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KEY ISSUES PAPER

Key Issues Paper

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Executive Summary

1. **After one year of response to the worst health, economic and social crisis in the OECD’s sixty years of history, the economic outlook appears to be improving, but uncertainty remains high.** Recent OECD economic projections have been revised upwards thanks to progress in vaccination efforts and massive fiscal stimuli in certain countries. Unemployment is decreasing but it remains above pre-crisis levels. While prospects for an eventual path out of the crisis have improved, the near-term outlook remains very uncertain due to renewed virus outbreaks and prospects are diverging across countries. Nevertheless, assuming effective vaccines can continue to be rolled out globally, a gradual but uneven recovery in the global economy should occur in the next two years. Some developing countries are still struggling to contain the pandemic with lack of healthcare capacity and without comprehensive access to vaccines.
2. **OECD Member countries have responded decisively to the pandemic and its ramifications and are now preparing for a recovery that is widely seen as an opportunity to “build back better”.** The policy response has been unprecedented both in terms of scale and speed. Strong and swift action has prevented an even greater economic contraction and mitigated the impact of the crisis on firms and households in OECD countries, especially the most vulnerable.
3. **Immediate priorities include decisive actions to protect public health, including through speeding up vaccination efforts, combined with continued policy support to boost growth and employment.** Effective and well-resourced healthcare policies and supportive and flexible macroeconomic and structural measures remain essential to preserve confidence and reduce uncertainty in the near term as well as to minimise the potential long-run costs of the pandemic on people’s skills and labour market participation. While governments are encouraged to enhance the targeting of benefits and facilitate business restructuring, job retention schemes remain an important part of the policy response. Policy action is also needed to promote hiring and adapt support for job seekers and recruiters. The specific situation of SMEs needs to be considered. Maintaining open markets will be essential to underpin a robust recovery. Economic recovery crucially depends on the success of the largest vaccination effort in human history, which needs to be accelerated globally in particular with support to developing countries. Public health measures such as restrictions on the size of public gatherings, social distancing, mask wearing, etc. will continue to be necessary for safe reopening of economies, even among vaccinated populations at least until herd immunity is achieved.
4. **Recovery plans offer an opportunity to build back better by promoting more inclusive and sustainable economies.** Stimulus and recovery plans constitute a unique opportunity to both foster growth and employment as well as to tackle long-standing challenges in OECD economies such as slow GDP growth, stagnating productivity, as well as shortcomings in the areas of inclusiveness and sustainability. Recovery plans offer an opportunity to address these issues. Policy action should focus on improving social protection programmes, strengthening skills and activation measures to support the transition of workers and facilitating the shift of capital to emerging activities, embracing digitalisation and innovation, supporting the transition to a low-carbon economy within planetary boundaries, and rethinking public finance strategies. Engagement with the private sector, including through the reinforcement of corporate governance frameworks, will also be key to support a strong, resilient, inclusive and sustainable recovery from COVID-19.
5. **Attention should be paid to the “how to” of recovery plans by building trust and fostering transparency and accountability.** The resilience of the recovery will critically depend on the factors and processes driving policy choices and on the capacity of

governments to deliver. With massive government interventions in the health, economic, science and social sectors, the COVID-19 pandemic has been a test case for governments' capacity to make the right choices fast and deliver, while maintaining accountability mechanisms. In some cases, it has highlighted the flexibility, agility and strength of public actors, but in others, it has exposed significant weaknesses. There is a risk of growing distrust in institutions, greater polarisation of societies and, in some cases disassociation of some groups of citizens from regular democratic processes. Strengthening public governance to tackle these challenges should form a core part of resilient recovery plans.

6. **Together with closer co-operation at the international level, the economic stimulus packages and recovery plans that governments are now putting in place have the potential to create a recovery that is both green and inclusive.** A green recovery has the potential to create opportunities for income, jobs and growth, and at the same time accelerate action on medium and long-term environmental goals, both national and global. OECD evidence suggests that, while governments are active in promoting a green recovery, ambition needs to be increased. The recovery is also a unique opportunity to boost innovation to facilitate the green transition and accelerate an inclusive digital transformation and address challenges such as digital divides or security and privacy issues. Importantly, putting people at the centre of green recovery plans can lay the foundations for sustainable well-being. Avoiding scarring in youth, using a “gender lens” and considering the needs of vulnerable groups (e.g. low-skilled workers, people with disabilities, minorities, indigenous peoples and rural communities) in recovery plans will be important to ensure that the recovery leaves no one behind. Last but not least, international co-operation in areas such as vaccination, climate change, mitigation and adaptation, taxation and trade and investment will be essential to ensure a truly global recovery and support policy action at the national level. Partnerships with developing countries, including support to developing countries and development co-operation, will be key to address the crisis' debt legacy, and to promote a truly global recovery.

7. **The OECD continues to support its Members and Partners through several initiatives and work streams fostering a green and inclusive recovery building on the shared values that inspire the Organisation's work,** including the values of democracy, the rule of law, the protection of human rights, the principles of an open and transparent market economy and the commitment to promote sustainable growth and improve economic and social well-being:

- The OECD is working on the **development of a new dashboard to monitor the progress towards a strong, resilient, green and inclusive recovery from COVID-19.** The dashboard will leverage existing analytical frameworks and policy approaches at the OECD. It will serve as a reference for countries when assessing progress in their efforts to build back better in the aftermath of the COVID-19 crisis and strengthen systematic resilience by taking into account economic performance, social inclusion and environmental sustainability through a broad well-being lens.
- OECD work on a green recovery and data collection through the **OECD Green Recovery Database** suggest that there is room for further strengthening the green content of recovery plans and their alignment with climate and other environmental objectives as well as to make greater use of other instruments, including carbon pricing, sustainable finance and partnerships to promote a “just transition”.
- The OECD has created a new **International Programme for Action on Climate (IPAC)**, initiated by France, to offer participating countries a new steering instrument, complementary to and consistent with the UNFCCC and the Paris Agreement, to pursue progress towards the transition to net-zero greenhouse gas

emissions goal and a more resilient economy by mid-century, thanks to a precise evaluation of their action and the sharing of good practices.

- The **OECD Initiative for Safe International Mobility during the COVID-19 pandemic**, initiated by Spain, offers a temporary cross-sectoral forum for knowledge sharing about safe international travel; and a blueprint for safe international travel, to be implemented on a voluntary basis, to promote greater certainty, safety and security in travel as re-opening takes place, which is consistent with, and complementary to, other international initiatives.
- An **updated OECD Youth Action Plan** provides building blocks for government-wide strategies to improve support for young people, including potentially developing an OECD Recommendation to increase and facilitate the participation of young people in policy-making.
- The recently revised **OECD Recommendation on Broadband Connectivity** offers governments a roadmap to address digital divides, extend much-needed connectivity in the aftermath of COVID-19 and foster high-speed broadband networks for all. The draft revised **OECD Recommendation on Children in the Digital Environment** aims to help policymakers balance the opportunities and risks that children can encounter in the digital environment, while also recognising that new risks and the nature of existing risks have significantly evolved, including during the pandemic.
- A **new OECD Housing Toolkit** provides analysis and evidence as well as a set of indicators and country snapshots cross three main dimensions of housing markets and policies: affordably, efficiency and sustainability.
- The **draft Recommendation on Competitive Neutrality** calls for a level playing field for all enterprises, irrespective of factors such as the enterprises' ownership, location or legal form.

Shared Values: Our Response to COVID-19 - Proposed Questions for Discussion

Ministers participating in the 31 May plenary session of the first part of the 2021 OECD Ministerial Council Meeting are invited to consider the following questions for discussion:

1. What are the lessons learned from over one year of response to the health, economic and social crisis caused by the COVID-19 pandemic?
2. What should be the immediate priorities to “build back better” towards a green and inclusive future, both at the national level and in driving international co-operation efforts?

Our Response to COVID-19: Priorities to Contain the Pandemic and Lay the Foundations of a Green and Inclusive Future

An uncertain macroeconomic outlook makes continued policy support necessary

8. **The prospects for an eventual path out of the crisis have recently brightened.**

The Interim Economic Outlook, released on 9 March, revised up the projection for global GDP growth in 2021 and 2022 by 1.4 and 0.3 percentage points to 5.6% in 2021 and 4% in 2022. The recent announcement of massive additional fiscal support in the United States is adding around 1 percentage point to global GDP growth over a full year (OECD, 2021^[11]). Thanks to the unprecedented mobilisation by the science and innovation community, the advance of vaccination programmes is also improving prospects for bringing the acute phase of the pandemic under control.

9. **However, many economies continue to suffer from disruptions arising from renewed virus outbreaks and the deployment of more stringent virus containment measures.**

While the unemployment rate in OECD countries has declined from 8.8% in April 2020 to 6.7% in February 2021, it remains 1.4 percentage points above the level observed in February 2020. In a number of countries, job retention schemes have limited the rise in the unemployment rate: the impact of the crisis on the labour market has been in fact much larger as revealed by the decline in hours worked, which peaked at more than 20% in some countries (OECD, 2020^[21]).

10. **Although the central scenario has been revised up, the near-term outlook remains very uncertain and prospects are diverging across countries.**

Challenges in vaccine supply and deployment, surges in case numbers, and the emergence of viral variants of concern could require prolonged containment measures and weaken the recovery in the coming months in many economies. On the upside, faster than expected increases in the supply and distribution of highly effective vaccines later in the year could allow some economies to lift restrictions, boosting confidence and spending more quickly. In addition, a range of new agreements has been put in place to increase access to vaccines for the poorest and most vulnerable countries who risk being left behind.

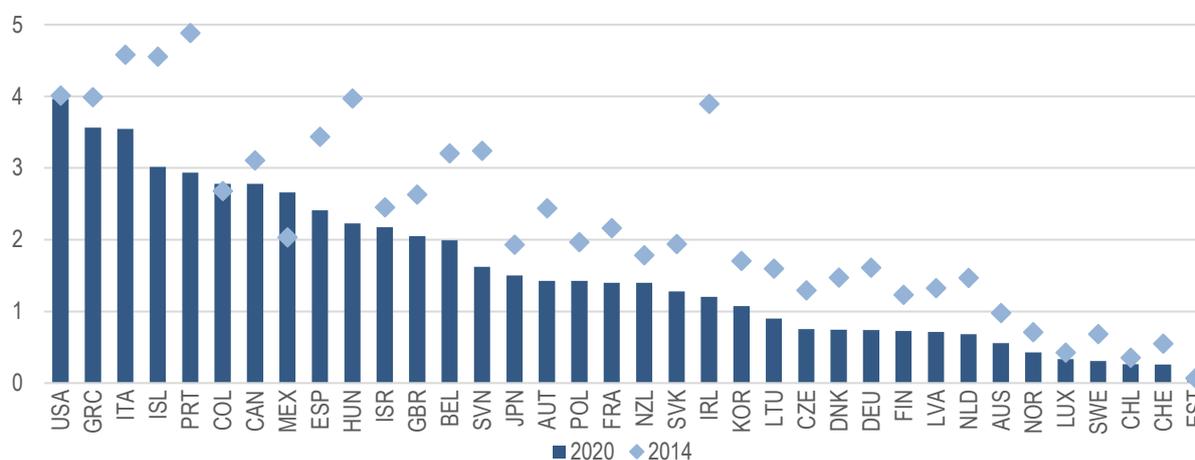
11. **Against this backdrop, immediate priorities include decisive actions to protect public health, including through speeding up vaccination efforts, combined with continued policy support to boost growth and employment.**

Effective and well-resourced healthcare policies and supportive and flexible macroeconomic and structural measures remain essential to preserve confidence and reduce uncertainty in the near term as well as to minimise the potential long-run costs of the pandemic on people's skills and labour market participation. Six priorities stand out:

- Despite recent signs of cost pressures on inflation including rising oil prices, demand pressures remain weak and there is significant slack in labour markets. Accordingly, **accommodative monetary policies need to be maintained**, as currently planned in the major advanced economies. This will help preserve favourable financing conditions and low long-term interest rates.
- **Fiscal policy needs to continue supporting the economy while becoming more targeted.** Countries should aim to avoid a premature and abrupt removal of support whilst economies are still fragile and growth remains hampered by containment measures. Past episodes of premature fiscal tightening have proved counterproductive and even though public debt levels are increasing, the cost of debt service in most OECD countries is low in a historical perspective (see Figure 1). Governments should especially support sectors and workers that continue to be

severely impacted by the health crisis. Going forward, countries should enhance the targeting of benefits. Debt is likely to be one of the main legacies of this crisis that should be addressed once the recovery is firmly underway.

Figure 1. Government debt servicing payments, percentage of nominal GDP



Note: Value of gross government interest payments as a share of nominal GDP.

Source: OECD Economic Outlook 108 database; and OECD calculations.

- **Job retention schemes have been and remain an important part of the policy response.** Governments can begin to gradually enhance the targeting of benefits, in particular by differentiating support between sectors that remain subject to mandatory restrictions and the rest. Participating workers should be encouraged to take advantage of public employment services and training opportunities.
- **Governments should promote hiring and adapt support for jobseekers and recruiters.** There will be no way out of the crisis without a substantial rebound in job creation. Longer-term recovery plans will play a key role in this, but in the short-term, more targeted temporary hiring subsidies can help with job creation – as can direct job creation programs, notably with approaches focused on supporting vaccination logistics (such as the public health corps envisaged in the United States).
- As the manufacturing of vaccines is scaled up over the coming months, hundreds of millions of doses will become available, **allowing for an unprecedented global immunisation effort** (see next section). Even as vaccination proceeds, **efficient test, trace and isolate (TTI) programmes will continue to be indispensable to addressing surges in COVID-19 cases**. In addition, other public health and hygiene measures (e.g. wearing masks, social distancing) will continue to play a major role. More generally, the pandemic has underscored the importance of science that is fundamental to an exit as well as the recovery and bolstering future resilience.
- **Lastly, maintaining open markets will be essential to underpin a robust recovery.** Since mid-2020, trade growth has outpaced production growth, indicating that trade is playing an important role in supporting economic recovery. Rapid recovery in trade in goods -- driven in particular by increased trade in medical products (which, according to the WTO, increased overall by 16% in the

first half of 2020 compared to the same period in 2019, with trade PPE increasing by 50%) and continued trade in agrifood -- is helping both employment and overall recovery, although services trade continues to lag. Stable, transparent and predictable trading conditions afforded by the rules-based trading system, can help reduce uncertainty and thus encourage business investment and spending on consumer durables spending (WTO, 2020^[3]).

12. **The transition period towards the beginning of the recovery phase needs to be handled carefully.** Many companies and households, in particular the more vulnerable ones, have been struggling due to the pandemic for a year now. Determined action is needed to provide a bridge to the recovery phase, striking the right balance of carefully withdrawing some measures and continuing support to those disproportionately affected, while promoting job creation and allowing reallocation towards firms and sectors that are hiring.

Box 1. Competitive Neutrality

State support has shored up the economy during the crisis and avoided otherwise viable firms from exiting the market. State intervention will also be crucial to return to growth.

It is important, however, that when designing state support during the crisis as well as recovery plans, governments take into account the consequences of their interventions on markets. In particular, support and recovery plans should not benefit certain enterprises over others and distort competition. This is essential for the effective use of resources within the economy. A level playing field between public and private market participants, and between different private market participants, leads to more choice, higher quality and lower prices for consumers and ultimately can benefit economic growth and development.

Consistent with this approach, the **OECD draft Recommendation on Competitive Neutrality** calls for adherents to provide a level playing field for all enterprises, irrespective of factors such as the enterprises' ownership, location or legal form. Adherents should not discriminate between State-Owned Enterprises (SOEs) and private competitors, or between different types of private enterprises.

This means, for instance, that adherents should avoid offering undue advantages that distort competition and selectively benefit some enterprises over others. These advantages may include favourable tax treatment, or loans and guarantees granted at conditions that are more favourable than those available in the market. Where achieving an overriding public policy objective requires an exception, this should be transparent, proportionate and periodically reviewed.

The draft Recommendation also calls adherents to ensure that the legal framework and its enforcement are competitively neutral, so that they do not discriminate between enterprises. The jurisdictions adhering to the draft Recommendation should subject competing enterprises to equivalent competition and bankruptcy rules, as well as to the same regulatory environment. In addition, enterprises should not be responsible for regulating the market in which they compete and, in particular, affecting the entry of new players or the growth of existing competitors through regulations.

13. **The pandemic has also underlined the importance of international co-operation.** As emphasised in the 2021 edition of *Going for Growth*, multilateral policy co-operation can make policy action more effective and less costly in the presence of cross-border spillovers. Examples of key areas in this respect include health care, climate change, mitigation and adaptation, global trade and the taxation of multinational enterprises (OECD, 2021^[4]).

14. **Development co-operation is also playing a critical role in supporting developing countries in responding to the new challenges presented by the current crisis, while continuing to contribute to the agreed 2030 Agenda for Sustainable Development.** Developing countries lack the financial resources to recover that are being deployed by other countries. The fiscal response to COVID-19 was on average seven times smaller in low-income countries than in advanced economies, resulting in debt-to-GDP ratios increasing by 20 to 30 percentage points of GDP. While Official Development Assistance (ODA) from official donors remains the most stable source of external finance for developing countries and rose to an all-time high of USD 161 billion in 2020, up 3.5% in real terms from 2019 – due in part to additional spending from OECD Member countries to help developing countries deal with the COVID-19 crisis – it remains insufficient. As a result of the COVID-19 crisis, increased financing needs coupled with a decline in resources has widened the annual SDG financing gap in developing countries by at least 50% to 3.7 trillion in 2020 US dollars.

Accelerated vaccination, continued health measures and more resilient health systems are essential to a successful recovery

15. **The advent of effective vaccines against COVID-19 represents only the beginning of the next phase in the path to recovery.** Immense challenges remain, not only in production, supply, and distribution both among and within countries, but also in establishing adequate infrastructure and in managing the logistics of administration. While many manufacturers have ramped up production capacity and contracted manufacturing to other major bio-pharmaceutical manufacturers, demand continues to outstrip supply.

16. **To date vaccines have been delivered mainly to high-income countries,** many of which have purchased quantities sufficient to immunise their populations several times over, while others, particularly those dependent on multilateral initiatives for vaccine access, remain without any supplies. Currently more than 60 countries yet have to vaccinate a single person.

17. **Vaccination needs to be accelerated globally.** Vaccinating vulnerable populations first in those countries where the virus is circulating most actively is essential to minimising the risk of emergence of further variants of concern, and bringing about the end of the acute phase of the pandemic. Even if high-income countries succeed in achieving complete coverage of their populations, failure to slow the transmission of COVID-19 in low- and middle-income countries (LMICs) will inevitably see the emergence of further viral variants of concern, which, through trade and transport links, could continue to undermine and delay global health and economic recovery.

18. **Without trade there are no vaccines.** All countries need vaccines, but not all are able to produce them. Vaccine production is highly specialised, subject to comparative advantages, and concentrated in few countries, making trade a vital means to deploying vaccines broadly. Many countries are involved in the production and distribution of vaccines, which includes many components ranging from preservatives, vials and syringes to needles, cold boxes and freezers. Distributing vaccines poses significant logistical challenges that could be addressed by: promoting online communications hubs to share information on existing manufacturing facilities and connecting potential distributors; keeping markets open by reducing tariffs and avoiding export restrictions as far as possible on both intermediate and final goods; and increasing international co-operation and co-ordination to enable vaccines to move seamlessly across borders. Focus might best be placed on streamlining processes at the borders, ensuring better co-ordination of logistical processes, and relaxing, where possible and without prejudice to safety, trade-related

regulatory burdens. All this will be key to ensuring timely access to vaccines for all (OECD, 2021^[5]).

19. **The costs to high-income countries of failing to support global access to vaccines have been estimated to exceed the costs of assisting LMICs by at least a factor of 10.** Conversely, recent modeling suggests that more rapid progress toward ending the crisis could raise global income cumulatively by \$9 trillion over the period 2020–25, accruing benefits for *all* countries – including around \$4 trillion for advanced economies (ICC, 2021^[6]).

20. **Development co-operation is playing an important role in helping to build a comprehensive approach to deliver the tests, treatments and vaccines that the world needs to fight COVID-19.** Collaborative efforts such as the Access to COVID-19 Tools (ACT) Accelerator and its associated tools have emerged to help bridge current gaps in the world’s ability to respond to the crisis, including through the provision of international development assistance. Yet these collaborative efforts remain seriously underfunded and are not enough in circumstances where demand continues to far outstrip supply, and where success will also be constrained by challenges in the health systems of many developing countries. Fully financing the ACT-Accelerator for 2021 would cost less than 1% of what governments are spending on stimulus packages to treat the consequences of COVID-19 (WHO, 2021^[7]).

21. **The continued emergence of viral variants means that the prospects for achieving herd immunity are low, at least in the near term.** Currently available vaccines are less effective against variant B.1.351 and possibly others also. Significant proportions of the populations in several countries are reluctant to be vaccinated and recent safety concerns may have exacerbated vaccine hesitancy. A third issue is uncertainty as to the extent to which previous infection with one variant confers protection against reinfection with a new variant.

22. **Public health measures such as restrictions on the size of public gatherings, social distancing, mask wearing etc. will therefore continue to be necessary** for safe reopening of economies, even among vaccinated populations, at least until herd immunity is achieved. Some scientists see significant potential for endemicity, with COVID-19 becoming a chronic, seasonal infection requiring annual vaccination and seasonal behavioural modification.

23. **The pandemic has shown the need for stronger and more resilient health systems.** Building more resilient health systems is a foundation for stronger, more resilient economies – enabling substantial economic and societal benefits from healthier and productive populations. Pandemic preparedness alone is not sufficient to avoid the high impact of health shocks if health systems are not strong enough. Health system resilience requires: 1) foundational investments in prevention, currently only accounting for 3% of total health spending, adequately trained and flexibly deployed health workforce, universal health coverage to protect most vulnerable and uphold care for all; 2) agility to manage surge capacity and mobilise reserves in case of sudden shocks, based on diversified and resilient supply chains for crucial health products; and 3) ensuring that investments continue to deliver high value, which also requires a focus on strong health information systems, the digital transformation of health systems and improved health professional skills. Estimates indicate that across OECD countries, an additional investment in health system resilience in the order of 1.5% of GDP is needed (and up to more 3% of GDP in the case of some countries). Such additional spending represents a small fraction of the human, social, and economic losses associated with repeated health shocks. As 1 in 10 jobs is in the health sector across OECD countries, these investments can also directly help economic recovery efforts by posting jobs.

Box 2. The OECD Initiative on Safe International Mobility

Restrictions on international travel have led to an unprecedented collapse in the number of international travellers with devastating implications for particular sectors. International tourism fell by around 80% in 2020. For the average OECD country, pre-pandemic, the sector contributed 4.4% of GDP, 6.9% of employment, and 21.5% of service exports, but with much higher shares for some countries. Tourism is highly labour intensive and the World Travel and Tourism Council estimates that up to 174 million jobs are at risk globally. The halt in travel and tourism is having a major adverse macroeconomic impact, given the interlinked nature of these sectors.

On the occasion of the 60th Anniversary of the signing of the OECD Convention on 14 December 2020, Prime Minister Pedro Sánchez of Spain called on the OECD to work on an international framework to enable a COVID-19-free international mobility. Since then, the OECD Secretariat has prepared background documents, and organised engaged in wide-ranging consultations with countries, international organisations and stakeholders on the topic of safe international travel, to allow for greater international mobility while minimising the risk of dissemination of COVID-19 through international travel.

The proposed **OECD Initiative for Safe International Mobility** will be presented for consideration at the first part of the 2021 Ministerial Council Meeting. The proposal adopts a two-pronged strategy consisting of: (a) a temporary cross-sectoral forum for knowledge sharing about safe international travel; and (b) a blueprint for safe international travel, to be adopted on a voluntary basis, to promote greater certainty, safety and security in travel as re-opening takes place, which is consistent with, and complementary to, other ongoing and forthcoming international initiatives. The blueprint includes a common set of indicators of epidemiological risk, a travel protocol that facilitates participating countries to establish common requirements and conditions for international travel, using testing and quarantine regimes as well as information of vaccination, recovery, and testing certificates, and menu options on how this information is collected and transmitted.

Designing and Implementing Recovery Plans for a Green and Inclusive Future

Recovery plans offer an opportunity to build back better by promoting more inclusive and sustainable economies

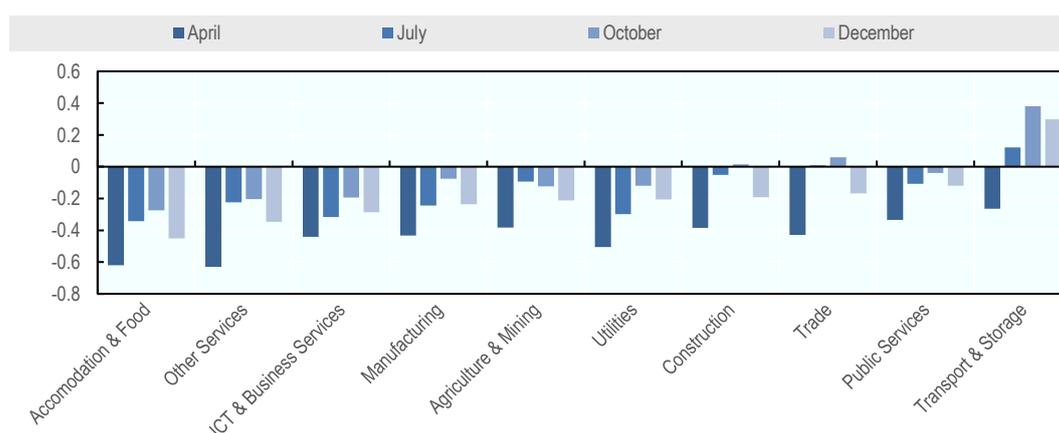
24. **Stimulus and recovery plans constitute a unique opportunity to both foster growth and employment as well as to tackle long-standing problems in OECD economies.** Challenges such as slow GDP growth, stagnating productivity, as well as shortcomings in the areas of inclusiveness and sustainability, predate the pandemic and have in part been exacerbated by it. Recovery plans offer an opportunity to address these issues. This includes improving social protection programmes, strengthening skills and activation measures to support the transition of workers and facilitating the shift of capital to emerging activities, embracing digitalisation and innovation, supporting the transition to a low-carbon economy, and rethinking public finance strategies. Partnerships with the private sector will be key to support a strong, resilient, inclusive and sustainable recovery from COVID-19. The 2021 edition of the OECD *Going for Growth* flagship publication,

released in April, provides first-hand policy advice to governments on the top structural policy priorities needed for such a vibrant recovery (OECD, 2021^[4]).

25. **The crisis has laid bare pre-existing gaps in social protection.** Paid sick-leave schemes, job retention schemes and unemployment benefits have helped to sustain the incomes of many. However, even in countries with the most advanced social protection, some workers with non-standard jobs and their families miss out. The situation is worse in countries with large informal sectors. In many OECD countries, governments responded to the crisis with new, or extended existing, safety net measures. As countries move towards recovery, governments need to re-assess the design and balance of these programmes and carefully consider their effectiveness and longer-term sustainability. At the same time, governments will need to address pre-existing gaps in social protection, paying particular attention to the most vulnerable and providing better coverage for the self-employed and other non-standard workers. More generally, strengthening labour market resilience requires stronger institutional capacity to incorporate lessons-learned from the crisis and scale up key measures quickly, while maintaining service quality.

26. **Recovery plans need to support the reallocation of labour and capital in a sustainable, productive and inclusive direction.** While many sectors and firms are likely to recover or even emerge stronger after the crisis, others are likely to shrink permanently as the pandemic brings about changes in business models and behaviour (OECD, 2021). Some evidence of heterogeneous performance across sectors points at this shift: high frequency indicators of online job postings in December show that while labour demand in accommodation and food services was 45% lower than the pre-pandemic level, it was 30% higher in transport and storage services (Figure 2). Various “green” sectors and activities offer prospects for job creation, including energy efficiency, renewable energy, ecosystem restoration, or organic agriculture. This suggests some scope for public employment services to support workers in finding new employment in a different sector, and to help employers with their recruitment.

Figure 2. Percentage change in online job postings since January 2020



Note: Based on online job postings in Australia, Canada, New Zealand, the United Kingdom and the United States, 2020.

Source: OECD calculations based on data from Burning Glass Technologies

27. **Recovery plans should support disadvantaged groups, including low-income workers, non-standard workers, women, and young people.** The impact of the crisis has been uneven, and has laid bare pre-existing inequalities. Low-income workers, who have

often played a key role in ensuring the continuity of essential services, have also been more likely, in some countries, to have stopped work following the outbreak. Self-employed, temporary and part-time workers account for up to 40% of total employment in the most affected sectors and often do not have the same access to social protection as regular dependent workers (OECD, 2020^[8]). Unlike in previous crises, women also experienced greater declines in employment than men at the onset of the crisis. Young people are once again among the big losers from the crisis. The youth unemployment rate surged to 18.9% in April, and has only partially recovered since, declining to 13.7% in February 2021. This is still significantly above the youth unemployment rate from before the crisis; for new graduates, the prospects of finding a job are often bleak.

Box 3. Better housing for better lives

The OECD Horizontal Project on Housing brings together the collective expertise and experience of several OECD committees and policy communities. Emphasis is placed on three main aspects: inclusiveness, efficiency and sustainability of housing markets and policies. The **OECD Housing Toolkit** combines a Synthesis Report that presents analysis and evidence on a variety of policy-relevant themes, a Dashboard of Housing Indicators covering both outcomes and policy settings from a cross-country vantage point, as well as Country Snapshots.

Making housing more inclusive

Access to affordable housing – a basic human need and central driver of well-being – has become increasingly challenging for many households in OECD countries. Housing-related spending absorbs on average about one-third of household budgets, a share that has been rising over time. Over the past two decades, prices have risen by 60% more for homes than for goods and services on average across OECD countries. Seven of the 23 OECD countries for which the data are available have experienced real house prices in excess of 90%.

The youth and disadvantaged social groups are disproportionately affected. Young people, who often have low savings and more unstable jobs, find it particularly difficult to buy or rent a home. Low-income households spend more on housing in relation to their budget than more affluent social groups, and they also often live in overcrowded spaces, a situation that has been particularly consequential during the COVID-19 crisis amid mandated stay-at-home orders. Prior to the COVID-19 pandemic, homelessness was on the rise in around one-third of OECD countries and had fallen or remained stable in around a quarter of countries. While homelessness estimates for 2020 are available for a few countries, it is difficult to compare these data with previous years and across countries.

Making housing more efficient

To a large extent, the affordability challenge reflects the housing sector's failure to raise supply where demand is strong, particularly in jobs-rich urban areas, which drives up house prices and rents. This is due to geographical constraints but also regulatory restrictions in many cities, including land-use and zoning provisions. In some cases, regulations on tenant-landlord relations, introduced to alleviate the near-term burden of housing costs mainly for incumbent tenants, can discourage the supply of rental dwellings or push up rents, thereby undermining affordability over time. Moreover, housing has often been at the core of financial crises, but there is room for policy, especially prudential regulations, to smooth house price fluctuations and make the economy more resilient to housing shocks.

Making housing more sustainable

The transition to a carbon-neutral economy poses a formidable challenge for a sector that accounts for 17% of global CO₂ emissions and 37% of global fine particulate matter emissions. Progress in this area calls for lowering the carbon footprint of new constructions and improving the energy efficiency of the existing building stock. Almost two-thirds of countries worldwide still lack mandatory building energy codes. Frontloading efforts is critical as dwellings have a very long lifespan. Besides, energy poverty tends to compound the affordability challenge as nearly 20% of low-income people across the OECD report having difficulties heating their homes.

Addressing challenges through concerted policy action

Some policies can deliver progress across multiple objectives. This is the case, for example, of increasing government investment in social housing, alleviating restrictive regulations on land use and shifting housing taxation towards recurrent levies on immovable property. Other reforms may involve trade-offs, calling for compensatory measures to ensure balanced progress. For instance, more flexible regulations on landlord-tenant relations, including rent control, can encourage housing investment, reduce supply-demand mismatches and lower barriers to residential mobility, but they could also penalise vulnerable incumbent tenants in the short term. Similar intertemporal trade-offs apply to relief measures taken during the COVID-19 crisis.

28. **Recovery plans need to reduce the likelihood of a wave of bankruptcies while limiting the further rise in corporate debt.** Finding the right balance between preserving viable firms and letting unviable ones exit the market is an important but delicate task. Financial support to firms' liquidity and temporary changes to insolvency procedures have been effective in reducing bankruptcies, on average by more than 30% relative to the pre-pandemic period, but risk having kept non-viable firms afloat (OECD, 2021^[9]). Another important challenge relates to the dominance of larger companies as users of capital markets. For example, and despite monetary policy initiatives to support corporate bond issuance, the share of first-time corporate bond issuers declined to an all-time low of 21% in the first half of 2020. Moreover, the average size of individual corporate bond issues has continued to increase significantly in the United States and Europe in 2020. Renewed attention should be given to facilitating smaller companies' access to capital markets, which will increase their financial resilience and preserve productive capacity during temporary downturns (OECD, Forthcoming^[10]). Governments can also play a constructive role by supporting firms through non-debt financing instruments, facilitating timely debt restructuring, and increasing the efficiency of liquidation procedures for unviable firms.

29. **The pace of digitalisation has accelerated during the current crisis and is likely to intensify further.** Recovery plans should include strategies to make the most of this development and mitigate undesirable side effects. This involves adopting whole-of-government digital strategies, including actions to address digital divides, strengthen digital security, and develop national data strategies to improve data governance and the interoperability of data protection regimes (OECD, 2021^[11]).

30. **The pandemic has also demonstrated the crucial role of science, technology and innovation in providing responses to urgent social and economic challenges and bolstering future resilience.** While the science system effectively mobilised to combat the virus, this exercise revealed weaknesses both in terms of the domestic mix of policies that need to be more focused as well as the need for strengthened international coordination and support to efforts like COVAX. Consequently, recovery packages in many OECD countries include significant investments in science and innovation. Governments need to use this opportunity to strengthen their science, technology and innovation (STI) capacities through

well-balanced investments; improve incentive structures and address silos within the STI system; link support for innovation more closely to broader public policy objectives, such as climate change; and, crucially, align and co-ordinate industrial innovation and technology policies to collectively support the green transition and improve international science and technology collaboration (OECD, 2021^[12]).

31. **While now is not the time to reduce fiscal support, governments should use the time bought by highly accommodative monetary policy to consider how they can reform their fiscal frameworks to ensure sustainable public finances.** Revisiting fiscal rules could help ensure that policy helps smooth economic cycles and promote long-term growth while having regard for equity and sustainability as well as efficiency. Increasing the scope and independence of fiscal councils and similar institutions could help improve fiscal credibility, long-term sustainability and transparency.

32. **The private sector has a key role to play in promoting a sustainable and inclusive recovery.** Recovery plans will need to leverage private investment, including foreign direct investment (FDI). The forthcoming OECD FDI Qualities Policy Toolkit will help governments assess whether and how FDI contributes to sustainable and resilient economic development and what reforms can help to boost the qualities of investment in a number of areas (jobs, skills, gender equality, productivity and low carbon transition). At the same time, OECD standards on responsible business conduct will help business build back supply chains and jobs that are greener and more resilient to future shocks.

33. **As governments and central banks eventually exit from unprecedented support measures, policy makers and financial markets will need to collectively address several challenges to ensure sustainable and resilient recoveries.** First, high levels of sovereign and corporate borrowing have become even higher, and leverage in many corporate sectors may complicate this exit. Second, while Environmental, Social and Governance (ESG) practices have grown rapidly in recent years, lack of consistency and comparability of metrics, ratings, and approaches call for global guidance to harmonise practices so that market integrity and confidence is strengthened. Third, with productivity growth remaining slow and many smaller firms defaulting, policy makers should consider ways to incentivise corporate deleveraging through equity financing, align such financing with environmental and social materiality, and promote equity financing that supports R&D and other intangibles to contribute to higher productivity growth. Enhanced corporate governance frameworks, building on the G20/OECD Principles of Corporate Governance, will be key for firms to tackle some of the challenges arising from the crisis and enhance the long-term value of companies.

A new dashboard can help monitor progress towards a strong, resilient, inclusive and sustainable recovery

34. **Setting effective policies to foster a sustainable and inclusive recovery and building back better requires a statistical infrastructure that provides timely and disaggregated information on the parts of the economy, places and people that have been most impacted by the crisis.** This concerns a broad range of issues, from household income and expenditures to business closures and stresses on their balance sheets; from impacts on the learning experiences of students to effects on the sustainability initiatives deployed by companies and other stakeholders to achieve a low-carbon economy.

35. **At the 2020 Ministerial Council Meeting, OECD Member countries invited the Secretariat to continue efforts, on the basis of Committee guidance, to develop a high-level indicator dashboard suitable to monitor progress towards a strong, resilient, green and inclusive recovery in OECD countries.** In line with the OECD

approach to measuring well-being, the Sustainable Development Goals and the OECD associated Action Plan, the dashboard should include both traditional economic indicators such as GDP and employment, as well as indicators related to sustainability, inclusion and well-being [[C/MIN\(2020\)7/FINAL](#)].

36. **The proposed work on developing a high-level dashboard of indicators to monitor countries' recovery efforts will leverage existing analytical frameworks and policy approaches at the OECD.** The dashboard adds value by representing one of the first attempts to monitor trends in the quality of recovery along the dimensions identified at the 2020 MCM (strong, resilient, green and inclusive), as well as capturing the intersections as the work evolves. In order to facilitate further policy use and analyses of the crisis management, the dashboard's governance process involves several policy committees to ensure the whole-of-government approach that mirrors governments' decisional process in establishing recovery plans.

37. **The recovery dashboard will serve as a reference for countries when assessing progress in their efforts to build back better** in the aftermath of the COVID-19 crisis and strengthen systematic resilience by taking into account economic performance, social inclusion and environmental sustainability through a broad well-being lens. The dashboard operationalises the concept of resilience in broad terms from the perspective of the recovery and reconstruction, building on more narrowly-defined concepts of resilience in earlier OECD work such as on strengthening *economic resilience* (OECD, 2021^[13]). The dashboard extends beyond the economic aspects of the COVID-19 recovery, as requested by Ministers at the MCM 2020.

38. **The dashboard will monitor all four aspects of the ongoing crisis and recovery (i.e. strong, inclusive, green and resilient).** The first domain ("strong") focuses on the strength and spread of economic activity, looking at GDP growth, household income, employment, health risks and business dynamics. The second domain ("inclusive") focuses on how crisis has affected the income and jobs of the most vulnerable, and whether the efforts to build back better are focusing on ensuring that economies and societies can become more equal, informed by the OECD Inclusive Growth and Well-being frameworks. This dimension concerns non-material aspects of well-being, such as financial insecurity and gender gap in labour underutilisation. The third domain ("green") focuses on progress towards achieving a people-centred green transition, by focusing on climate change, renewable energy, circular economy, biodiversity and environmental quality of life, informed by the OECD Green Growth framework and related work. The fourth domain ("resilient") focuses on the factors that could have helped countries to better withstand the crisis as well as to prepare for future crises. It takes a forward-looking perspective on building back better as it considers the capacity *to absorb* the shocks like COVID-19, the ability *to adapt* to new circumstances, and the agility *to transform* structurally with investment in different types of capitals, while taking measures of digitalisation, innovation and fiscal sustainability into account.

Attention should be paid to the "how to" of recovery plans by building trust and fostering transparency and accountability

39. **The resilience of the recovery will critically depend on the factors and processes driving policy choices and on the capacity of governments at all levels to deliver.** With massive government interventions, the COVID-19 pandemic has been a test case for governments' capacity to make the right choices fast and deliver, while maintaining accountability mechanisms. In some cases, it has highlighted the flexibility, agility and strength of public actors, but in others it has exposed significant weaknesses.

Ensuring effective design and delivery of recovery plans calls for an adequate institutional set up and an effort to “decide and spend better”

40. **As governments transition from crisis management to recovery, it will be important to consider the optimal institutional set up for the design and delivery of recovery plans.** Here, there are key lessons to be learned from the structures and practices put in place to manage the pandemic. There is plenty of evidence of government departments that had previously worked in silos, coming together during the crisis to take more effective and rapid decisions than ever thought possible. Some countries have made structural changes that will remain for the planning and execution of the recovery. For example, in Australia, the National Cabinet, established in March 2020 to respond to the crisis, has replaced the Council of Australian Government as the primary way in which state and territory leaders work with the federal government. Some governments have also mobilised or reactivated multi-level governance structures to ensure coordination between federal/central and subnational governments (OECD, 2020_[14]).

41. **Governments, particularly centres of government (CoGs), will need to draw on institutional and governance practices that have emerged in this period to strengthen their decision-making processes and support the recovery efforts.** CoGs have played a particularly important role in providing support to cross-government coordination during the pandemic (OECD, 2020_[15]). 81% of respondents to a 2021 CoG Survey registered an increased number of co-ordination instances to which the CoGs had to provide support in the wake of the crisis (OECD, 2021_[16]). On 11 March 2021, the top senior civil servants from CoGs in OECD countries (The Network of Centres of Government) met to discuss their role in the design and delivery of recovery plans. They agreed on consensual statement that recognised the vital role that strong public governance and leadership in the recovery, highlighted the critical role of CoGs and called on the OECD to assist them by capturing lessons learned from the crisis and identifying through government-led evaluations and peer learning good practices in OECD countries.

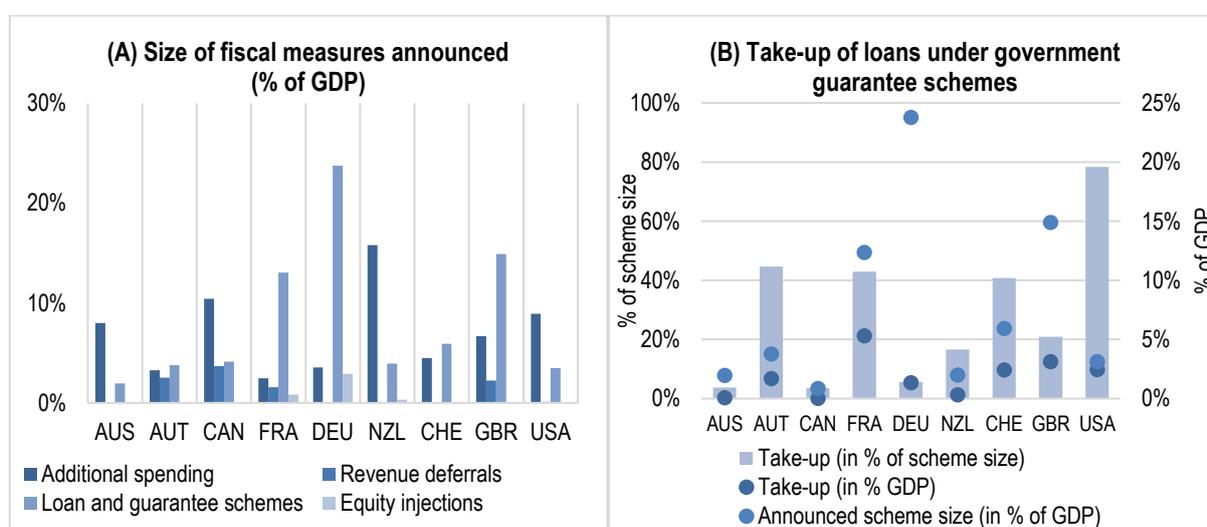
42. **Within this coordination effort, particular attention should be paid to how spending decisions are made.** The COVID-19 recovery plans will represent one of the greatest single injections of public funds in economic history and this opportunity should be used to deliver long-term structural change and benefits. While the Marshall Plan represented approximately 2% of US GDP in the late 1940s, and approximately the same share of the collective GDP of the recipient countries, the current size of the recovery plans exceeds these amounts by a significant order of magnitude. For example, based on current numbers the EU total package represents 16% of its aggregate GDP.¹ The management of the budgetary process is therefore critical. Greater alignment between the short-term objectives of supporting income, jobs and growth, with long-term environmental and other societal commitments will be vital, for example mobilising tools for green budgeting and green public procurement. In September 2020, France published its first “Green Budget”, as part of the 2021 finance bill (OECD, 2020_[17]).

43. **Lessons should be learned from the initial fiscal response to COVID-19 in this recovery effort.** Recovery plans represent the second phase of the government response to the COVID-19 pandemic, for which public finances will have a key role to play. The initial set of emergency fiscal packages announced in 2020 included a mix of traditional government spending and tax-related measures, together with a set of balance sheet items made up of government loans, guarantees and equity injections. According to OECD

¹ 1.9 trillion euros represents 16% of the EU GDP, combining the EU long term budget and the 750 Billion Euros temporary recovery instrument: as presented in ec.europa.eu/info/strategy/recovery-plan-europe_en

preliminary estimates, while the size of these announced balance sheet measures was large, the actual spending was more modest, particularly in some European countries (Figure 3) Significant gaps can be observed between the stated size of these schemes compared to actual claims, due to varying financing needs across countries, differing conditions associated with the schemes, operational bottlenecks, and a greater use of other policy measures, such as grants and short-time work schemes (Falagiarda, Prapiestis and Rancoita, 2020_[18]). While these discrepancies may be due in some cases to a revision in the actual needs from potential beneficiaries in a fast-evolving context when compared to the moment when the measures were announced, governments should strike the right balance between planning, design and delivery modalities and establish appropriate monitoring and evaluation processes to adjust the course when needed.

Figure 3. Initial emergency fiscal measures and their implementation



Notes: (a) Emergency fiscal measures refer to measures announced between March and July 2020. The figures on the size of announced measures are often highly uncertain due to the complexity of the underlying schemes and may not be fully comparable across countries. GDP values refers to 2019. (b) The take-up of loans under the main government guarantee schemes in the emergency fiscal packages is presented in percentage of the scheme's size (left scale) and in percentage of GDP in 2019 (right scale). The information on take-up refers to the latest data publicly available as of 20 December 2020.

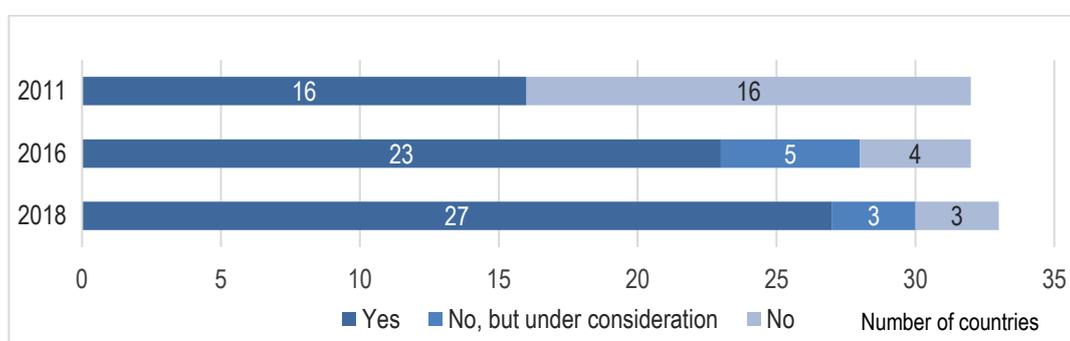
Source: OECD (forthcoming). "Balance sheet-based policies in COVID-19 fiscal packages: How to improve transparency and risk analysis?" Draft Report for consideration by the Senior Budget Officials (SBO) and its Network on Financial Management and Reporting.

44. **Effective budget institutions will be key to support recovery.** Given the magnitude of the fiscal shock in many countries, governments will need to pay closer attention to the budgetary institutions that shape fiscal and broader economic outcomes, such as fiscal rules, independent fiscal institutions, medium term expenditure frameworks, budgetary transparency and performance oriented budgeting. From a long-term perspective, the goal will be to help move economies back on a long-term growth trajectory, which will help to minimise welfare losses, while managing fiscal risks. During the COVID-19 crisis, almost all IFIs provided rapid analysis to inform the public debate, but less than half monitored escape clauses or engaged in costing emergency legislation. About two thirds provided an assessment of government plans (OECD, 2020_[19]). The goal will be to invest in trustworthy institutions, as trust will be a decisive factor in enabling countries to best adjust the speed of fiscal adjustment in a credible way, while taking into account

the need of the recovery. (IMF, 2020^[20]). The possible update of fiscal frameworks and fiscal rules will require close attention.

45. **Ensuring that spending goes to priority areas will be key to success.** A clear focus on core priorities will be key to ensure recovery plans deliver on short and long-term objectives, including climate change and other environmental targets. This will require a strong capacity to focus on new priorities and to reallocate funding across budget areas. Making smart use of spending reviews, is not only a way to reduce deficits, but can also better align spending with priorities. Over the past 10 years, OECD countries have widely increased their use of spending reviews in the aftermath of the global financial crisis (Figure 4). The design of recovery plans could benefit from the architecture put in place to support spending reviews, with a stronger focus on expenditure performance, evidence, and improvements to prioritisation, with a more collaborative approach between ministries, such as the “Insight into Quality” Programme in the Netherlands, and its pilot “public value scans” (European Commission, 2020^[21]).

Figure 4. OECD Countries using spending reviews (2011-2018)



Source: (OECD, 2019^[22])

46. **Spending on the right infrastructure projects will be particularly important to the recovery, in particular to promote environmental sustainability and increase connectivity.** According to the 2021 Survey on the governance of infrastructure, half of surveyed countries identify infrastructure investment as an important element of the COVID-19 recovery packages. Economic and social recovery will require not only additional resources to finance infrastructure, but sound institutional frameworks and decision-making process to ensure resources support government priority areas, and projects are delivered on time and on budget in accordance with international standards, including the ones compiled/included in the OECD Compendium on Policy Good Practices on Quality Infrastructure Investment and the OECD Implementation Handbook for Quality Infrastructure Investment. OECD countries have identified the need to think differently about infrastructure and take a new approach to identifying priority areas for investment better aligned with government priorities (e.g. the transition to a low-carbon economy and other environment objectives, public safety, addressing regional disparities). For example, the Canada Investment Bank’s Growth Plan is focused on investing in transit for cleaner commutes, including zero-emission buses, clean power, green infrastructure with focus on energy efficiency building retrofits, digital connectivity to significantly increase broadband access, and agriculture-related infrastructure. This approach should also include regional and local governments, as they are responsible for 58% of public investment on average in the OECD.

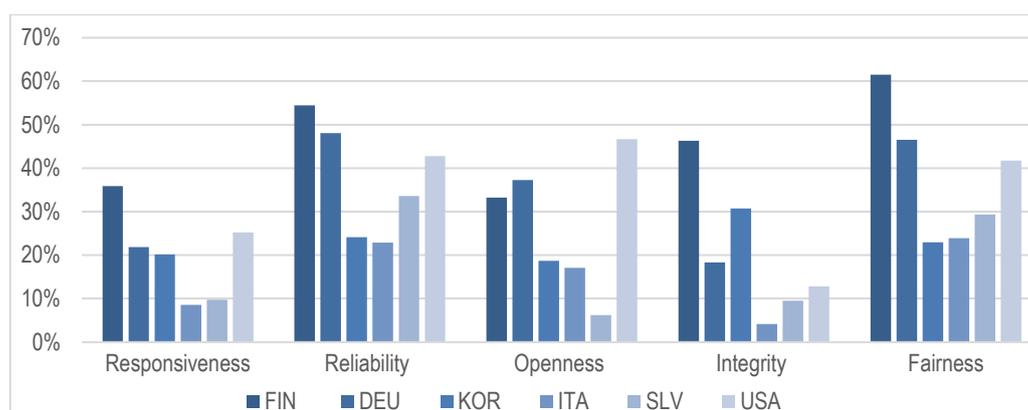
47. **Monitoring the impact of recovery and stimulus measures through measurable, comparable and timely indicators is key to ensuring that the recovery is well targeted and effective in its execution.** The significant support packages require clear accountability for implementation and careful monitoring, both to ensure effectiveness of the expenditure, and also to gradually adjust and withdraw the support when the situation will improve. This also requires coordination to ensure coherence across policy areas and levels of government, with strategic capacities in the centre of government institutions to ensure that line ministries and agencies integrate potential contingencies and identify and reduce eventual barriers to implementation. In Canada, the Privy Council Office and the Treasury Board have recently coordinated their efforts organising “implementation calls” with line departments, also involving the ministry of Finance and Justice, to identify quick responses to the pandemic, identify the most recent data, and resolve any bottleneck.

Engaging people and building trust will be key to a successful recovery

48. A core test of a well-functioning democracy is how governments engage citizens in the decisions they make and how reliable they are in delivering them. The rapid nature of COVID-19 response has meant that citizens in many countries have felt little or no engagement in the decisions taken by their government. According to the 2020 OECD Risks that Matter survey, people feel they have little influence over policies. On average across countries, 49% of respondents say that they disagree or strongly disagree that the government incorporates the views of people like them when designing social policy (OECD, Forthcoming^[23]). However, trust in local government has been higher during the crisis in many countries (which tends to be higher even in non-emergency times) (OECD, 2020^[14]). Redoubling efforts to engage citizens will be necessary as the functioning of many societies is being endangered by some groups dissociating themselves from democratic processes.

49. **The success of the recovery will depend on the trust people have in the capacity of governments at all levels to deliver and to safeguard long-term interests, as well to design and implement plans that are fair, trustworthy, and open to public scrutiny.** This varies significantly by country and topic. For example, the OECD Trust Survey asks whether *people consider their government prepared to deal with systemic shocks such as natural disasters or the spread of contagious diseases*. The results show wide variation across countries (Murtin et al., 2018^[24]; OECD, 2021^[25]). In Finland and Korea, the dimensions of responsiveness (adaptation of services) and reliability (a system that has the capacity to lock-in reforms) of the public sector are the two most important dimensions influencing people’s trust in government (OECD/KDI, 2018^[26]; OECD, 2021^[25]). An analysis of five OECD countries shows that trust in government and support for reforms depend also on people’s belief that these policies are implemented with high levels of integrity and open to citizens’ scrutiny and inputs (Figure 5).

Figure 5. Aggregate of five OECD countries surveyed on trust in government (2018 & 2020)



Note: Comparability may be limited due to one Survey being conducted in a different year.

Source: OECD Trust Survey for Finland (2020), Korea (2018) and OECD Trustlab for Germany, Italy, Slovenia and the United States (2018)

50. **Parliaments, as representatives of the people, have a key role to play to foster trust in the recovery, beyond traditional budgeting and oversight.** When governments commit to unprecedented large-scale recovery packages, engaging with parliament will be important, beyond their traditional role of authorising expenditures and revenue raising. Engaging parliaments in the full budgetary cycle and particularly in medium- and long-term sustainability analysis will help to sustain the credibility of multi-year fiscal commitments as well as consensus on the major forward-looking options for fiscal policy. In two thirds of countries, parliament either debates or approves medium term budgetary frameworks, and in over half of them, parliament debates long term perspectives, although just a third use analysis from an independent fiscal institution (OECD, 2019^[22]).

51. **Efforts to involve citizens more directly in policy-making will also be essential to regain trust and help prioritise reforms.** An open government perspective could help in the design and implementation of recovery plans to ensure that they align with the public's values and priorities. Citizens and stakeholders should therefore be engaged in identifying the priorities of the recovery and in having an informed say in the difficult decisions about spending trade-offs. Evidence collected by the OECD suggests that many countries already involve citizens and stakeholders through national consultations to shape national priorities (e.g. Lithuania and Hungary) and finding policy responses to challenges such as the digital transformation (e.g. Italy) and climate policies (e.g. Spain). In the context of the COVID 19 response: Estonia co-produced technical solutions with citizens to face the emergency phase such as a chatbot to provide essential and accessible information: Colombia opened its draft national vaccination strategy to citizens' for comments in an online platform: and Korea established a multi-level process for citizen to contribute to key decisions to prepare the recovery phase. Representative deliberative processes like Citizens' Assemblies are also well-suited as a form of citizen participation as the questions surrounding recovery plans touch on values, involve complex trade-offs, and are about the long-term. For example, the cities of Nantes in France, Milan in Italy and Bristol in the United Kingdom have each convened a group of randomly selected citizens to deliberate and develop informed recommendations to inform their COVID-19 recovery plans. Other examples in the OECD Database of Deliberative Processes and Institutions (2020) attest to the ability of citizens to shape long-term spending decisions, such as the Melbourne People's Panel, which identified the priorities for the city's 10-year, \$5 billion plan.

52. **Stronger action is needed to promote integrity as a guiding principle in shaping the post-COVID-19 economy and society to rebuild trust.** Discussions among the 6,000 participants at the recent ninth OECD Global Anti-Corruption and Integrity Forum revealed that the COVID-19 pandemic has exacerbated fraud, corruption and integrity risks in governments and business alike. Pre-existing governance weaknesses, the urgency of action, as well as looser controls, resulted in an increase in fraud and corruption cases, notably in the procurement of medical equipment and the implementation of the economic stimulus packages (OECD, 2020^[27]; OECD, 2020^[28]). Both short- and long-term measures are needed, focusing on risk management and internal audit functions, increasing data analytics capabilities and systems to make sure that automated systems effectively identify fraudulent patterns and actors. The engagement of the private sector and civil society in this area will be essential.

53. **Through the recovery, governments should also be attentive to the divisive role that misinformation and disinformation is playing in our societies and their potential to damage trust and democracy.** Data suggests that, for the most part, OECD and non-Member countries lack the necessary capacity for effective responses to these challenges. Among 27 OECD member countries, only 11 CoGs had official documents, policies or frameworks to guide their responses to mis- and dis-information in place at the outset of the COVID-19 crisis (OECD, 2020^[29]). The wave of misinformation and disinformation about the pandemic that pervades social and other media has hindered public communication with citizens, amplifying fears and sowing distrust. In many countries, it has also undermined the response of public bodies to the epidemic and affected citizens' compliance with government orders. Government efforts to provide rapid, transparent and proactive public communication are fundamental for preventing and combatting the reach of misleading content (OECD, 2020^[30]). Governments also need to consider a wider range of responses, including regulatory, civic and media policies that promote a whole-of-society effort to build resilience to mis- and disinformation. At its meeting on 22 March 2021, the OECD Public Governance Committee agreed to take forward work to reinforce democracy in OECD Member countries. They discussed three key pillars for action, one of which was to address the challenges posed by mis- and dis-information for public communication. The two remaining pillars include efforts to improve civic participation, as well as the representation of our diverse societies in public policy; and building government capacity to thrive in the digital age and address global challenges.

A Green Future: The Recovery as an Opportunity to Address Climate Change and Other Environmental Challenges while Boosting Jobs, Incomes and Growth

54. **The COVID-19 pandemic threatens to delay the transition to a low-carbon economy.** This is because the pandemic is increasing uncertainty and hits young and innovative firms hard, making investments in new technologies required for the transition less likely. Recovery plans should act against this risk by “greening” stimulus or public investment programmes and by providing long-term policy signals that help incentivise investment in low or zero-carbon technologies (see section on the green recovery).

55. **The economic stimulus packages and recovery plans that governments are now putting in place have the potential to create a recovery that is both green and inclusive.** Such a recovery would have the potential to create opportunities for income, jobs and growth, and at the same time accelerate action on medium and long-term environmental goals, both national and global. A green and inclusive recovery will significantly enhance the resilience of economies and societies in the face of accelerating environmental

challenges. Importantly, putting people at the centre of green recovery plans can lay the foundations for sustainable well-being (OECD, 2020_[31]).

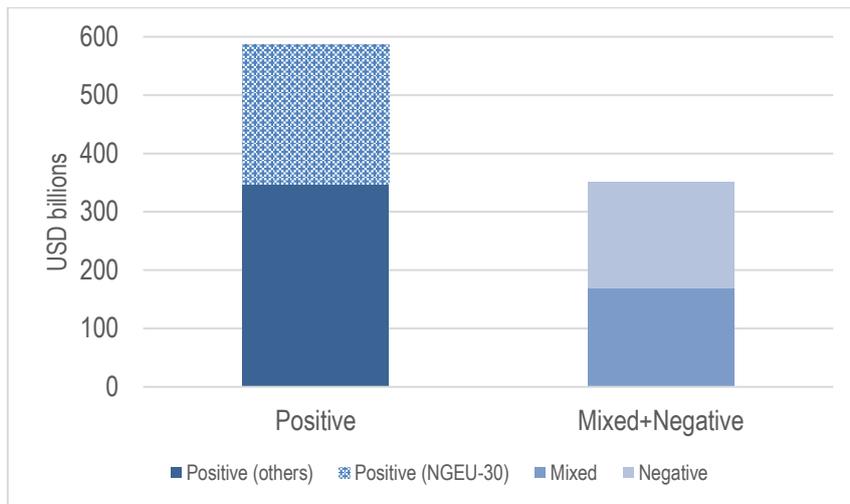
OECD data on green recovery policies suggests a mixed picture

56. **Data from the OECD Green Recovery Database² suggests that OECD Members and Partners are pursuing environmental objectives as part of their recovery plans, although these actions are counteracted by an equivalent amount of measures with a negative or mixed impact.** The database compiles policies related to economic recovery from the COVID-19 crisis that are likely to have positive, negative or mixed implications for the environment.³ The results from the OECD Green Recovery Database show that country-specific measures with a likely positive environmental impact total around USD 336 billion (see Figure 6). By contrast, measures marked as having negative or mixed environmental impacts total around USD 334 billion. While this assessment is likely to continue to evolve as the data is updated and refined, the result suggests that funding for environmentally positive measures is almost matched by funding allocated to negative and mixed measures. This is broadly in line with other tracking efforts published by other organisations, albeit with different focus and scope.

57. **Despite the encouraging finding that there is strong support for environmentally friendly measures, it is important to see this result in the context of wider overall stimulus packages.** The spending tagged as environmentally positive accounts for only around 17% of recovery spending, using an estimate of the total drawn from data from (O’Callaghan and Murdock, 2021_[32]). The small percentage of measures tagged as “green” implies that total stimulus packages overall still lean heavily towards investments in business as usual type activities, rather than the transformational investments required. An important additional factor is EU-wide funding announced through the Next Generation EU programme. As 30% of both the Recovery and Resilience Facility and the React EU facility are earmarked for climate-related investments, 30% of the total has been classed as positive in the hatched bar in Figure 6 (USD 233 billion). The remaining 70% of the overall Next Generation EU envelope has been classified as indeterminate and so is not shown.

² The [Green Recovery Database](#) was initially developed in July-August 2020 and updated in late 2020 and March-April 2021. It was made public on 20 April 2021. The database currently contains around 680 measures spread over 43 countries and the EU. While some sub-national measures are included, coverage focuses on national-level measures, which may skew results for some countries. Measures include tax reduction or other subsidies (not R&D); grant or loan (including interest-free loans and guarantees); regulatory change; skills and training; R&D specific subsidies.

³ Positive measures are those expected to have clear positive environmental impact for one or more environmental dimension, while not having major negative impacts on other environmental dimensions. In contrast, negative measures are those likely to have clear negative impacts on one or more environmental dimensions. “Mixed” measures are those that have clearly discernible positive and negative impacts. Measures that do not have clearly discernible environmental impacts are not the focus of the database, but those which have been included are categorised as “indeterminate”.

Figure 6. Total funding allocated by environmental categorisation

Note: NGEU-30 = Next Generation EU, the EU recovery fund. The funding indicated here represents 30% of the total NGEU allocation, i.e. the proportion that will be earmarked for climate-related investments (including the Recovery and Resilience Facility and ReactEU). The remaining 70% of the total has been marked as “indeterminate” and so does not feature in the analysis. Note that the NGEU funding is available to all EU27 countries, some of which are neither OECD members nor accession/key partners and so are otherwise not covered in the database.

Source: OECD Green Recovery Database

58. **Caution is required when interpreting the database’s results.** Only 80% of measures have funding totals or monetary values allocated, and those that do are not necessarily comparable (e.g. due to timeframe differences, inclusion of loan guarantees, etc.). Further, the database likely under-reports the level of funding allocated towards measures with potentially harmful environmental outcomes.⁴ Also, even where large sums have been allocated towards environmentally positive measures, this does not necessarily mean that the overall packages will be aligned with longer-term climate change plans, such as targets for net-zero carbon emissions, or other important environmental objectives. A more detailed analysis comparing likely emissions implications of each measure relative to net-zero scenarios would be necessary to draw conclusions in that regard (OECD, 2021_[33]).

Green recovery plans can be further strengthened

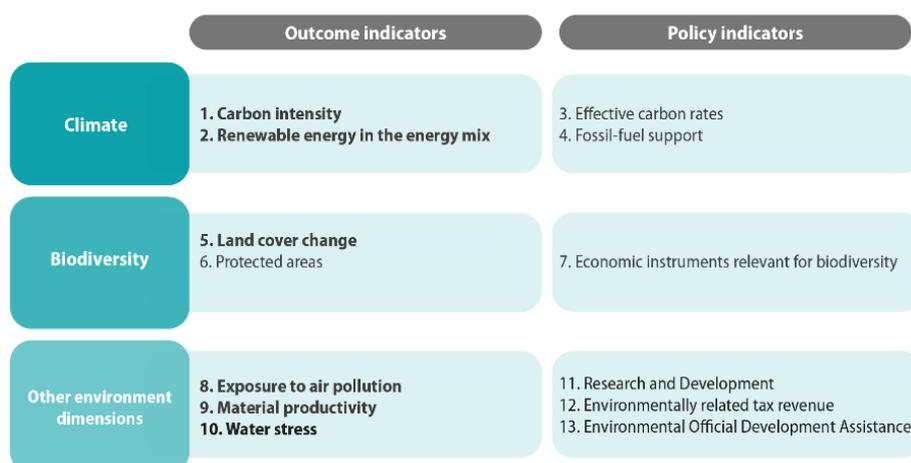
59. **The above data underscore the need to align the short term objectives of boosting income, jobs and growth with long-term environmental commitments (for example with net-zero emissions goals and nationally determined contributions (NDCs) under the Paris Agreement) and enhancing resilience.** While further analysis is required, the preliminary results of the Green Recovery Database raise concerns that such alignment may not be strong enough and that measures are largely having the effect of locking in existing industrial structures or going back to business-as-usual (OECD, 2021_[33]). Seven priorities may be considered in this regard.

⁴ There is a likely bias towards reporting of environmentally positive measures compared to negative measures both in terms of total numbers of measures (as the “green” measures are often more visible) and in terms of funding (because funding is reported for a higher proportion of positive measures (85%) than for negative measures (70%), meaning that negative measures contribute less to reported funding totals).

60. **First, there is still scope for a better matching of the green recovery rhetoric with the reality of expenditure plans.** As noted above, green recovery measures are a relatively small component of overall stimulus packages. Renewed attention is required to ensure that all recovery measures are focused on “building back better” and aligned with long-term objectives such as net-zero emissions.

61. **Second, monitoring the impact of recovery and stimulus measures on environmental outcomes through measurable, comparable and timely indicators and through efficient and effective ex ante evaluation mechanisms is key to ensuring that the green recovery is well targeted and effective in its execution.** To contribute to this effort, the OECD has identified a list of 13 headline environmental indicators derived from its Green Growth Indicators and Core Set of Environmental Indicators (see the Environment at a Glance online platform). Some indicators track outcomes, while others relate to policy measures that governments control directly (Figure 7) (OECD, 2020^[34]). Some of these indicators will also feature on the indicator dashboard to monitor the recovery (see above).

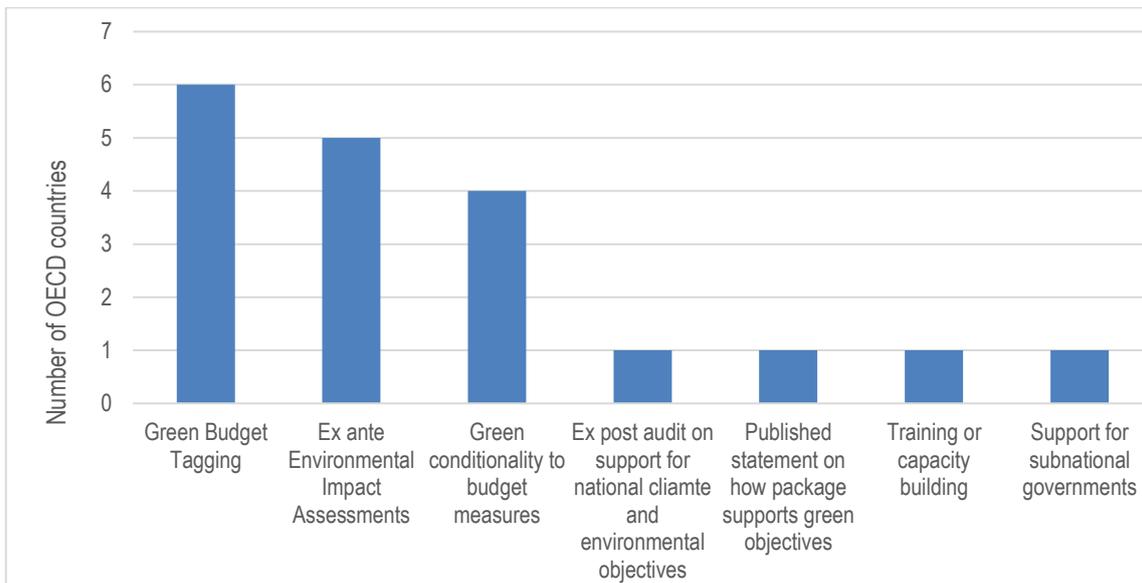
Figure 7. Environmental indicators for a green recovery (in bold, outcome indicators)



62. **Analysis conducted on stimulus packages introduced in response to the 2008 global financial crisis (GFC) showed that very few countries had conducted ex ante or ex post evaluations of the macroeconomic, labour market and environmental effects of the green stimulus measures for overcoming the GFC.** Despite considerable investment, ex ante evaluations relied on sometimes opaque assumptions, while ex post evaluations were generally scarce and face the difficult task of defining a suitable counterfactual against which the impacts can be compared (Agrawala, Dussaux and Monti, 2020^[35]).

63. **The increased use of “green budgeting” in OECD and other countries can help to enhance such transparency around public expenditures, linking recovery measures to crucial yearly budgeting exercises.** A range of tools were used to apply green perspectives to recovery packages implemented in the early half of 2020 (Figure 8).

Figure 8. Green budgeting tools



Note: Represents reported measures taken as of end-June 2020.

Source: 2020 OECD and European Commission – Joint Survey on Emerging Green Budgeting Practices. Forthcoming report. OECD (2021).

64. **Public sectors of OECD countries are not yet widely analysing and publishing the climate effects and environmental footprints of their direct operations, including delivery of public services.** As governments are producing financial accounts and statements, a similar effort on climate and environmental accounts of the public sector could offer valuable incentives for reducing the environmental burden from the side of the public sector. This effort needs to be conducted at central and subnational government level, given that subnational governments are in charge of 64% of public investment related to climate on average in OECD countries (OECD, 2019^[36]).

65. **Third, in order to achieve significant positive progress towards green objectives, recovery plans need to be accompanied by other incentives for both public and private sector operators.** Public procurement, which accounts around 12% of GDP in the OECD countries on average, is one such lever. Recent OECD work shows that most OECD countries have some frameworks in place for using public purchasing to promote environmental objectives. The challenge lies in the degree of implementation, as there are only very few and sectoral binding requirements and monitoring of the use of these requirements is weak. Looking beyond the main contractor to ensure that environmental requirements are met throughout the whole supply chain is a core precondition to deliver on green public procurement. Public buyers still lack capacity and credible standards and tools to verify green requirements in the supply chain in order to address an issue that is increasingly global in nature (OECD, 2020^[29]). Making support for firms under recovery plans conditional on greening or addressing skills gaps that hamper the growth of the low-carbon economy can also be considered, paired with regulatory and fiscal incentives to encourage businesses' efforts to adapt to a changing climate.

66. **Fourth, the contribution of tax policy to climate goals need to be strengthened as part of the recovery.** This includes more systematic use of carbon pricing and commitment to carbon price trajectories, and ensuring that the incentives from tax systems are in line with environmental and carbon neutrality goals. OECD analysis (OECD, 2019^[37]; OECD, 2021^[38]) shows that current carbon prices are too low to incentivise deep

decarbonisation for most energy users. Approximately 60% of energy-related CO₂ emissions from advanced and emerging economies today are entirely unpriced and some of the most polluting fuels remain the lowest priced. The use of carbon pricing revenues can stimulate necessary change by attenuating impacts on vulnerable households and business.

67. **Well-designed carbon pricing and broader tax policy reinforces green stimulus and additionally aligns traditional forms of stimulus with decarbonisation objectives** (OECD, 2020_[34]). Pursuing decarbonisation with green stimulus measures will be much less effective if carbon emissions continue to be under-priced. And where stimulus is not targeted towards decarbonisation, carbon pricing raises the cost of carbon-intensive assets and will steer investment and consumption resulting from non-green stimulus in favour of low-carbon alternatives - without the government needing to identify the most promising technologies and spending choices in advance.

68. **Connecting price trajectories to green stimulus will allow countries to move to effective carbon pricing as the recovery strengthens.** Governments can complement support for green technologies with carbon price trajectories that provide guidance to consumers and producers without the need to raise carbon prices immediately when the economy has yet to recover from the crisis. The credibility of carbon price trajectories is key to enabling long-term investments in low-carbon assets. Statements of intent may not be sufficient to reassure investors (OECD, 2020_[34]).

69. **Redirecting fossil fuel subsidies to sustainable investments and reforming support to agriculture can also help.** Government support for the production and consumption of fossil fuels totalled USD 468 billion in 2019, according to analysis of 81 economies by the OECD and the IEA (OECD, 2021_[39]). As well as encouraging wasteful consumption, inefficient fossil fuel subsidies are an ineffective way to support low-income households compared to targeted benefits and tend to favour wealthier households that use more fuel and energy. Money spent supporting coal, oil and gas could instead be invested in sustainable energy infrastructure, research and job training. In the COVID-19 climate, subsidies drain resources that could be spent strengthening health system preparedness and resilience, for example. There is also an opportunity to reform support to agriculture to improve both the sustainability and performance of the sector (OECD, 2020_[40]). Reforms offer scope for win-wins, as environmentally harmful support is also found to have a negative impact on farm technical efficiency and productivity (DeBoe, 2020_[41]).

70. **Fifth, governments will also need to support the diffusion of existing low or zero-carbon technologies, and accelerate the development of green technologies that are not yet fully ready for the market.** This will require a combination of policy instruments including continued public investment in R&D, as well as support for business R&D and innovation through tax incentives and well-designed direct support (OECD, Forthcoming 2021_[42]; Anderson et al., 2021_[43]). In this context, OECD analysis has found that well-designed direct grants for R&D are better suited to supporting longer-term, high-risk research, and to targeting innovations that generate public goods (e.g. in health or the environment) than tax incentives for R&D (OECD, 2020_[44]). More generally, orienting science and innovation towards improving the environment is essential for reducing the cost of a green transition as well as increasing the options for policy makers.

71. **Sixth, governments need to accelerate the building of climate resilience by enhancing adaptive capacity.** Both climate change adaptation and mitigation policies have the potential to significantly reduce the impacts of climate change. While countries strive to scale up their mitigation efforts, adaptation remains indispensable to protect communities from the detrimental impacts of climate variability and change. Many opportunities exist to implement climate actions that bring both adaptation and mitigation

benefits across different sectors, notably in forestry, agriculture and land management, water management and urban planning (OECD, 2021^[45]). The OECD Environment Policy Committee (EPOC) set up the Task Force on Climate Change Adaptation to gather best available intelligence on this multifaceted agenda and inspire appropriate policy responses from governments and their partners.

72. **Last but not least, recovery measures aimed at achieving environmental objectives, including tackling climate change, also need to have a strong focus on creating lasting, quality jobs.** This requires measures to support, retrain and relocate workers in industries likely to be negatively affected, to ensure a “just transition”. The relatively few measures in the Green Recovery Database focused on skills training and on innovation point to an opportunity to direct more attention to measures that can drive a just transition.

73. **Recovery measures aimed at fostering a just transition also have a strong territorial dimension, as the challenges are more acute in regions in industrial transition.** Carbon-intensive industries like agriculture, mining and energy often are important employers in rural regions with low economic diversity. Similarly, putting a price on carbon can increase transport costs for rural households and firms reliant on car and truck transportation. This can result in discontent about transformation measures that are geographically blind. Supporting a just transition towards low-carbon activities requires a territorial dimension in policy instruments. It is, for example, the approach followed by the European Union with the Just Transition Fund, which focuses mainly on the regions and sectors that are most affected by the transition due to their dependence on fossil fuels and on greenhouse-gas-intensive industrial processes. The geography of job losses due to the green transition is perhaps more identifiable than where the new jobs will be created. Local employment and skills systems will be increasingly called upon to help workers make these transitions to new opportunities.

There is need to elevate climate action at the national and international level

74. **International action on climate, embodied in the Paris Agreement, aims to limit global warming to well-below 2°C, with efforts to limit the average surface temperature increase to 1.5°C.** The Agreement also aims to increase the ability to adapt to the impacts of climate change and foster resilience and low greenhouse gas development in a way that does not threaten food production. Importantly, as a means to an end, it also aims to make finance flows consistent with such low-emissions, climate-resilient development pathways.

75. **Achieving these global goals faces different challenges and opportunities.** Mitigation action contributes to a global public good – the continuation of stable climatic conditions – yet faces the economic challenges of under-provision. Individual countries do not capture the full benefits of their mitigation action, leading to risks of free-riding by some members of the international community. At the same time, the co-benefits of mitigation action, including potential economic and health gains, could provide incentives to more ambitious efforts. Adaptation action faces different incentives since each country captures a far higher proportion of the benefits of increased resilience to climate impacts (there are some spillovers, e.g., linked to trade). However, countries have different resources and capabilities and face different challenges in adapting to climate change, with the poorest and most vulnerable, such as least developed countries (LDCs) generally facing the most difficulties.

76. **The Paris Agreement tries to address these issues in three main ways. First, by creating an institutional mechanism that can provide transparency and help build confidence in action** through repeated cycles of national, bottom-up commitments of national mitigation and adaptation contributions, regular reporting and assessment at a collective level of the adequacy of all such commitments to deliver on the Paris goals. Key to this process will be the five-yearly Global Stocktakes, with the first due in 2023. Decisions at COP26 on the Paris Agreement's Enhanced Transparency Framework could pave the way for the Agreement's increased ambition, reinforcing trust across countries and credibility of action.

77. **Second, by reinforcing international cooperation through the provision and mobilisation of climate finance by developed countries for developing countries, for both mitigation and adaptation action.** At COP 21, it was also decided that developed countries' commitment to provide and mobilise USD 100 billion of climate finance by 2020 would continue through to 2025. The most recent published OECD figures show that, with USD78.9 billion in climate finance provided and mobilised for developing countries in 2018, developed countries remain short of the goal for 2020 (OECD, 2020^[46]). Indeed, challenges to comprehensively tracking flows remain, potentially affecting annual figures through 2020. In particular, different definitions to those agreed by all countries in the UNFCCC framework of what would count as climate finance put forward by some NGOs and developing countries would also make the gap to the goal seem far larger. A further complex issue in the years to come is to reach an agreement on a new collective quantified goal post-2025, which developing countries are likely to want significantly scaled up and to include incentives for more targeted mobilisation for adaptation and vulnerable countries. This is mainly to reflect developing countries' increasing concern over the potential losses and damages they face from climate change (i.e., the residual damages once mitigation and adaptation action have been taken). On the other hand, some countries may argue for a broadening of the donor base to support the most vulnerable.

78. **Finally, the role of international carbon markets in implementing the Agreement is potentially a third strand** if agreement can be secured at COP26 on Article 6 and on the modalities for the trading of emission reductions, which has so far proved elusive.

79. **National commitments and efforts on climate change mitigation, embodied in NDCs, are still insufficient to meet the temperature goal of the Paris Agreement.** The Paris Agreement requires Parties to communicate new or updated NDCs every five years. The first cycle of NDCs, submitted by most countries in 2015, did not reflect the level of collective ambition needed to achieve the Paris Agreement's temperature goal, with analysis suggesting that even if all conditional NDC targets were met by 2030, a GHG emission gap of 29GtCO₂e would remain to stay within the 1.5°C pathway assessment of the IPCC Special Report of Global Warming of 1.5°C (UNEP, 2019^[47]). The second cycle of NDCs due by 2020 shows a modest increase in ambition. An initial synthesis report of the 48 new or updated NDCs, communicated by 75 Parties by December 2020, indicates that there has been an increase in countries' mitigation ambition as well as in the attention on adaptation planning and priorities (UNFCCC, 2021^[48]). Yet, estimated reductions in GHG emissions resulting from the new or updated NDCs still fall far short of what is required to stay well-below the 2°C goal. This underlines the need for countries to significantly strengthen their mitigation commitments and actions in the near future, considering the extensive lifespan of most infrastructure assets that, if not compatible with a well-below 2°C pathway, hold the risk of GHG lock-in.

80. **Encouragingly, since 2019, an increasing number of Parties have made commitments towards meeting carbon or climate neutrality before mid-century.** As of April 2020, 44 countries (including 22 OECD countries) have net-zero targets enshrined in law or in a policy document, with 88 other countries discussing their adoption. Bringing on board of net-zero targets a larger share of countries would significantly increase the chances of achieving a sufficient ambition level. However, concomitantly, there is a need to translate these targets into concrete action. To ensure their achievement and the transformations needed across all sectors of the economy, including efforts to improve resilience and adaptation to the effects of climate change, these long-term ambitions need to be supported by robust implementation strategies and reflected in short- and mid-term plans, including the NDCs.

Box 4. The OECD International Programme for Action on Climate

The OECD has created a new **International Programme for Action on Climate (IPAC)**, led by France. IPAC's objective is to offer participating countries a new steering instrument, complementary to and consistent with the UNFCCC and the Paris Agreement, to pursue progress towards the transition to net-zero greenhouse gas emissions goal and a more resilient economy by mid-century, thanks to a precise evaluation of their action and the sharing of good practices. IPAC would leverage the OECD's proven working methods to develop evidence-based analysis and sharing of good practices and results, building on existing data and indicators, policy tools, advice and guidance developed by the OECD family, including the International Energy Agency (IEA), the International Transport Forum (ITF) and the Nuclear Energy Agency (NEA).

The IPAC programme will have four pillars:

- An *Annual Climate Action Monitor*, building on a set of commonly agreed climate-related indicators, which will provide a digest of countries' progress towards their climate policy objectives, alignment with the Paris Agreement goals and examples of good practices.
- A *dashboard of climate-related indicators* to allow for a tailored assessment of countries' progress against national and international objectives in a timely manner.
- Concise *country notes* with targeted policy advice, informed by the set of climate-related indicators. The country notes will take into account countries' economic structure, specific social and geographical factors.
- An *interactive platform for dialogue and mutual learning across countries*. The platform will provide online discussion among countries using a dedicated Community site.

The IPAC initiative seeks to be broader than OECD membership. It will be open to OECD Key Partners, the six prospective OECD members and G20 countries. IPAC will be funded by voluntary contributions.

81. **In this context, long-term low-emissions development strategies (LT-LEDS) represent an opportunity for governments to bridge the gap between long- and short/mid-term ambition.** Ideally, mitigation and adaptation commitments put forward by NDCs would be concrete milestones along the long-term pathway towards LT-LEDS and national net-zero targets, helping to translate long-term commitments into concrete actions for the near future. Further, LT-LEDS can help to take a systemic approach to define a long-term vision that focuses not only on climate change mitigation but also on other social, economic, or environmental goals, including resilience and adaptation. Such an integrated, whole-of-government approach could enable synergies between climate action and other

policy objectives, including those related to sustainable development, facilitating buy-in from stakeholders. Exploring various scenarios, including low energy demand scenarios that account for systemic redesign and behavioural change, could represent an alternative narrative that is more likely to achieve all climate objectives while delivering on other policy objectives. Importantly, these strategies can significantly influence decision makers' choice of investment and financing priorities for the short- and mid-term and contribute towards the collective goal of making finance flows consistent with a low-emission development. Plans for robust LT-LEDS and net-zero targets acquire even more relevance in 2021. The emergence of COVID-19 and the development of recovery packages to respond to the crisis offer an unprecedented opportunity to invest in the transformations needed, if the recovery pathways present a central focus on the achievement of climate goals and wider well-being, looking beyond economic growth alone.

82. **Adaptation efforts are also key.** Ambitious and early emissions reduction action is the best way to limit the scale and range of hazards that societies will need to address. Climate change will, however, cause increasingly severe and potentially irreversible impacts to societies, economies and ecosystems, even if it is collectively succeeded in keeping the surface temperature increase to well-below 2°C in line with the Paris Agreement. Action to increase societal and economic resilience to the increased frequency and intensity of some extreme events and to slow-onset events such as sea-level rise and ocean acidification is therefore an urgent priority. The risks of climate change can be seen as a product of the hazard (e.g. a drought or flood of a given intensity and frequency of occurrence), the exposure of people and assets and their vulnerability to the impact of the hazard should it occur. Policy needs to address all these aspects. The use of Nature-based Solutions can reduce the intensity of the impact of a given hazard, for example, mangroves can reduce damaging storm surges on coasts. Planning regulations that limit developments on risks flood-plains or low-lying coastal areas can limit exposures to climate hazards, while vulnerability can be reduced through hard protective measures or effective societal responses to hazards (e.g. evacuation in advance of the landfall of a tropical cyclone). The poorest and most vulnerable will need to adapt to a level of climate risk over which they have no control. International financial, capacity-building and technical support for adaptation action in developing economies is therefore key to enhancing resilience in the poorest and most vulnerable economies. International climate finance in relation to the USD 100 billion commitment, however, has been largely focused on mitigation activities with only about 20% of finance devoted to adaptation. Insufficient mitigation action globally and insufficient adaptation locally will lead to increased risks of losses and damages from climate change.

Sustainable finance and private sector engagement will be key to meet environmental challenges

83. **Achieving the climate objectives agreed in the Paris Agreement requires an unprecedented acceleration of financial flows into climate-aligned investments, and a structural shift away from investments in emissions intensive activities.** At a time when public investment is being channelled into recovery efforts, governments can play a critical role in leveraging private finance to help companies realign their business models towards net-zero emissions pathways, including in the design and implementation of stimulus measures in response to the COVID-19 crisis.

84. **Practices by institutional investors and global asset managers in OECD and G20 countries, with more than USD 64 trillion of assets under management, need to better align with climate objectives to facilitate capital towards the Paris Agreement goals (OECD, 2020^[49]).** While ESG investing and broader sustainable finance have also

rapidly increased in the past few years, challenges remain (OECD, 2020_[50]). Positive international developments include those through initiatives such as the Financial Stability Board's industry-led Task Force on Climate-related Financial Disclosures (TCFD), the development of sustainable finance taxonomies, and the growth in green bonds issuance (OECD, 2020_[51]).

85. **Private actors, such as landowners or businesses, can make an important contribution to the use of nature-based solutions (NbS).** In the absence of performance data and of awareness around NbS, the case studies show that public funding instruments can play an important incentivising role to increase the use of NbS and generate financial contributions from the private sector (OECD, 2021_[52]).

86. **The world is still a long way from aligning finance with environmental and climate objectives.** The lion's share of financing is not yet sustainable, with current sustainable finance approaches exhibiting a number of challenges that undermine their appropriate use to reallocate capital in support of the low-carbon transition (OECD, 2020_[53]). Notably for ESG investing, these challenges include inconsistencies, lack of comparability of ESG criteria and rating methodologies, and limited clarity on the extent to which ESG ratings can unlock information relevant to valuations in line with the low-carbon transition (Boffo, Marhsall and Patalano, 2020_[54]). In addition, a new OECD empirical study of institutional infrastructure investment shows that institutional investors hold only USD 314 billion in green infrastructure (OECD, 2020_[55]), even though making infrastructure climate-compatible will require only a 10 percent incremental increase in expenditure over known levels (OECD, 2017_[56]).

87. **Countries are also far from addressing the global loss of biodiversity and ecosystem services, which are being destroyed at an unprecedented and accelerating rate.** Protecting biodiversity is also vital for avoiding the next pandemic (OECD, 2020_[57]). The pandemic has underscored the importance of environmental health and resilience as a critical complement to public health (OECD, 2020_[58]). Yet, investors' and businesses' awareness of and commitment to biodiversity action remain limited. This is despite a few encouraging initiatives to build momentum in the lead-up to fifteenth meeting of the Conference of the Parties (COP15) to the Convention on Biological Diversity (CBD), such as the future Task Force on Nature-related Financial Disclosures.

88. **For sustainable finance to better align with environmental and climate-related objectives, a shift is needed towards a financial system that can measure and manage its climate and biodiversity impact on people and the planet.** Importantly, there needs to be improved assessment, management and disclosure of corporates' and financial actors' adverse climate and biodiversity impacts and risks on society and the planet in line with due diligence standards on responsible business conduct (OECD, 2011_[59]; OECD, 2018_[60]), from both a financial and environmental materiality perspective. This includes improving the metrics by which to assess companies' environmental, biodiversity, and climate transition-related strategies in line with science-based targets, and greater commitment to the verification of such strategies, so that market participants are better able to track commitments to actions over time (Boffo, Marhsall and Patalano, 2020_[54]). In addition, greater transparency, consistency, comparability of metrics and methodologies used in sustainable finance approaches including through an ESG data metrics repository, could support the appropriate use (including by reducing ESG or green washing) of sustainable finance to better support environmental and climate-related objectives (OECD, 2018_[60]).

An Inclusive Future: A Recovery Leaving No One Behind

89. **The recovery will be inclusive only if it benefits all members of a community rather than a few.** This will require addressing inequalities in outcomes and ensuring equal opportunities to all. “Building back better” involves more than reverting to the pre-pandemic status quo; it calls for creating an economy that works to the benefit of a much wider larger share of the population. A focus on the inclusion of the recovery is important as the impacts of the COVID-19 crisis have been uneven among regions and across the population, often reflecting pre-existing inequalities.

90. **The COVID-19 crisis is already having an uneven labour market impact, and disproportionately affecting already-vulnerable population groups.** Considering the needs of vulnerable groups (e.g. low-skilled workers, people with disabilities, minorities, indigenous peoples and rural communities) in recovery plans will be important to ensure that the recovery leaves no one behind. For example, migrant workers have been on the front line of the crisis – on average one in four doctors, one in six nurses, and more than a third of the workforce in key sectors, such as transport, cleaning, food manufacturing and IT services are immigrants. Yet, much of the past decade’s progress in employment rates among immigrants has been wiped out by the pandemic, and immigrants’ unemployment increased more compared to their native-born peers (OECD, 2020^[61]). Indigenous peoples and rural communities, already disadvantaged by longstanding, and often place-based, disparities, such as higher disease and mortality rates, limited access to health services and infrastructure (clean water, broadband), overcrowded housing and higher poverty rates, have also been hard hit by the economic and social impacts of the pandemic.

91. **Beyond the health and labour market impacts, due consideration needs to be given to the broad effects of this crisis on non-material aspects of people’s life,** such as social connections, trust, loneliness, mental health, work-life balance and more. The pandemic has affected all these aspects, with effects that are diverse in their nature and vary significantly among groups. Policy efforts should not only limit such inequality-inducing effects of the pandemic, but also address pre-existing gaps between groups. They need to take the multiple dimensions of people’s well-being into account.

92. **Women experienced greater declines in employment than men at the onset of the crisis** (with job losses of 7.0% in January 2021, compared to 6.6% for men), while the gender gap in unemployment rates widened from before the crisis (i.e. 5.2% for women, as compared to 4.6% for men, across OECD countries in 2019). Not only do women dominate employment in the care sector, they also provide most unpaid work at home. Across OECD countries, on average, women spend around 2 hours per day more on unpaid work than men.

93. **Special attention must be also paid to young people, who are being disproportionately affected by weakened labour markets, as was also the case during the last financial crisis.** High-school students in most OECD countries have missed out a substantial amount of class time as a result of the pandemic, which risks being reflected in their education and labour market outcomes as young adults in the near future.

94. **The spread of coronavirus, combined with large-scale confinements and workplace closures, has had a disproportionate impact on the most vulnerable, notably informal workers and their households, which have been exposed to higher incidence of disease, occupational hazards, and risk to fall into poverty.** The pandemic-induced global new poor is estimated to be between 119 and 124 million in 2020. In 2021, the estimated COVID-19-induced poor is set to rise to between 143 and 163 million ([World Bank, 2021](#)). Informality affects most workers globally, representing 61% of total world employment and around 70% of total employment in developing countries. Moreover, in

developing countries, the majority of children living under five live in households that are supported by informal workers only (OECD/ILO, 2019). In Latin America and the Caribbean, just over half of all workers are informally employed (more than 55%), especially youth (62%) and elderly (78%), and close to 40% of total workers were not covered by any kind of social protection system at the time of the outbreak of the pandemic. In Africa, the informal sector remains the main gateway to job markets for the vast majority of the working-age population. This is the case for 75% of graduates aged 15-29 and for 88% of women. By 2040, own account and family workers will represent 65% of employment under current trends and at least 51%, even in more optimistic scenarios (AUC/OECD, 2021).

More focus is needed on the gender-differentiated impact of COVID-19 to help design and implement more inclusive policies.

95. **Much of the economic and social fallout from the COVID-19 pandemic has disproportionately affected women, threatening progress towards achieving the Sustainable Development Goals.** At the onset of the crisis between February and July 2020, the OECD unemployment rate for women has increased from 5.4% to 8.2%, which illustrated a slightly greater increase than for men (from 5.1% to 7.4%). By February 2021, the unemployment rate had declined back to 6.9% for women and 6.5% for men with a year-on-year increase of 1.5 percentage points for women and 1.4 for men. Over the same period, however, more women (-2.0%) than men (-0.6%) dropped out of the labour force (OECD, n.d._[62]). The potential long-term scarring effects of the crisis on women in the labour market could affect the prospect of reducing the gender gaps both in wage and in the labour force participation rate. Gender inequalities during the course of a life – including through unequal share of unpaid work at home, persisting pay gaps, lower levels of financial literacy – can be exacerbated by the crisis (OECD, 2021_[63]). Women are leading the health response, making up almost 70% of the global health care workforce. Women are also shouldering the increased unpaid care and domestic responsibilities due to changing working styles and widespread school and childcare facility closures. Women also face high risks of gender-based violence (OECD, 2020_[64]).

96. **Yet, according to an OECD Survey, only some governments have developed targeted response to mitigate the disproportionate impacts on women.** For example, of 26 OECD countries that responded to the survey, only 11 reported explicitly used assessments of the different impacts of policies on men and women to inform the design and/or delivery of policy responses and measures in responding to the pandemic⁵ (OECD, Forthcoming 2021_[65]). For example, further policy considerations are required to provide women with skills to connect with better jobs in expanding firms and sectors (e.g. the green economy), taking advantage of job reallocation caused by the crisis (OECD, Forthcoming 2021_[66]).

97. **Gender mainstreaming informs governments by shedding light on the different impacts that policies may have on women and men.** It can also help decision-makers understand challenges faced by people with intersecting factors (e.g. sex, age, ethnicity, race, socio-economic background) in policy response, which in turn further requires better collection of timely and quality data on gender and intersecting inequalities. This is especially important in the recovery process as governments invest in institutional

⁵ The OECD conducted this survey throughout the month of April 2020, and there have been no updates or further reiterations of this survey since the original. Therefore, survey findings reflect the responses of countries at the time of the conduct of the survey in April 2020.

and structural reforms and adopt further economic stimulus and support packages with future implication. There is thus a unique opportunity to integrate gender considerations in recovery policies to build more resilient and stronger economies and societies.

98. **Women’s leadership and decision-making holds the key to effective gender mainstreaming.** Over years, some progress has been made. In the public sector, 31.6% of the seats in the lower/single house of parliaments across OECD countries were held by women in 2021, in comparison to 26% almost a decade ago. However, in emergency situations such as in this crisis, women made up only 24% of the members of COVID-19 task forces globally (OECD, 2020_[67]), reflecting absence of gender diversity in decision-making. Gender-balanced leadership can help build citizens’ trust in public institutions, which will be a key enabler for a sustainable, inclusive and resilient recovery.

99. **Gender-based violence (GBV) remains a global “pandemic,”** having a devastating long-term impact on health and mental health well-being. Even before the crisis, one in three women experienced physical and/or sexual intimate partner violence or non-partner sexual violence in their lifetime (WHO, 2021_[68]). GBV is a complex phenomenon that exists in many different forms and may be experienced within family and intimate relationships, in public spaces and workplaces, as well as online. Acts of GBV can affect all aspects of victims’ lives, including their access to education, employment, housing, health care and justice, as well as their physical and mental well-being and health. It also has wider consequences involving our economies and societies.

100. **The COVID-19 pandemic, among its many other effects, has exacerbated the GBV crisis.** For example, calls to the national domestic violence helpline in Colombia went up by 150% between 25 March and 25 June 2020 compared to the same period in 2019, while in France, reports of domestic violence cases increased by more than 30% in March 2020 after a first lockdown was implemented (OECD, 2020_[69]; Government of France, 2020_[70]). Structural challenges associated with GBV (e.g. strategic planning, policy co-ordination, and long-term investment in integrated service delivery) have hindered effective responses. The pandemic has thus underlined the importance of strategic co-ordination between all public and private institutions and services to end GBV as well as to address deep-rooted causes of GBV, including socio-cultural norms and restrictive masculinities (OECD, 2021_[71]).

101. **Ending GBV has been a top priority in gender equality for OECD Members,** according to surveys conducted before and during the pandemic (OECD, 2017_[72]; OECD, 2020_[73]). The OECD report on “Strengthening Governance and Survivor/Victim-centric Approaches to Eliminating GBV” supports Members design and implement effective policies to tackle these challenges.

An inclusive recovery from COVID-19 calls for specific attention to youth to avoid scarring effects

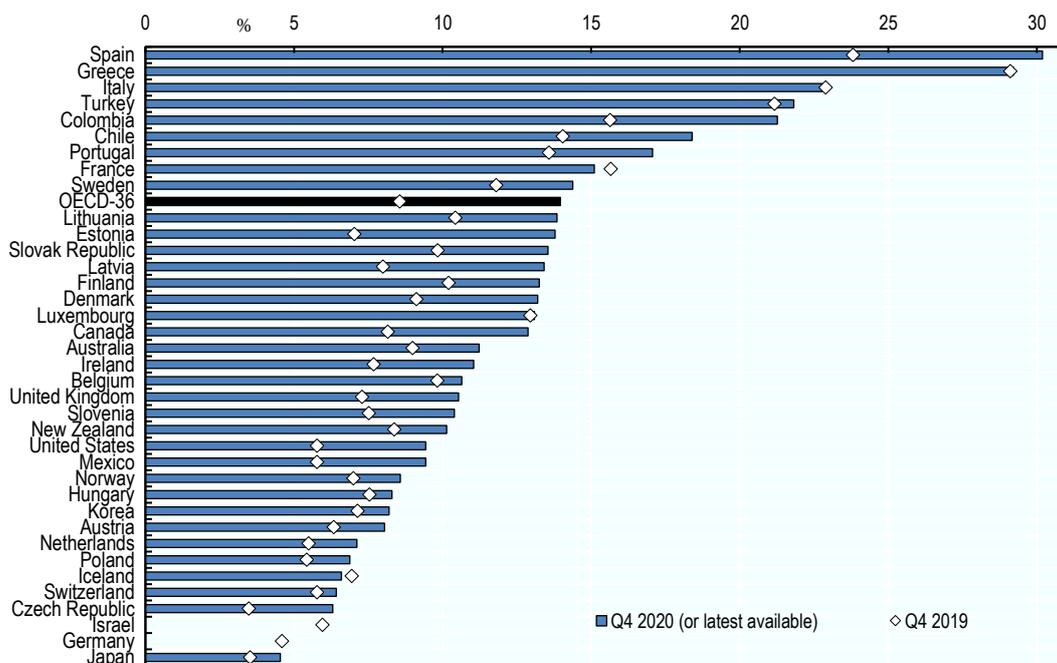
102. **The current crisis has underlined the vulnerability of young people.** Many lost their jobs and incomes, or are facing significant hurdles in transitioning to the labour market. Others are severely challenged by remote learning, difficult situations at home, physical distancing measures, depression or anxiety.

103. **School closures and remote learning have complicated access to high-quality education for many young people.** Slowing learning in key academic domains raises the risk of school dropout and threatens to exacerbate existing inequalities. These impacts will fall most severely on those from regions with poor digital infrastructure and those with disadvantaged backgrounds who have lacked the means and networks to access alternative

support (e.g. out-of-school learning). In particular, youth in vocational educational programmes, who face difficulties delivering remotely, face setbacks.

104. **Unemployed youth and new graduates are facing significant hurdles in transitioning to the labour market.** Their chances of finding a job are poor as companies have curtailed hiring, internships and apprenticeships in response to physical-distancing measures and reduced activities. These lost opportunities risk creating long-lasting scarring effects on young people’s career prospects as well as on broader social and well-being outcomes. Youth unemployment rates have increased in nearly all OECD countries, twice as much as for older generations. By the end of 2020, the average OECD unemployment rate for 15-to-29 year olds was 13.8%, a 5-percentage point increase year-on-year, amounting to a total of 23.4 million young people (Figure 9). On top of this, **since the global financial crisis, under-employment or low-paid jobs have become increasingly widespread among young people**, including among highly educated ones. Informality rates among young people remain high in most developing countries. Some movement away from traditional jobs has challenged access to social protection systems, skills development opportunities, and basic labour rights for an increasing number of young people.

Figure 9. Unemployment rates of young people aged 15-29



Note: As a percentage of the youth labour force, 2019-Q4 and 2020-Q4 (or latest quarter available).

Source: European and National Labour Force Surveys.

105. **Providing the right support to the young is especially important in transitions from school-to-school and school-to-work, where the most vulnerable youth are at risk of “falling out of the system” if they do not receive well-coordinated support.** Responsibilities for the delivery and coordination of youth support measures often lie at regional and local level, so engaging these partners is critical. Limited access to income support programmes further aggravates the situation of youth. Governments have been scaling up income support measures, but these do not necessarily reach all young people in need, due to ineligibility to unemployment insurance and sometimes-limited access to social assistance schemes.

106. **Prevalence of depression and anxiety among young people surged in many countries at the onset of the crisis, and continues to increase in some countries.** Social isolation and uncertainties about the future may be contributing to worsened mental health, on top of disruptions to mental health support in schools and universities, and the temporary closing of institutions for social, cultural and sport activities. The OECD Risks That Matter survey shows that on average across 25 OECD countries, 34% of people aged 18-29 reported that their mental health has been affected by the crisis (OECD, Forthcoming^[23]). While young people traditionally score much better on mental well-being than the rest of the population, the *Living, working and COVID-19* survey found that, in April 2020, 55% of young people were at risk of depression, compared to 48% in the rest of the population (Mascherini and Campajola, 2020^[74]).

107. **Not all young people face the same difficulties.** Disadvantaged young people face an increased risk of high and persistent unemployment, poor quality jobs when they do find work, and social exclusion. As vulnerability stems from a range of complex factors that compound over time, investing in child well-being is crucial and involves coordinated action. In particular, governments should foster early learning and the development of socio-emotional skills as a way to promote equal opportunities for all children.

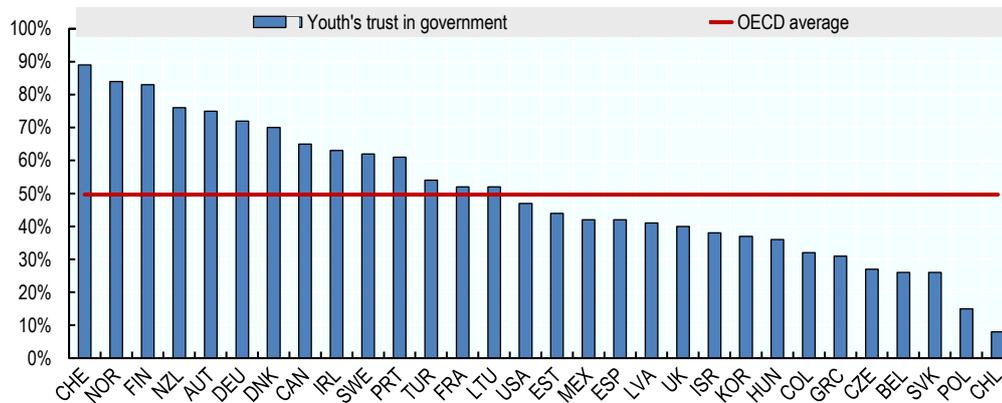
108. **Nearly half of young people expressed an interest in entrepreneurship, yet only 7.4% actively tried to start a business across the OECD.** Young people have also shown growing interest in social entrepreneurship and employment. Entrepreneurship educational opportunities for youth, improved support for entrepreneurship, and financial education could all help.

109. **Young people's transition to an autonomous life has become harder in recent years due to rising housing prices.** Home ownership is increasingly out of reach for young people in some OECD countries, limiting their ability to build up wealth. On average across OECD countries, most young people aged 20-29, in the face of reduced opportunities in the housing market, still live with their parents – with the share reaching over 70% of youth in several OECD countries (OECD, 2021^[75]). Indeed, it takes more than ten years of annual income to buy a home today, compared with less than 7 years a generation ago (OECD, 2019^[76]). It is thus no surprise that in 2020 nearly 60% of young people reported that they were concerned or very concerned about not being able to access adequate housing, compared with around 44% of the rest of the population (OECD, Forthcoming^[23]). Young people from low-income families are particularly affected, as they are less likely to be high-income earners, and less able to rely on family resources for acquiring real estate.

110. **The economic and social consequences of the COVID-19 crisis could have lasting impacts on young people's trust in government and public institutions, which was already limited in recent years.** For example, in the majority of OECD countries, less than half of sample of young people surveyed in the Gallup World Poll expressed trust in their government in 2020 (though there is considerable variation) (OECD, 2020^[77]).

Figure 10. Youth's trust in government

(Percentage of people aged 15-29 expressing trust in the national government, 2020)



Notes: The data presented in the figure represents the percentage of a small sample of people aged 15-29 in each country (from 101 to 435 people) replying "Yes" to the question "In this country, do you have confidence in each of the following, or not? How about national government?" 2020 data for Australia, Iceland, Italy, Japan, Luxembourg, the Netherlands and Slovenia for this age group is not available.

Source: OECD calculations based on Gallup World Poll (Database).

111. **Young people continue to be underrepresented in policy-making and state institutions.** While people aged 20-40 represent 34% of the population, they account for just 22% of the members of Parliament (OECD, 2020^[78]). Providing spaces for youth to engage in decision-making is critical to ensure they have a say in finding solutions to challenges of intergenerational concern, such as climate change, population ageing and the long-term social and economic implications of COVID-19. In thinking about crisis response and recovery, some countries have established institutional mechanisms to engage youth in response measures, and applied public administration tools to anticipate the distributional effects of regulatory and spending decisions (OECD, 2020^[79]). The use of such governance tools and mechanisms remains limited and uneven across policy areas (OECD, 2020^[17]).

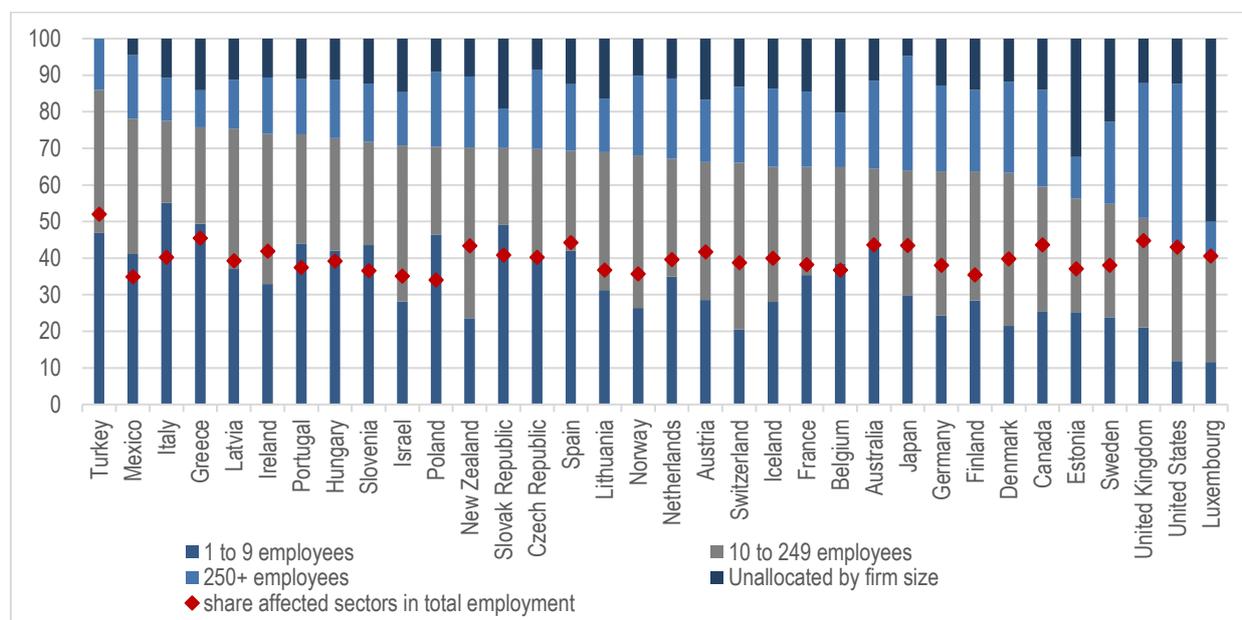
112. **The updated OECD Youth Action Plan will support government-wide strategies focused on young people.** In the aftermath of the global financial crisis, governments acted too little and too late to address young people's difficulties, leaving many of them with long-lasting scars on their careers and overall well-being. It took a whole decade before the OECD youth unemployment rate returned to its pre-2008 level, and many other outcomes have remained fragile. We cannot waste any time to put in place an ambitious and comprehensive policy package so that no young person is left behind in this crisis. The fiscal costs of the required interventions are small in comparison to the benefits that accumulate over the rest of young people's working lives. Following a mandate of the 2020 ministerial Council Meeting, the updated OECD Youth Action Plan, to be considered at the May 2021 OECD Ministerial Council Meeting, provides building blocks to improve support for young people in a range of policy areas. It also proposes several tools to support the implementation of the policy recommendations and increase and facilitate the essential participation of young people in policy-making.

SMEs will play a crucial role in driving an inclusive recovery

113. **SMEs and start-ups have been especially affected by the pandemic, given their strong representation (accounting for over 60% of jobs in most countries) in badly hit sectors (Figure 11)** and the difficulties they face in adapting to new (e.g. digital) business

models. These challenges threaten the survival of the millions of firms with relatively low levels of liquidity, and, in turn, the recovery. Indeed, evidence from 180 surveys of SMEs across the world shows that 70% to 80% experienced a substantial decline in revenues since the start of the crisis (OECD, 2021^[80]).

Figure 11. Share of SMEs in employment in the most adversely affected sectors



Notes: 1) most adversely affected sectors are transport manufacturing, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services; 2) in case of Turkey, employment in agriculture and financial services sectors are not included in total employment.

Source: <https://www.oecd.org/sdd/business-stats/statistical-insights-small-medium-and-vulnerable.htm>

114. **While government support, including temporary changes to insolvency procedures, has helped stave off significant bankruptcies, there remain differential impacts, with young firms, start-ups, the self-employed, women and minority owned businesses particularly affected.** By May 2020, Female-led SMEs were 7 percentage points more likely to be closed compared to male-led SMEs (Facebook; OECD; World Bank, 2020^[81]).

115. **One year into the pandemic, policy makers face a dual challenge.** They need to design responsible and gradual exit strategies for emergency liquidity support, with due attention to the risk of insolvency among SMEs with high debt levels (OECD, 2020^[82]). They should also ensure that measures to build back better, in particular those to drive digitalisation and sustainability, take the circumstances of SMEs and entrepreneurs into account and help them rebound and drive an inclusive recovery (OECD, 2021^[83]). This means that support measures, including (quasi) equity support and other non-debt instruments, need to be accessible and targeted to viable entrepreneurs who need them most. Digitalisation of SMEs, which accelerated during the pandemic, should be further strengthened (OECD, 2021^[84]). Processes of creative destruction should be allowed to gradually retake their course, including a rebooting of policies to support innovative new ventures, reform of insolvency regimes, and support for second chance entrepreneurship. The new OECD Committee on SMEs and Entrepreneurship will support governments in

their efforts to boost the potential of SMEs and entrepreneurs to drive a resilient recovery, including through the delivery of the *OECD SME and Entrepreneurship Strategy*.

The COVID-19 crisis further underscored the importance of connectivity for an inclusive digital transformation

116. **Digital tools and technologies have been instrumental in allowing large segments of the global economy to continue operating over the past year, in spite of extended periods of confinement.** Practically overnight, millions of workers and students found themselves connecting to meetings and classrooms through online platforms; businesses started using digital tools in new ways as a means to reach customers; and those customers increasingly turned to e-commerce to purchase everything from groceries to sporting equipment. But not everyone’s digital experience over this past year has been the same. While digital technologies have provided a lifeline for many individuals and businesses to connect to one another, others have lacked the skills or the means to use digital tools.

117. **While the digital divide has long been recognised as an important challenge, the COVID-19 crisis further underscored the importance of connectivity.** In some countries, Internet traffic increased by up to 60% compared to before the crisis, and for the most part, network operators and content providers successfully maintained services and efficiently utilised pre-existing capacity. To keep up with these demands, and to prepare for the future – including by narrowing the digital divides – countries must implement a holistic set of policies alongside a regulatory approach that extends connectivity and fosters high-speed broadband networks for all. The recently-revised *OECD Recommendation on Broadband Connectivity* offers governments a roadmap to help achieve these goals. It puts an emphasis on promoting competition, investment and innovation in broadband development alongside measures to ensure network resilience and to close gaps in unserved and underserved areas and demographics.

118. **As more people and firms “go digital”, governments must also work to bridge “digital divides” and ensure that all workers can adjust to the changing work environment and are equipped with the skills necessary to succeed in the digital economy.** Individuals with a well-rounded skill set in terms of literacy, numeracy and problem solving can use digital tools more efficiently, carry out more sophisticated activities on line, avoid online fraudulent activities and better adapt to digital transformations. There is also a growing consensus that transversal skills, such as thinking critically and creatively, making informed decisions while using technology and behaving collaboratively, are critical for the digital economy (OECD, 2019_[85]). Investing in skills can help ensure that the benefits of digital technologies are widely shared and prevent workers from falling behind, thus helping address inequalities and contributing to economic resilience.

119. **Promoting the diffusion of new technologies and digitalisation across firms will be key to an inclusive recovery.** The COVID-19 crisis may exacerbate existing gaps in uptake and use, in particular between large firms and SMEs, but also between sectors, regions and countries. If not addressed, such uneven diffusion may have important implications for firms’ productivity performance as the pandemic continues to accelerate digitalisation. It could potentially widen the productivity gap between digital adopters and digital laggards, enhance the vulnerability of laggards, increase inequalities at the global level, and reduce overall economic resilience (OECD, 2021_[11]). Governments should address barriers to the adoption of digital technologies amongst SMEs and support workers in acquiring digital skills (OECD, 2021_[86]). They should also adapt regulation to the challenges posed by digitalisation, such as winner-takes-it-all dynamics, in order to prevent

negative consequences for competition, productivity and inequality (a long tail of poor performing firms will not pay high wages).

120. **Given the growing reliance of the economy on digital technologies, greater attention is needed to ensure a safe and trustworthy digital environment**, for example with respect to digital security, but also for privacy, data and consumer protection. Particularly important is the establishment of enabling and equitable conditions for all children to have widespread access to digital technologies. Even before the pandemic, the digital environment was a part of the everyday life and interactions of school-aged children, many of whom regularly use apps, websites and online games for their education and leisure. However, the digital environment also poses significant risks: children are exposed to increased and often highly complex privacy risks, and may be susceptible to content risks, and can be an actor or victim in conduct and contact risks (such as cyberbullying). Emerging technologies, such as artificial intelligence and the Internet of Things may encompass some risk components, which can have a negative effect on children. The *draft revised OECD Recommendation on Children in the Digital Environment*, to be adopted at the MCM, aims to help policymakers balance the opportunities and risks that children can encounter in the digital environment, while also recognising that new risks and the nature of existing risks have significantly evolved. It includes a set of Principles and an overarching Policy Framework for a safe and beneficial digital environment for children.

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