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Financing Strategies to Realise a New Social Contract

Trade Union demands to the Financing for Development Forum 2023

The world of work has paid a high price in the midst of the current multiple crises: the **global jobs gap, which** stood at 473 million people in 2022, according to the ILO[1]; 2 billion people are trapped in the informal economy; and the lack of social protection for most of the world's people.[2]

The ITUC Global Monitor on SDG 8 shows that the world is far from reaching the target of decent work for all by 2030.[3] On the contrary, the ITUC has recorded a decades-long trend in erosion of workers' rights[4], as well as a century-long decrease of the labour share of GDP,[5] so that hundreds of millions of people are unable to meet their basic needs and the percentage of working poverty is on the rise. Women workers additionally face gender-based discrimination, as the global gender pay gap is still above 20%, and the gender gap in labour force participation sits at 27%.[6]

To face these interconnected challenges, the ITUC has been calling for a **New Social Contract** rooted in a gender transformative agenda for recovery and resilience. This New Social Contract embodies demands on the creation of 575 million new and decent jobs by 2030 and the formalisation of at least one billion informal workers, on rights and fair wages, on universal social protection, and on equality and inclusion. These are crucial if we want to move towards the realisation of the **SDGs**.[7]

Our success will also depend on the governance of financing global recovery. We need an **inclusive multilateral system** with a strong and effective ILO and with social partners on board at global, regional and national levels, able to establish policy priorities and sound financing strategies

Trade union priorities for a SDG 8 driven recovery

Recommendations:

1. **INVESTING IN DECENT, CLIMATE-FRIENDLY JOBS:** To achieve full employment as mandated by SDG 8, **we need to create 575 million new, decent jobs in the formal economy by 2030[8]**. However, this will not happen unless **public investment** increases, especially in climate-friendly sectors that benefit people, including infrastructure, the care economy and the green economy.

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[1] ILO, World Employment and Social Outlook: Trends 2023, January 2023.

[2] Ibidem.

[3] ITUC, A New Social Contract for a Gender-Transformative Agenda, Workers and Trade Unions Major Group Sectoral Position Paper to the HLPF 2022, June 2022.

[4] ITUC, Global Rights Index 2022

[5] ITUC, Economic Briefing to the V ITUC World Congress, November 2022.

[6] ITUC V Congress Statement, November 2022.

[7] Ibidem.

[8] ITUC, Just Jobs campaign brief - Creating jobs: what can governments do?, June 2021.

A recent ITUC research report[9] demonstrates that **stepping up public investments would have a significant positive impact on both national GDP and employment, especially in sectors such as the care economy, the green economy, infrastructure, and education and training**.

2. **RIGHTS:** In line with the ILO Centenary Declaration, job creation strategies should guarantee the application of a **labour protection floor** to ensure that fundamental workers' rights are respected, an adequate minimum wage is applied, maximum limits on working time are guaranteed, and safety and health at work are upheld.

3. **UNIVERSAL SOCIAL PROTECTION**: Social protection systems have contributed to mitigating the impacts of the pandemic in many countries. Still, more than **half the global population lacks any social protection coverage**[10], and only one third can enjoy comprehensive social security systems. The pandemic also dramatically revealed and exacerbated **gender gaps** in social protection[11], education, employment and job security.[12]

   Putting social protection at the centre of government responses to COVID-19 and other areas of crisis will increase resilience while fighting poverty and inequalities, and will act as an economic and social stabiliser to sustain recovery and boost development. That is why governments must prioritise investments to extend **social protection** to achieve universal coverage in line with ILO standards. Governments have a variety of means at their disposal to mobilise domestic resources to extending social protection, including strengthening progressive taxation; ensuring that employers pay their fair share of social security contributions by formalising informal work; and tackling tax evasion and avoidance[13]. Moreover, greater international solidarity is needed to support countries that lack sufficient domestic resources to finance social protection in the short term[14]. Trade unions are calling for **at least 7% of ODA to be allocated towards social protection,** as well as a **Global Social Protection Fund** to mobilise and coordinate international financing to support the establishment of social protection floors in the world's poorest countries.

4. **MINIMUM LIVING WAGES AND EQUAL PAY:** Over the past 30 years, the world's GDP has quadrupled, however, the labour share of GDP has been constantly decreasing.[15] The fruits of economic growth have not been equally shared with workers, and millions of workers worldwide do not earn enough to live in dignity, while the number of millionaires continues to increase across the world.

   Maintaining low labour costs through low wages has been a strategy for many countries to achieve competitiveness. However, such a strategy is misguided and leads to disastrous economic consequences. Conversely, increasing wages through minimum living wages and sharing prosperity through collective bargaining have macroeconomic benefits, including increased demand, higher labour productivity growth and faster technological progress.[16]

   Wage policies should be central to fiscal policy: statutory **minimum living wages**, along with collective bargaining, are essential to fight poverty and address inequalities. These policies must go hand in hand with the promotion of **equal pay for work of equal value**, through inclusive labour market policies, formalisation processes and measures tackling occupational segregation and discrimination.[17]

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[9] ITUC, The employment effects of public spending in infrastructure, the care economy and the green economy: the care of emerging economies, Özlem Onaran* and Cem Oyvat**, February 2023.

[10] ILO, World Social Protection Report, 2020-22, January 2022.

[11] According to the ILO, women's coverage lag behind men's by a substantial 8 percentage points. ILO, World Social Protection Report, 2020-22, January 2022.

[12] One year after the pandemic outbreak, women's employment registered a decline by 4.2 per cent, a drop of 54 million jobs, while men's employment declined by 3 per cent, or 60 million jobs. See: ILO (2021) Building Forward Fairer: Women's rights to work and at work at the core of the COVID-19 recovery".

[13] ILO (2019) Fiscal space for social protection: A handbook for assessing financing options

[14] ITUC, A global social protection fund is possible, June 2020.

[15] ITUC, Promoting minimum living wages - The World Needs a Pay Rise, June 2020.

[16] Ibidem.

[17] See ITUC Economic and Social Policy Brief: The Gender Wage Gap, august 2018.

Financing strategies to turn priorities into reality

The financing strategies to turn these priorities into reality are available. We need a stronger and inclusive multilateral system based on shared prosperity rather than austerity; strengthened development cooperation with debt relief; Special Drawing Rights reallocation, liquidity swaps and direct funding support; fair taxation and trade rules that allow policy space for industrial policy, along with due diligence laws for business accountability and anti-corruption measures.

Recommendations:

1. **INCREASED OFFICIAL DEVELOPMENT ASSISTANCE FOR BETTER DEVELOPMENT COOPERATION:** Development aid has overall been increasing over the last decades and in 2021 reached a peak of USD 185.9 billion. However, increases over the last year can largely be traced back to specific funds dedicated to COVID-19 related expenditures, including vaccines (USD 20.9 billion), which might not be upheld in the future.

   Official Development Assistance (ODA) in 2021 represented only 0.33 percent of donors' combined Gross National Income (GNI), far below the 0.7 percent commitment.[18]

   ODA is also facing additional challenges. The increase in ODA allocations for donor refugee costs (standing at USD 12.1 billion in 2021), which should be financed through other funds, implies that a greater proportion of development aid is channelled to donor countries and is diverted away from other key priorities. The current crises, in a context of the rise of the extreme right in donor countries, could lead to a fall in overall development aid in the coming years. Meanwhile, the war in Ukraine is expected to lead to a reprioritisation of aid that, in a context of shrinking aid resources, could leave other crises unattended and many of the poorest populations in despair.

   We urgently need to **scale up ODA and meet the 0.7 per cent commitment, with 0.15 to 0.20 per cent of GNI for the least-developed countries.**

   Moreover, ODA should be directed to support key SDG 8 related policies, such as job creation, social protection, occupational health and safety, equal pay, decent work for migrants, eradication of forced labour, quality public services, climate sustainability and the fight against inequalities. Blended finance mobilised through ODA should promote decent job creation and ensure compliance with ILO standards and responsible business conduct instruments. Donors should significantly increase funding to social protection to reach at least 7 per cent of ODA allocated to social protection by 2030, and gradually increase this to 14 per cent, including through the aforementioned Global Social Protection Fund.

   Climate finance and just transition are in urgent need of increased resources; the target of USD 100 billion of climate finance a year is still not being met. As a response to the Russian invasion of Ukraine, we are also seeing further worrying trends in terms of fossil fuel and other energy subsidies. Increased resources need to be mobilised, while increasing the much-needed funding for adaptation and loss and damage.

   Finally, South-South and Triangular Cooperation aligned with the development effectiveness principles should play a more prominent role in financing for development policies.

2. **STEPPING UP THE ROLE OF PUBLIC DEVELOPMENT BANKS: Increased concessional finance will need to do the heavy lifting for the recovery and resilience needs ahead.** Multilateral, regional and national development banks and other development finance institutions have an important role to play in offering long-term and counter-cyclical financing to developing countries. They should better support national country needs in strategic sectors and systematically integrate employment into results measurement frameworks, measuring the quality and quantity of job creation, while avoiding macroeconomic conditionalities and the precarisation of the labour market. Central banks should be more developmental in the way they create and guide capital, integrating other objectives, including employment and climate, in their frameworks and mandates.[19] Regional development banks can also be key players, as long as their investments are aligned with the SDGs.

3. **TAX JUSTICE THROUGH PROGRESSIVE TAXATION AND GLOBAL REGULATION**: Domestic resource mobilisation needs to be enhanced by promoting progressive taxation systems at the country level, while moving away from regressive taxation that generates worse results in terms of GDP, employment creation and household income generation. Other measures for improving domestic resource mobilisation should embed policies that tackle precarious and informal work and promote the formalisation of the informal economy in order to improve working conditions and strengthen the financing base.

   Improved global governance on taxation should be promoted to address inequalities between countries, and to

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[18] OECD-DAC, Official Development Assistance Data for 2021

[19] ITUC, Financing a just and sustainable recovery in developing countries, October 2020.

tackle tax evasion, tax avoidance and illicit financial flows. There is an urgent need for a multilateral reform of the current corporate tax architecture, including a minimum tax floor of 25 per cent for all corporations, a switch to unitary taxation with fair allocation factors, a billionaires' or wealth tax, and a financial transactions tax.[20]

4. **STRENGTHENED BUSINESS ACCOUNTABILITY:** Decent job creation must be at the centre of private sector financing strategies. Supporting decent work requires an adequate **regulatory framework to ensure that investments comply with ILO standards, responsible business-conduct principles, and due diligence to ensure the respect of human and labour rights along the entire supply chain**. It is imperative to move towards the adoption of a binding United Nations treaty on multinationals and human rights and to support regional initiatives in terms of due diligence.

   The UN Guiding Principles on Business and Human Rights are equally relevant when it comes to **innovative financing vehicles, such as blended finance**. In the absence of consistent evidence on its added value in terms of development impact, increased accountability and transparency mechanisms are needed through binding criteria for eligibility and compliance with international labour, fiscal and environmental standards.

   Facilitating access to finance for micro, small and medium enterprises (MSMEs) will enhance their job-creating potential and, when complemented with the right incentives and enforcement measures, could contribute to the formalisation of the informal economy. The social and solidarity economy should also be supported, considering its potential in terms of jobs creation and formalisation.

5. **DEBT RELIEF, RESTRUCTURING AND CANCELLATION:** Multiple crises facing the world have dramatically increased global debt levels and put many countries at risk of sovereign debt distress, threatening much-needed investments and a 'lost decade' in progress towards the SDGs. Similarly, the interest rates applied to indebted low and middle-income countries are suffocating emerging economies. **Debt relief, restructuring and cancellation** should be applied on request and in a timely way to low- and middle-income countries facing significant pressure. Such relief should be deep enough to bring countries back to at least moderate levels of long-term debt sustainability, to avoid the risk of repeated cycles of crisis, and to allow them instead to invest in a recovery aligned with SDG 8 that contributes to job creation and income redistribution policies. More than two years on from its creation, the **G20 Common Framework for debt treatment** has proved inadequate thus far in fulfilling this task. It needs urgent improvements to provide greater clarity to both debtors and creditors on timeframes and debt relief expectations, and its eligibility needs to be expanded to indebted middle-income countries in dire need. Relief should be extended automatically to support countries that suffer natural catastrophes and environmental disasters generated by climate change. Any agreement on an enhanced and expanded Common Framework should be used as a catalyst towards a **permanent multilateral process to tackle sovereign debt challenges** and to ensure private creditor participation in debt restructuring. Debt relief and new multilateral financing should be additional to existing commitments and used alongside international tax reform to ensure adequate investments in recovery and to avoid debt traps while creating fiscal space for investments in the SDGs.

6. **AMBITIOUS TARGETS FOR SPECIAL DRAWING RIGHTS REALLOCATION**: ITUC welcomes the progress on creating a Resilience and Sustainability Trust Fund to rechannel Special Drawing Rights allocated to high-income countries that already have adequate reserves. The goal of rechannelling USD 100 billion in Special Drawing Rights to IMF trust funds and multilateral development banks should be seen as a minimum target. The Trust Fund is a step forward in recognising that **transformative measures are needed** to anticipate and mitigate shocks related to climate, health, digitalisation and other challenges. The IMF should be reformed to best support transformation and effective crisis response, avoiding past mistakes of weakening labour market institutions.[21] The global community has not done enough to support middle-income countries and vulnerable island states during the pandemic, nor for climate mitigation and adaptation. The broad eligibility criteria of the proposed Trust Fund are therefore welcome. However, accessing the Trust Fund should not be tied to having an existing traditional IMF programme. This is at odds with the proactive intent of the Trust Fund. Financing programmes led by the World Bank and the International Monetary Fund (IMF) should be designed and implemented through social dialogue, in compliance with international labour standards and in cooperation with the ILO.

7. **REFORM THE MULTILATERAL TRADING SYSTEM**: By empowering big capital at the expense of workers, the global trading system produces inequality and social injustice. Large parts of global supply chains still run on informality, child and forced labour. The **WTO should be reformed to deliver on development, the Just Transition,**

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[20] In October 2021 the OECD reached a global minimum corporate tax rate set at 15%. The new minimum tax rate will apply to companies with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. Further benefits will also arise from the stabilisation of the international tax system and the increased tax certainty for taxpayers and tax administrations. https://www.oecd.org/tax/international-community-strikes-a-ground-breaking-tax-deal-for-the-digital-age.htm. For the ITUC is must be the beginning of changing the system so that big companies pay their fair share: https://www.ituc-csi.org/minimum-global-corporate-tax-rate

[21] Global Unions, Decent work, collective bargaining, and universal social protection: The IMF and World Bank at a crossroads, March 2022. ITUC, Reforming the IMF for a resilient recovery, March 2021.

and human rights. Among other issues, implementing the Doha Development Agenda and actualising the Agreement on Agriculture would contribute to the achievement of the SDGs. Abandoning the corporate agenda of e-commerce would ensure that governments have policy space to pursue national digitalisation strategies.

The reform of the WTO membership should reform its agreements to comply with international, social and environmental standards, and should require mandatory human rights due diligence and remedies from all trading actors and MNEs. The WTO reform should also ensure the inclusion of the ILO decent work agenda in the global trading system by:

a) assisting the implementation of widely accepted social and environmental commitments including the 1998 ILO Declaration on Fundamental Principles and Rights at Work and relevant occupational health and safety standards;
b) creating platforms for robust social dialogue to ensure trade policy reflects the interests of all stakeholders.

To fight the COVID-19 and future pandemics, the global trade union community reiterates its call for an ambitious TRIPS waiver that also covers treatment and diagnostics, and which ensures universal and equal access to vaccines.

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INTERNATIONAL TRADE UNION CONFEDERATION

Head Office

Boulevard du Roi Albert II, 5, Bte 1 B - 1210 Brussels, Belgium

Tel: +32 (0) 2224 0211
Fax: +32 (0) 2201 5815

E-mail: info@ituc-csi.org
Web site: http://www.ituc-csi.org