globally, which would exclude the poor even further.

A Climate Risk Atlas for Developing Countries should become a priority for multilateralism structured around chronic risks. Such an atlas would focus on critical vulnerabilities: coasts, urban heat stress, water stress, crop loss, and biodiversity collapse. Next, an international Climate Risk Index should be developed (with annual updates and improvements in methods). The inputs to design such an atlas would come from UNFCCC but also from UNDP, UNEP, UN Convention on Biological Diversity and UN Convention to Combat Desertification among others, to ensure a functional division of labour facilitating institutional coordination. Insurance companies must be involved in the process because investments in urban and coastal infrastructure would come to nought if insurance providers did not adequately prepare for more frequent extreme weather events.

The international exercise would feed into national and provincial processes to develop climate risk indices. These would enable provinces and national governments to update their action plans on climate change with a deeper understanding of climate risks. These would then be linked to disaster risk reduction plans under national and provincial disaster management authorities and, at an international level, with the Sendai Framework for Disaster Risk Reduction and the recently announced global Coalition for Disaster Resilient Infrastructure.⁴⁵

Global Risk Pooling Reserve Fund⁴⁶

Facing rising, non-linear climate risks, insurance firms are struggling to calculate risks based on historical data. Globally, weather-related insurance losses have increased to \$55 billion annually (five times higher than the 1980s). Uninsured losses are twice as much. In 2015, Bank of England Governor, Mark Carney, argued that “tail risks of today” will be “catastrophic norms of the future”. Beyond the risks to physical assets and human life, financial liabilities will also mount as firms are pressured to keep fossil fuel reserves “in the ground” rather than monetise them. Stranded assets could be worth tens of trillions of dollars over two decades. In order to be more inclusive of the risks facing the most vulnerable countries, the principle of risk pooling becomes an imperative.

A Global Risk Pooling Reserve Fund would, partially, overcome the challenge by pooling risks across countries. In contrast to the partial or

45 Government of India (2019), *Prime Minister announces Coalition for Disaster Resilient Infrastructure at UN Climate Action Summit 2019*.

46 Arunabha Ghosh (2020). Multilateralism for chronic risks, *UN at 75 Policy Brief*, Doha Forum and Stimson Center.

entirely missing insurance safety net for many vulnerable communities, a global reserve fund would have three premises. First, different countries face different kinds of climate risks. In some places there could be coastal storm surges, in others there would be heat stress and drought. Elsewhere, communities might be more exposed to agricultural losses or new infectious diseases. By pooling risks, the peaks of risk curves could be lowered for individual countries.

Secondly, the reserve fund would not require initial payments of public money. The nominal capitalisation of the reserve fund could be based on a voluntary allocation of a share of a country's Special Drawing Rights (SDRs) in the IMF. There are already calls for more SDRs to be issued to deal with the liquidity crunch that developing countries are facing thanks to the pandemic.⁴⁷ The reserve fund would be drawn on only when disasters above a certain threshold strike. The risks and the thresholds could be based on the Climate Risk Atlas and related indices that have been proposed above. This way a new financial mechanism could be created even during the post-pandemic recovery period without further straining government budgets.

Thirdly, the reserve fund would assume an initial loss but would transfer the bulk of the subscribed risk to existing insurance mechanisms in the market. The reserve fund would be a way to bridge major insurance firms, on one hand, and developing countries (and stressed communities in developed countries), on the other. This way underserved regions of the world would be drawn into a risk-resilience framework associated with chronic climate risks. This pass-through of the risk could also be to multilateral development banks (including World Bank Group, European Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank), and national development finance institutions (such as Agence Française de Développement, KfW, Netherlands Development Finance Company, CDC Group, and Overseas Private Investment Corporation).⁴⁸

⁴⁷ José Antonio Ocampo, Kevin Gallagher, and Ulrich Volz (2020), *It's time for a major issuance of the IMF's Special Drawing Rights*, Financial Times Alphaville, 20 March. .

⁴⁸ Such ideas have been proposed recently for risk mitigation for renewable energy projects in developing countries. See Kanika Chawla, and Arunabha Ghosh (2019), *Greening New Pastures for Green Investment*, Issue Brief, New Delhi: Council on Energy, Environment and Water; See also, *Common Risk Mitigation Mechanism*, A Feasibility Study directed by a Task Force composed by personnel from Terrawatt Initiative (TWI), the Council On Energy, Environment And Water (CEEW), The Currency Exchange Fund (TCX), the Confederation of Indian Industries (CII) and the World Bank Group. New Delhi, November 2017.

IMF Special Drawing Rights: A key tool for attacking a COVID-19 financial fallout in developing countries⁴⁹

by Kevin P. Gallagher*, José Antonio Ocampo** and Ulrich Volz***

When the world economy was starting to face financial fragility, the external shock of the COVID-19 pandemic put it into freefall. In response, the United States Federal Reserve launched a series of facilities, including extending its swap lines to a number of other advanced economy central banks and to two emerging economies. Outside of the 14 countries that receive Fed swap lines, the rest of the world is left to fend for itself.

In 2017, the International Monetary Fund (IMF) considered a multilateral swap facility that would be open and unconditional to all countries. This was rejected by a minority of creditor shareholders that have a disproportionate share of voting rights at the IMF. To fend for themselves, the poorer countries of the world were essentially told that they should go to the IMF for loan packages. At the time of this writing, over 80 countries were discussing programs with the IMF.

Last week, we put forward a proposal for a major issuance of the IMF's Special Drawing Rights (SDRs) as a key tool to attack the worldwide spread of the financial fallout. In essence, we proposed that IMF members agree to an allocation of the equivalent of at least \$500 billion as part of the global response to the crisis generated by the coronavirus pandemic.

The proposal has been echoed by other experts. It is also supported by the G-24, and following an emergency G-20 ministerial call on Monday, IMF Managing Director Kristalina Georgieva stated that the IMF was exploring with the membership the proposal made by several low- and middle-income countries for a new SDR allocation—"as we did during the Global Financial Crisis."

But some analysts, including Mark Sobel and Ousmène Mandeng, argue that an SDR allocation should not be part of the toolkit to combat the COVID-19 and subsequent financial crisis. In the following, we address the main concerns that those critics have raised around our proposal.

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49 Originally published in the *Future Development* blog, Brookings Institution, 26 March 2020.

First, our critics rightly point out that the allocation would be made according to IMF quotas, which means that only a fraction of the allocated SDRs would go to developing and emerging economies. We recognized this in our proposal, indicating that slightly under two-fifths would be allocated to these countries. This is certainly too low, and reason why reform of IMF quotas is necessary. Yet a new SDR issuance is the only case in which these countries share in the “seignorage” of creating international money.

The new SDRs will become additional international reserves for emerging and developing countries, which are also their main users. Historically, they have also been utilized by advanced countries: In 1980, for example, the United States was the major user of its SDR allocations, followed by the United Kingdom. Countries that want to use these assets can settle payments with central banks or sell the SDRs to them. Since their creation, there has always been an active internal market for these assets, and so IMF management has never had to exercise the power it has to force some of its members to buy the SDRs that some countries want to sell.

This raises two major contributions that developed countries can make to emerging and developing countries during the current crisis. One is that developed countries should be ready to exchange SDRs for their national currencies—dollars, euros, or other internationally-accepted money. The second is that, as we suggested, a new mechanism should be created by which those countries that do not use their SDRs can lend them to the IMF to increase the institution’s lending capacity.

SDRs are, of course, an unconditional resource, and the case for such an allocation is very strong during an exogenous shock such as the current one. Our critics worry that countries could use them as a substitute for “sound policies,” mixing structural adjustment and austerity. A global health emergency and liquidity crunch is not the time for those policies, but rather for the massive countercyclical monetary and fiscal policies that are being adopted by developed countries.

It is true that IMF members have agreed that SDRs should complement existing reserve assets. A major problem, however, is that they have been created in very small amounts through history, and generally during crises, when they in fact strongly complement the supply of other emergency resources. During the current crisis, they would complement the massive issuance of dollar assets by the Fed, which is already underway.

In fact, a traditional argument by many analysts is that SDRs should be allocated in a countercyclical way, as it is during crises that countries need additional reserves. It is true that they would have a cost for countries using them and that those costs would be higher for low-income countries than borrowing today from the IMF at zero interest. But the advantage is

that the use of SDRs would be unconditional, allowing countries to avoid an IMF program.

A new SDR allocation would require an 85 per cent vote, which means positive U.S. and European votes. We should remember, however, that the U.S. was not only a great supporter of the creation of SDRs in the 1960s, but also of later allocations, and notably that of 2009. There is no reason why they should see this as antagonistic to their role in the global monetary system, which will continue to be dominated by U.S. dollar assets. Indeed, voting for an issuance will dampen demand for swap lines from the Fed.

A multilateral swap facility at the IMF is also sorely needed, and versions have been proposed by Ted Truman, the G-20 Eminent Persons Group, and the IMF staff, among others. We also support the creation of such a facility in the IMF, which could be funded by an SDR allocation, again with countries not using their allocations making the funds available to the IMF to finance such a facility. As noted, this proposal was rejected by a minority of creditor countries at the IMF in 2017.

Lastly, we refute the notion that the IMF's current firepower of \$1 trillion—parts of which are already committed—will be enough to support its membership through this crisis. We hope to be proven wrong, but we are facing a global crisis of unprecedented proportions. Eighty countries have already approached the IMF for support, and this number is likely to rise as the crisis deepens. The international community needs to extend support so that public responses to the health crisis are not imperilled by financial crises.

COVID-19 does not discriminate between rich and poor countries, and until the virus is eradicated it will imperil the health of the world's people and the global economy alike. This is a time for bold thinking and action. All solutions have trade-offs and limitations, but we hold that a large SDR allocation is part of the solution.

Multilateralism, employment and inequality in the context of COVID-19

by *Rolph van der Hoeven**

In March 2020, the International Labour Organization (ILO) estimated that global unemployment due to COVID-19 could reach between 5.3 and 27.4 million.⁵⁰ In late April, it estimated that global working hours had declined by 4.5 per cent (equivalent to approximately 130 million full-time jobs) in the first quarter of 2020. It is early for robust estimates of the full impacts of COVID-19, but there is no doubt that there will be a substantial rise in global unemployment, further risks of underemployment, a steep decline in the earnings of informal workers (an estimated 60 per cent in the first month of the crisis), and enterprises of own-account workers facing high risks of insolvency. The ILO estimates the rate of relative poverty—the proportion of workers with monthly earnings that fall below 50 per cent of the median earnings in the population—will increase by almost 34 percentage points globally for informal workers.⁵¹ These challenges are on an unprecedented scale but are not new, and the multilateral context has not been favourable. Incoherence and lack of cooperation in global policy have created conditions for a race to the bottom for generating jobs across countries. Yet in the discussions on multilateralism the effects on employment and income inequality often take a backseat.

When the Millennium Development Goals (MDGs) were designed in 2000, they did not include goals on employment or on inequality. Targets on employment in the MDGs were only added only later on.⁵² The 2030 Agenda for Sustainable Development makes ample reference to employment issues. The phrase ‘decent work for all’ appears no fewer than five times. Sustainable Development Goal (SDG) 8 is devoted to ‘Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all’, addresses productivity and employment and includes labour rights as a new element. However, there is scant treatment of labour market institutions and no inherent

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50 ILO (2020), ILO Monitor: COVID-19 and the world of work, 1st ed., Briefing note. 18 March.

51 ILO (2020), ILO Monitor: COVID-19 and the world of work, 3rd ed., Updated estimates and analysis. 29 April.

52 Rolph Van der Hoeven (2014), Full employment target: What lessons for a post-2015 Development Agenda?, *Journal of Human Development and Capabilities*, vol. 13, no. 2–3.

recognition that productivity growth may not translate into higher wages for workers. The disconnect between wages and productivity is causing a shift in the functional distribution of income at the expense of labour, the very opposite of inclusive growth.⁵³

Goal 10 acknowledges the importance of fiscal, wage and social protection policies to reduce inequalities of outcome and to achieve faster income growth for the poorest.⁵⁴ However, as noted in analyses of the Voluntary National Reviews⁵⁵ undertaken by the United Nations Committee for Development Policy (CDP), it is the goal that has received the least attention, and references to “leaving no one behind” are mostly limited to initiatives for special groups, with no concern for systemic changes in the functioning of national and international labour markets.

Progress on creating employment and decent work in the decade 2010–19 had already been limited.⁵⁶ The United Nations observed in 2019 that at the global level, falling unemployment in developed economies over recent years has been largely offset by rising unemployment in several large upper-middle-income countries which have been deeply impacted by political and economic crises, inequalities, and continuous socioeconomic imbalances.⁵⁷

While the global unemployment rate has remained largely stable in recent decades, the total number of unemployed people has increased by approximately 40 per cent since the early 1990s. This means that there is a consistently growing population that is not able to fully participate and benefit from the advances in the global economy. As important as reaching targets for job creation is strengthening the quality of employment. Progress towards reducing the numbers of the working poor remains slow. Many of the working poor hold informal jobs or are in other vulnerable forms of employment. In developing countries, three out of four workers are in vulnerable forms of employment, which entails lower levels of job stability and limited access to social protection. Over 60 per cent of all workers worldwide are in informal employment.

53 M. Lübker (2017), Poverty, employment and inequality in the SDGs: Heterodox discourse, orthodox policies?, in *Sustainable Development Goals and Income Inequality*, Peter A.G. van Bergeijk and Rolf van der Hoeven, eds. Edward Elgar Publishing, chap. 8.

54 Rolf van der Hoeven (2017), Can the Sustainable Development Goals stem rising income inequality in the world?, in *Sustainable Development Goals and Income Inequality*, Peter A.G. van Bergeijk and Rolf van der Hoeven, eds. Edward Elgar Publishing, chap. 10.

55 <https://www.un.org/development/desa/dpad/voluntary-national-reviews.html>

56 Rolf van der Hoeven (2019), Unemployment, employment and development, in *Asian Transformations: An inquiry into the Development of Nations*, D. Nayyar, ed. Oxford University Press chap. 12; and, ILO (2019), Time to act for SDG8: Integrating Decent Work, Sustained Growth and Environmental Integrity.

57 United Nations (2019), World Economic Situation and Prospects 2019, New York.

Moreover, more than half of the world population has no access to social protection. This tends to perpetuate high levels of subsistence activities, which generally provide very low levels of income.⁵⁸ Even where income inequality has come down in recent years, wage growth and job creation for those at the lower end of the income scale is not proceeding nearly fast enough to lift the threat of poverty from those being left behind. While unemployment rates are at historical lows in many developed economies, many individuals, notably those in the bottom 10 per cent of income scales, have seen little or no growth in disposable income for the last decade. The erosion of labour market bargaining power and skills-biased technical change have been factors behind the decline in the labour share of income over the last several decades.⁵⁹

The steady pace of global economic growth before COVID-19 masked the build-up of several short-term risks with the potential to severely disrupt economic activity and inflict significant damage on longer-term development prospects, which makes the targets of the 2030 Agenda for Sustainable Development, and especially that on full and productive employment and reducing income inequality much harder to accomplish.⁶⁰ Countries with significant vulnerabilities, such as large macroeconomic imbalances and high levels of external debt, are particularly susceptible to such disruptions as policy space has narrowed considerably across the world. Any external shock could have severe and long-lasting implications for global growth, employment and socioeconomic conditions.

The multilateral context has pushed many countries back and made them less resilient than they could have been to COVID-19, rather than securing the conditions for them to advance towards decent work for all. Failure to coordinate macroeconomic policies at the global level is a key factor behind current slow growth in most countries. Central banks only have limited capacity to stimulate the economy by the traditional means of reductions in interest rates. Alternative measures, such as forward guidance and quantitative easing, have quickly lost their effectiveness. In such an environment, only government spending can generate sufficient growth in order to lift countries out of their secular stagnation trap.⁶¹ International coordination is required in order to create the necessary fiscal space for the global economy while reducing global imbalances at the same time.⁶² Tax competition and lack of mutual recognition of tax obligations together with

58 Ibid.

59 Ibid.

60 United Nations (2020), *World Economic Situation and Prospects 2020*, New York.

61 G. Eggertsson, N. Mehrotra and L. Summers (2016), *Secular stagnation in the open economy*, *American Economic Review*, vol. 106, No. 5, pp. 503–507.

62 United Nations (2012), *World Economic Situation and Prospects 2012*, New York.

illicit financial flows create loopholes that add to these shortfalls in public revenues.⁶³

At the same time, trade policy uncertainty has taken a toll on global investment and exports.⁶⁴ Trade tensions have become intertwined with financial fragilities. Amid prolonged loose monetary conditions in developed economies and rapid credit growth in some emerging economies, high levels of debt are pervasive, not only posing financial risks but also reducing economies' resilience to shocks and thereby further endangering employment and employment conditions, as the impact of COVID-19 is showing. The absence of any form of international agreement on labour migration affect labour surplus and labour deficient countries negatively.

While national governments can do much more than they do at the moment to halt negative trends in productive employment and growing income inequality, to stimulate employment and to increase skills and capabilities of the workforce, a change in the multilateral system and a new global social contract or a new global deal is a *conditio sine qua non* to have higher levels and increased quality of employment and a fairer income inequality.

63 A. Zirgulis (2014), Is international capital tax competition fuelled by the quest for increased productivity?, *International Journal of Economic Sciences*, vol. III, No. 4, pp. 99–116.

64 United Nations (2020), op. cit.

Mobilizing development banks to fight COVID-19⁶⁵

by Stephany Griffith-Jones*, Régis Marodon** and José Antonio Ocampo***

There is no historical precedent for the current worldwide shutdown of most “non-essential” economic activities in response to the COVID-19 pandemic. Nor do policymakers have any experience of trying to engineer a smooth recovery after a shock of this magnitude. Clearly, however, governments now need to take responsibility. With markets having vanished or sharply contracted, the public sector has become the lifeline for millions of people and companies in distress

Both developed and developing countries urgently need large-scale countercyclical funding to help maintain economic activity, and especially jobs. And one of the key instruments that most governments and the international community have to help achieve this are development banks. These institutions can significantly leverage public resources to help minimize economic decline, support recovery, and finance structural transformation.

Development banks operating on a national, regional, or global scale are frequently overlooked even by financial specialists. But there are more than 400 of them, with combined assets of more than \$11 trillion, according to the Agence Française de Développement (French Development Agency), equivalent to roughly 70 per cent of the assets of the entire United States banking sector.⁶⁶ Capitalized by governments, but co-funding their lending with the private sector, development banks commit \$2 trillion each year, representing 10 per cent of annual global investment.

These institutions range from the most global (the World Bank) to the most local, and from the largest national development bank (China Development Bank, with \$2.4 trillion in assets) to very small lenders. But they share a common purpose, and can help to lay the foundation for a different financial model that considers not just profitability, but also equitable development and climate change mitigation.

Indeed, development banks’ *raison d’être* is to overcome market failures, as well as to finance structural transformations that bring about a fairer and more sustainable economy. They most often target their operations where the market partly fails or is absent—such as financing small businesses,

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65 Originally published in *Project Syndicate*, 8 April 2020.

66 Federal Reserve Statistical Release, *Large commercial banks*.

promoting innovation, building infrastructure, providing housing for the poor, and mitigating climate change. And they fund concrete projects or sectors with long-term finance.

National development banks have mandates that distinguish them from purely commercial banks, and are thus a “visible hand” that governments can activate to help mitigate the economic fallout from the COVID-19 crisis. And international development banks, which have a mandate to finance projects in poorer countries, can channel some of their long-term funding to these economies, using resources provided by rich countries.

This is true not only of multilateral, regional, and bilateral development banks, but also of development finance institutions devoted to private sector financing in developing economies. The latter group includes the members of the Association of European Development Finance Institutions, such as Dutch development bank FMO, Germany’s DEG, and France’s Proparco. In particular, international development banks should quickly scale up long-term lending to local commercial banks, which can then lend to local companies.

If development banks worldwide increased their activity by 20 per cent, they could mobilize an additional \$400 billion this year alone. Moreover, because these institutions not only channel their own funds but also catalyse private finance, the amount available for economic recovery could at least double, implying \$800 billion or more of additional financing this year.

To this end, several national development banks have already announced major initiatives, with Germany’s KfW planning to increase lending by €100 billion (\$108 billion),⁶⁷ and Brazilian state banks preparing to boost lending by the equivalent of 4 per cent of the country’s GDP. Colombia’s Bancóldex and France’s Agence Française de Développement also are working on large plans. These initiatives need to be implemented quickly and effectively, and other countries should take similar action as soon as possible.

For governments seeking to realign their national development banks in this way, success depends on meeting three conditions. First, these banks should combine transparent, efficient, and accountable governance with decision-making autonomy. Second, they must have sufficient scale, which may require governments to provide additional capital. And, third, these institutions need appropriate instruments to enable them to mobilize

⁶⁷ Guy Chazan (2020), *Germany may raise up to €350bn in new borrowing to fight coronavirus*, MarketWatch, 21 March.

sufficient private finance while channelling their own funding to meet development objectives.

COVID-19 has plunged the world into an unprecedented economic crisis. But by significantly increasing their lending, development banks can support economic activity and jobs, and help to build a more equitable and sustainable future.



Chapter V

COVID-19 AND THE LEAST DEVELOPED COUNTRIES

The COVID-19 scourge: How affected are the least developed countries?⁶⁸

by Debapriya Bhattacharya* and Fareha Raida Islam**

The scourge of COVID-19 continues to devastate life and livelihoods across the world. While the global community assesses the possible impact of this pandemic and commits to take action, it is becoming evident that the consequences will be more pronounced in the weaker economies, and possibly catastrophic in the least developed countries (LDCs)—a group of countries that share multiple structural vulnerabilities. A targeted package of international support measures for LDCs, realigning existing programmes, is urgently needed.

Vulnerabilities of the least developed countries

About a quarter of the United Nations Member States (47 countries) are LDCs, accounting for 12 per cent of world population, against less than 2 per cent of global GDP and less than 1 per cent of global trade and foreign direct investment (FDI). These countries, penalised by geography and history, host about 40 per cent of the world's poor. Almost all are climate change-affected nations, and a large number are fragile states. Only about 18 per cent of the population in LDCs have access to internet—the vast majority are victims of the digital divide. LDC governments on average spend less than 2 per cent of their country's GDP on public healthcare.

Given multiple setbacks, including weak public health services and low resources to mitigate the spread of the virus, the repercussions of this pandemic could roll back the progress made in these countries in the first cycle (2015–2020) of the Sustainable Development Goals (SDGs). The consequences of the pandemic could also slow down some countries'

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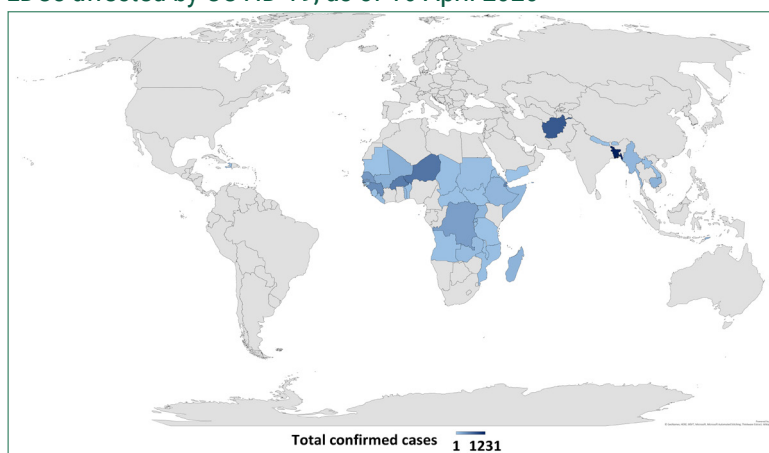
prospects to graduate out of the LDC category—as envisaged in the United Nations Istanbul Programme of Action (IPoA)⁶⁹ in 2011. The looming economic tsunami with concurrent health shocks could be catastrophic for these countries, leaving them further behind.

After a slow start, the crisis is evolving fast

The spread of coronavirus in the LDCs had a slow start. Nepal was the first to report a confirmed case of infection as early as January 2020, followed by one case in Cambodia. In February 2020, Afghanistan reported one case. However, by end of March 2020, the virus has spread like wildfire throughout 26 African, seven Asian, one Caribbean (Haiti) and one Pacific Island (Timor-Leste) LDC. The number of confirmed cases has increased more than fivefold to 6,022 and the number of deaths has increased more than eightfold to 203 by 16 April 2020.

Figure 1

LDCs affected by COVID-19, as of 16 April 2020



Source: Authors' illustration based on data from the World Health Organization (WHO).

Note: Darker shades indicate higher number of cases in the affected LDCs.

The high incidence of 'imported cases' is an unfortunate by-product, among others, of cross-border economic activities. Ironically, geographical remoteness has worked as a security barrier against the virus for some LDCs. Five small island developing States (SIDS) (Comoros, Kiribati, Tuvalu, Vanuatu, and Solomon Islands) and one landlocked developing country (LLDC) (Lesotho) have not yet reported any infections. However,

⁶⁹ See <http://unohrrls.org/about-ldcs/istanbul-programme-of-action/>.

this could be related to low availability of testing facilities. Data shows that LDCs in conflict and post-conflict status, like Afghanistan, Burkina Faso and Niger have reported some of the highest confirmed cases. However, Bangladesh—the most populous LDC—has confirmed the highest number of cases (1,231) in the group so far.

On the other hand, 23 out of the 41 affected LDCs have reported deaths. Incidentally, LDCs may have a lower number of confirmed cases than other countries in Asia, Europe and North America, but the death rates in some affected LDCs are much higher. For instance, Sudan (15.63 per cent) and Mauritania (14.29 per cent) are experiencing higher death rates than some OECD countries.

Conflicts and internal displacement crises could aggravate the impacts of the virus. Some African LDCs have also suffered from localised epidemics and natural disasters recently. For instance, Democratic Republic of the Congo has just come out of its battle against Ebola and the United Republic of Tanzania was recently overwhelmed by flooding.

Moreover, densely populated slums and refugee camps⁷⁰ in LDCs are at high risk of uncontrollable outbreaks of COVID-19. Bangladesh, one of the most densely populated countries in the world, currently hosts more than 1 million Rohingya refugees.

The worst is yet to come?

Can LDCs' young population—with an average median age of 18—play in their favour against the virus? The population below 15 years of age in LDCs is about 39 per cent, compared to only 18 per cent in OECD countries. However, this does not safeguard people in LDCs from the virus and once infected, they may not get the required medical attention.

LDCs have on average 0.6 nurses and midwives, 0.3 physicians and 1.1 hospital beds per 1,000 population. The figures for OECD countries are on average 8 nurses and midwives, 2.9 physicians and 4.7 hospital beds for every 1,000 population. It may be recalled that almost 75 per cent of the population in LDCs lack access to basic necessities like clean water and soap, considered to be the most important deterrent of the disease. Given their low fiscal space, their immediate ability to augment public expenditure in healthcare is very limited. Lack of screening at the border will keep LDCs vulnerable to imported contamination.

A second wave of infections may also hit the LDCs suggesting that the full rage, ravage and range of COVID-19 is yet to unfold. In short, about 900 million people in LDCs continue to remain at risk of infection.

70 Jason Gagnon (2020), *COVID-19: consequences for international migration and development*, OECD Development Matters, 2 April.

However, effective state intervention in the area of preparedness and support from the global community may smoothen the peak of the curve, if not thwart it altogether.

Shaping a global response

COVID-19 will exacerbate pre-existing vulnerabilities of the LDCs and disrupt their pursuit for sustainable development.

First, to ascertain the impact of COVID-19 in the LDCs, it is necessary to systematically and substantively monitor the situation on the ground and reorganise existing programmes. The United Nations Committee for Development Policy (CDP) and the United Nations Office of the High Representative for the LDCs, LLDCs, and SIDS (UNOHRLLS) are well placed to monitor this task. By realigning their programmes, various United Nations agencies, for example WHO and United Nations Development Programme (UNDP), would be able to better deal with the intensified privations of health care needs, social stress and economic recovery.

Second, this challenge requires a truly global comprehensive response. International development cooperation actors need to redeploy themselves to create a targeted package of international support measures for the LDCs—going far beyond the flow of official development assistance (ODA). It has to be global, involving actors from the North and South, public or private. South-South cooperation would be an essential element, with private philanthropies also significantly contributing. The package needs to be comprehensive and include effective access to different forms of investible resources and food aid, debt cancellation, market access of exports and facilitation of remittances, and availability of drugs and vaccines. The G20 Action Plan has already shown some efforts in this direction, but should deliver a more comprehensive response.

Third, international actors need to move fast. The discernible progress made by the LDCs in the recent past in improving productive capacities and human assets should not be allowed by the international development community to recede into oblivion because of COVID-19. The Fifth United Nations Conference on LDCs is due to take place in 2021, but with the virus spreading like wildfire, and recent estimates projecting a soaring magnitude of lives lost due to COVID-19, there is no time to lose.

Least developed countries confronting COVID-19: Response and resilience⁷¹

by Debapriya Bhattacharya* and Fareha Raida Islam**

With any significant global support yet to arrive, the national governments in least developed countries (LDCs) are vigorously engaging themselves in containing the coronavirus. States of emergencies has been declared in 17 LDCs and curfews have been imposed in 13 LDCs. Nine LDCs including Lao People's Democratic Republic and Nepal have been in lockdown for weeks. Schools, offices, conferences and other big gatherings have been called off in most LDCs and social distancing is being maintained. At least 14 LDCs have created national committees and task forces on issues ranging from various health, technical, scientific and economic concerns related to COVID-19. Others like Bangladesh have imposed holidays to restrict movement.

A range of protective measures have been taken to prevent imported transmission—a major source of infection in LDCs—starting with airport health checks, entry and exit bans to border closedown and suspension of all international flights. Some unaffected LDCs like Kiribati have taken strict measures like entry bans on those coming from any country with local transmission, allowing them to enter only after a 14-day quarantine in a non-infected country, while LDCs like Burundi have taken only limited containment measures. Cruise ship trips have been cancelled by Vanuatu. Quarantine practices in most LDCs have been made compulsory for people coming from high risk countries. The governments (e.g., in Afghanistan) also have to deal with social tensions arising from measures like discouragement of holding funerals and other congregations in religious premises.

Regrettably, public health distress is now shaping an economic misery in the LDCs. Because of the breakdown of both backward and forward supply chains, income and employment are being lost across the sectors, particularly those having cross-border activities. Readymade garments (RMG)-dependent LDCs like Bangladesh are severely affected as orders worth US\$3.15 billion have already been cancelled, affecting 2.25 million workers in 1,134 factories. On the other hand, in Cambodia, one in six factories have suspended work, affecting about 60,000 workers. Service exports will gravely suffer, affecting Island LDCs like Vanuatu, where

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tourism exports constitute 63 per cent of GDP. Solomon Islands will be hard hit by loss of log export to China, which constitutes 94 per cent of its export basket. Volatile commodity prices and the oil price plunge to an 18-year low has added to the woes of the oil dependent LDCs like Angola and Timor-Leste.

The current account balance as well as overall balance of payments of these countries are expected to deteriorate further. Signs of weakening national currencies are showing up. Moreover, remittance flows to LDCs have started to shrink, no less because of the slump in oil price hitting the economy of the host countries in the Middle East. Loss of market predictability and investor confidence may pre-empt flow of foreign direct investment (FDI) as well as investment from domestic sources. All these effects are also spilling over to the money market and capital market in the forms of growing non-performing loans, tumbling stock prices, increased capital outflows and widening bond spreads. In the face of stagnating domestic resource mobilisation and faltering concessional foreign finance, public expenditures in the near future may get constricted in social sectors of LDCs. Unemployment rate is already spiking, particularly due to daily labourers and those involved in informal activities as markets remain closed. Pressure on the food situation is building up in the net food importing LDCs.

To deal with the impending economic depression, the governments of the LDCs are taking measures to funnel liquidity in the economy and considering measures to expand their fiscal space. According to latest updates from the IMF, 22 LDCs have declared stimulus (and bailout) packages of around US\$1.9 billion as fiscal response to COVID-19. This amount is equivalent to about 0.4 per cent of their GDP on average—a far cry from a comparable figure of about 3 per cent of GDP announced by the G20 countries. Even this modest average size of the stimulus package is greatly influenced by a couple of outliers. For example, Bangladesh alone accounts for the large amount, i.e. US\$588 million. Given the dynamic nature of the situation, these numbers are constantly changing and most of these amounts announced are declared to be revised upwards in the coming days. For instance, Haiti expects to raise its expenditure by 1.6 per cent of GDP. Revision of the existing 2020 budget plans is being done by most LDCs. Resources and funds are diverted from other sectors to increase expenditure in COVID-19 impacted areas. WHO is providing support to some LDCs like Central African Republic and Sudan to prepare health response and preparedness plans. Some international funds are flowing in to realise the needs of the LDCs. Gambia has received US\$10 million in grant financing from the World Bank for COVID-19 response and preparedness project. Madagascar and Liberia have also received international support from multilateral organisations. On the other hand, other LDCs are

seeking financial support from international financial organisations and development partners to implement additional measures. For some LDCs, actions are planned relying on support from the international community. An action plan worth US\$130 million has been prepared by Togo relying on support from the development partners. Bangladesh has also approached bilateral development partners to support its budget.

The good news for about half the LDCs is that debt service relief has been granted by the IMF for the coming six months under the Catastrophe Containment and Relief Trust (CCRT). Contributions from both South-South and North-South assistance were found here (China and New Zealand). The Government of Solomon Islands is receiving both funds and medical supplies through South-South cooperation as well as North-South cooperation through bilateral channels from several countries including Australia, China, New Zealand, and the United States to support its COVID-19 response. Other than these, regional funds have been made available like the South Asian Association for Regional Cooperation (SAARC) COVID-19 Emergency Fund, which can support LDCs like Bangladesh and Bhutan.

These funds are mostly being made available for health-related short-term containment and prevention response plans. Bangladesh has put in banking facilities to ensure access to finance by the export-oriented enterprise so that they may continue to pay wages to the workers. Others have targeted social protection and protection of small businesses from the announced stimulus package. Moreover, utility bills are being subsidized by governments like Myanmar and Burkina Faso among others.

Resilience shown by non-state actors

Besides the national governments, innovative social and technical solutions are being pursued by the non-state actors in the affected LDCs. Microfinance entities have suspended collecting weekly/monthly instalments from their borrowers. In Bangladesh, NGOs and community-based organisations are distributing food and medical assistance to their members and other distressed people in their programme areas. They are also promoting awareness about COVID-19 through community radio stations. Washable masks are being manufactured by NGOs, hand sanitisers are being made by university students, private conference centres are being transformed into makeshift hospitals by the private sector and digital support for working from home is being provided by the civil society organisations. Tech entrepreneur Roya Mahboob from Afghanistan with her Girls Robotics Team has come up with an innovative model of making cheap ventilators from Toyota parts. Bangladesh and Senegal are working on producing their

own test kits, which gives hope to all LDCs. South-South cooperation can be seen as a complement to North-South Cooperation in advancing development cooperation for these countries.

All these national level responses point towards the inner strength and resilience of the LDC economies and societies. These positive endeavours may encourage the people of these countries to confront the current challenges from a position of moral strength; but will not be enough to recover from the short-term and long-term damages inflicted on them by this unprecedented pandemic.

Outlook

Our best guess, from the vantage point of early April 2020, is that spread of the Coronavirus is yet to peak in LDCs. It is necessary to systematically and substantively monitor the situation on the ground and assess the recovery and rebound needs of the LDCs. The actors of international development cooperation would need to move soon to create a targeted package of international support measures involving, among others, concessional financial flow, debt cancellation, food aid, market access of exports, availability of drugs and vaccines. South-South cooperation has to play a prominent role in this initiative. The discernible progress made by the LDCs in the recent past, particularly of those in the graduation pipeline, should not be allowed to be wiped away by this unfortunate, unmatched pandemic.

Development Policy and Multilateralism after COVID-19

The global COVID-19 pandemic is plunging the world into a socioeconomic and financial crisis of an unprecedented scale, in addition to the acute health crisis. Many of the gains achieved under the banner of the Sustainable Development Goals (SDGs) are under threat. The crisis has exposed and exacerbated vulnerabilities and inequalities in both developing and developed countries, deepening poverty and exclusion and pushing the most vulnerable even further behind. This is a watershed moment. A sustainable, equitable and peaceful future hinges on the right national and international policy decisions.

The COVID-19 crisis strengthens the call for a new multilateralism in which global rules are calibrated towards the overarching goals of social and economic stability, shared prosperity and environmental sustainability. At the national level, it gives governments a unique opportunity to set the terms of public, private and third sector interaction so that policy, regulation and partnerships lead to the achievement of the SDGs. The COVID-19 crisis is an opportunity to re-evaluate how public and private sectors collaborate to shape a better kind of capitalism.

For more information
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