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A Global Sustainability Program

Lessons from the Marshall Plan for addressing climate change

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Introduction

Economies stagnating. Governments overindebted. The ashes of war impeding progress on international cooperation. A widespread sense of malaise and absence of urgency blocking the mobilization of capital.

Such a narrative could easily describe much of the world in 2022. But it also describes Europe in 1947, a moment of societal doldrums that preceded an unexpected and dramatic shift in policy frames and public narratives, which ushered in a golden age of prosperity. The Marshall Plan played a crucial role back then, and its lessons can help inform a breakthrough Global Sustainability Program (GSP) today.

At the end of 1946, after a rapid post-World War II bounce, European economies started to stagnate at levels of output below those prevailing in 1938.[1] Agricultural output fell by 3 percent in 1947, and industrial output in the third quarter of 1948 was no higher than at the end of 1946. People were hungry and cold; governments were overindebted and had exhausted much of their foreign exchange reserves; and countries were unable to trade with each other.

Against this backdrop, the Truman administration introduced a European Recovery Program, more commonly known as the Marshall Plan, to underpin U.S. national security by helping Europe recover.

Although there is disagreement as to the quantitative impact of the Marshall Plan, there is no doubt that it changed the European narrative. Eichengreen and Uzan (1992) describe the sentiment in 1947 as one of extreme pessimism caused by shortages of food, fuel, raw materials, and other supply bottlenecks, with governments unable to finance the repair of infrastructure, and businesses unable to access capital to buy raw materials or invest in new factories.

After Secretary Marshall's speech at Harvard University in June 1947, when he promised to support any European plan "to the extent practical for us," the European governments quickly convened a Committee on European Economic Cooperation with a plan to mobilize $29 billion over four years to achieve specific objectives of restoring industrial and agricultural output, establishing stable macroeconomic and financial conditions,

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[1] B. Eichengreen and M. Uzan, 1992, "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the Former USSR" *Economic Policy*, April, 1992, Vol. 7, No. 14, Eastern Europe, pp. 13-75.

and stimulating trade. The U.S. Congress passed a European Recovery Program and appropriated a first installment of $4 billion in 1948.

The rest is history: A Golden Age of economic growth and prosperity in Europe (and the United States) and many other parts of the world that lasted until at least 1970.

Today, we again need to change the narrative, this time through a Global Sustainability Program. Like Europe after the war, sustainable development today seems stuck. People are lost. But there is an opportunity to move forward if: (i) a strong political commitment to the Sustainable Development Goals (SDGs) and Paris Agendas encourages everyone to align investments to meet these goals; (ii) there is a credible technical plan outlining details of specific projects, policies, and institutional reforms; (iii) finance can be made to flow effectively at scale to sound sustainable investments; and (iv) institutions can properly implement the plans and strategies. Dealing with these components individually will not work. There is a chicken-and-egg problem, or a causality dilemma. Projects do not get developed if there is no finance. Finance is not forthcoming if there are no projects. This is not unusual. It is a problem that can be solved through a critical mass of actions. The same was true at the time of the Marshall Plan, and there are lessons from that period that are relevant today.

All developing country governments face a major challenge of how to decarbonize economies, preserve nature, and simultaneously generate economic prosperity and sustainable development. The sentiment is gloomy thanks to debt, food, energy and conflict crises, natural disasters, and species extinction and a rapidly degrading natural environment. Trust in international cooperation is low after broken promises on climate finance pledges and limited assistance for COVID-19 response, including for funding vaccination programs. Many middle-income countries have been excluded from programs of international assistance. They are hesitant to join others in a green transition without addressing their other pressing priorities for jobs, education, and health care. Their strategies integrate and balance “economic development” and “climate-related” investments but global processes for these two streams remain separate.

There is a need for a massive scaling-up of investments to achieve economic growth and meet the SDG and climate targets. These would cost an incremental $1.3 trillion a year in developing countries by 2025.[2] The system of long-term development finance falls well short of being able to support projects at such a scale. U.S. Treasury Secretary Janet Yellen acknowledged as much in recent remarks at the IMF/World Bank Spring Meetings in April 2022:

> *Experts put the funding needs in the trillions, and we’ve so far been working in billions. The irony of the situation is that while the world has been awash in savings—so much so that real interest rates have been falling for several*

[2] Bhattacharya et al., 2022, “Financing a big investment push.”

> *decades—we have not been able to find the capital needed for investments in education, health care, and infrastructure*.[3]

In this policy brief, I argue that advanced economies (AEs) and China need to put in place a major program of economic support for all developing countries to assist them to transition to a new sustainable development path.

There is money available in international financial institutions (IFIs) that can be leveraged with private capital. These institutions can lend at a reasonable cost that in turn provides the right incentive to choose sustainable options. For example, the World Bank Group's International Bank for Reconstruction and Development (IBRD) charges a real interest rate of about 0.5 percent for its loans (after factoring in the recent 50 basis point increase by the Federal Reserve).[4] At that price, renewables (solar and wind) become the cheapest source of electricity generation. The involvement of an international financial institution in a project or program can also reduce risk and bring down the cost of private capital so the debt burden remains tolerable.

Market forces could not drive European recovery in 1947, and market forces will not drive a low-carbon transition fast enough today, even if the favorite economist instrument of a carbon tax is enacted. Just as the authors of the Marshall Plan felt time was of the essence to prevent the spread of communism in European democracies, so today scientists have warned us that time is of the essence to reduce carbon emissions before global warming becomes intolerable; and societies across the developing world are warning through their protests that current development pathways are not socially stable.

The money can be mobilized through the magic of leverage. Multilateral development banks (MDBs) show how: One dollar invested in their capital can lead to $5 in lending to a project. But MDBs do not have to provide all the finance for a project. They could mobilize $4-5 of private domestic and foreign capital for each dollar they lend for a project's investment. The total leverage, then, becomes 20-25 times that amount. $40 billion a year in official finance can support annual investments with a value of $1 trillion.

This ambition needs to frame the core of the GSP. Higher levels of domestic resources, matched by foreign resources in the form of official grants and loans and private sovereign lending and project finance, can fund recovery in developing countries.[5] Within each country, the composition of financing will vary depending on its investment priorities. Human capital is best funded through taxes and grants and concessional credits. Sustainable infrastructure can support private project finance. Adaptation and resilience should be shared between national governments and grants and credits from

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[3] Janet Yellen, April 13, 2022, Speech delivered at Atlantic Council.
[4] Approximate rate for a 10 year maturity IBRD variable spread loan. https://thedocs.worldbank.org/en/doc/77844b3f4182f7519f58add85ecaff3f-0340012021/original/IBRD-Flexible-Loan-IFL-Pricing-Basics-Product-Note.pdf.
[5] Bhattacharya et al., 2022, "Financing a big investment push."

the international community. Reflecting these priorities, a suitable package of incremental financial resources could be broken down as $650 billion in domestic resources (taxes, local borrowing including from national development banks); $90 billion in official development assistance (ODA); $160 billion from non-concessional official multilateral and bilateral development finance institutions; and $400 billion from private capital markets.[6]

The challenge

Rich countries cannot limit climate change, species extinction, and nature conservation and preservation without the participation of developing countries. Developing countries, excluding China, account for over 40 percent of GHG emissions today. However, developing countries are unwilling to slow their drive towards prosperity by addressing global issues. In a 2021 poll of 7000 leaders in 140 developing countries, only 20 percent mentioned climate change as one of the top six development problems they faced.[7] The most common issues they mentioned were: Education, growth, peace, health, and infrastructure.

The way forward is for rich countries to provide financial support to developing countries to implement their own development programs in return for their participation in global goods. A first attempt was made at Copenhagen during the 2009 COP 15 Summit. Rich countries agreed to provide annual financial support of $100 billion to developing countries for climate mitigation and adaptation in return for their agreement to participate. But the compact was flawed because it was too narrow (just climate-related and not aligned with the full program of SDGs) and far too small. It contributed little to developing countries' major priorities.

This is why Secretary Yellen's remarks are so important. They are the first acknowledgement by a senior U.S. Treasury official of the dimensions of the sustainable development financing challenge. They reflect best current estimates for the investment requirements in developing countries excluding China, which are in the range of $1.3 trillion per year over the next decade, of which just under half is for climate mitigation and adaptation efforts. This means tripling the level of annual average investments on mitigation that were made during 2015-2020 and shifting infrastructure financing from fossil-fuel to renewables inputs. The Glasgow Financial Alliance for Net Zero, a grouping of the largest financial institutions in the world, has outlined the annual climate-related investments needed in six key sectors: Electricity, transport, buildings, industry, low emission fuels, and agriculture, forestry and land use.[8] Most of the incremental private external financing will go into these mitigation investments because they have commercially attractive returns. These funds will need to be mobilized into projects developed and supported by official IFIs. In addition, governments in developing

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[6] Ibid.
[7] AidData, 2021, "Listening to Leaders Survey."
[8] GFANZ, 2022, "Financing Roadmaps" https://www.gfanzero.com/netzerofinancing/.

countries must raise their own resources domestically to contribute to this agenda and to pay for health, education, and social assistance investments without which development and a green transition cannot occur.

The finance challenge over the next few years is therefore four-fold:

1. How to double private finance and reallocate it towards the $1.1 trillion in sustainable infrastructure projects;
2. How to triple sustainable levels of multilateral and bilateral non-concessional financing to $260 billion per year;
3. How to raise net ODA by 50 percent to just shy of $300 billion per year to help lower income countries and to contribute to adaptation, resilience and nature based solutions; and
4. How to raise domestic resources in developing countries by two to three percentage points of GDP by taxation, subsidy rationalization, and local borrowing, largely to finance the non-climate portion of the sustainable development agenda, particularly human capital. All this must be done in the context of maintaining manageable debt levels.

Unlocking finance is only one piece of the puzzle. Identifying and implementing bankable projects is a second major element. The green transition pathway is uncertain. Building infrastructure has always been subject to risk and uncertainty, and this has only increased in a world where technologies are rapidly evolving, and relative prices are changing rapidly.

At the same time, projects can only be successful if the policy and regulatory and institutional frameworks are supportive. The Yale Environmental Policy Index clearly shows that poorer countries have worse environmental policies than richer countries.[9] It also shows that large developing countries, such as India, South Africa, Nigeria, and Turkey, have even worse policies than their peers with the same income levels. In a similar vein, the IMF assesses countries' public investment management capabilities.[10] It finds that there are major deficiencies in the planning, allocation, and implementation institutions and procedures in many developing countries.

In addition to technical challenges, therefore, there is a process challenge of how to sequence a set of steps that leads to a viable program. There are lessons to be learned from the Marshall Plan.

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[9] https://epi.yale.edu/downloads/epi2020report20210112.pdf.
[10] https://www.imf.org/external/np/fad/publicinvestment/pdf/PIMA.pdf.

Towards a Global Sustainability Program

The Marshall Plan worked backwards from an endpoint. It diagnosed the situation in Europe as a lack of growth stemming from a revenue shortage that impeded public investments in infrastructure, public over indebtedness creating monetary and financial instability, and a payments problem limiting trade.

The solution was to provide large dollar grants to European countries, helping to simultaneously raise government revenues, reduce reliance on monetary expansion, and provide foreign exchange to import required raw materials and capital goods.

The Plan faced a problem in persuading a democratic President, Harry Truman, and a Republican-controlled Congress, that funding yet-to-be-determined European investments would be in the national interest of the United States. Europeans, in turn, were unconvinced that a common, regional approach (including defeated parties like Germany) would be in their best interests compared to a national approach.

The Plan advanced through several sequential steps:

Step one was Marshall's ability to persuade President Truman of the U.S. national interest in the plan, largely by using national security arguments about the need to push back against European communists. This was articulated in March 1947 in a Presidential speech now known as the Truman Doctrine.

Step two was Marshall's June Harvard University speech in which he signaled to the Europeans the willingness of the U.S. to provide financial support "to the extent that is practical." No promises or commitments were made, as there were no details of the plan at this point.

Step three was the Paris conference on European Economic Cooperation that took place between July and September 1947. This conference provided a costed plan over four years, principles of international cooperation among European countries, and an institutional innovation in the establishment of a new body, the Organization for European Economic Cooperation, that would monitor and coordinate the program for the Europeans.

Step four was the passage of the Economic Cooperation Act by the U.S. Congress in April 1948, authorizing the Marshall Plan, and establishing the Economic Cooperation Agency (ECA) to implement the Plan from the American side.

Shortly thereafter, the Europeans came up with detailed national costed plans and Congress appropriated $4 billion to support the first year of the Plan implementation.

The Plan was accompanied by a massive public awareness campaign to build support, especially in the U.S. It was also avowedly bi-partisan in the choice of the ECA administrator and other key officials.

At the risk of stretching the analogy too far, this sequence of steps suggests that a Global Sustainability Program must have a political commitment, technical plan, financial plan, and institutions for implementation.

What might this look like?

Political commitment

The political commitment today should come from the three main authorizing institutions and power groupings in the world—the U.N., the G-20, and the G-7. At their various gatherings in 2022, leaders should clearly declare that they commit to support "to the extent practical" all countries committed to global sustainability programs. Importantly, this should be understood as support for a broad program of sustainable development, as reflected in the SDGs, rather than a narrow program of climate-related activities. The leaders must also demonstrate their own commitment to moving to a sustainable development pathway, addressing the multiple environmental, social, and governance issues in their own economies.

A technical plan

The technical plan is a major missing element of the current architecture. There are top-down estimations of the investment requirements for climate-related and SDG investments, but not demand-driven estimates. The Marshall Plan was designed to support a European-led and owned technical assessment of needs. There is no equivalent to the Paris conference to develop the needs and express the voice of developing countries. The closest parallel is South Africa's Just Energy Transition Partnership, presented at the U.N. Climate Change Conference in Glasgow (COP26) and supported by a few bilateral governments. There are equivalent pilots being developed in other countries, but it will be impossible to organize a global scaled-up support program going country-by-country in this fashion.

It may not be feasible to generate a technical plan involving all developing countries in a single effort, but potentially a few country "groups" could organize themselves to develop their "asks." The U.N.'s Regional Economic Commissions could play a role. For example, African Finance Ministers meet regularly under the auspices of UNECA. Similar conversations could be organized in other regions, perhaps with support of IFIs. The key is to link programs at the regional and country level with a global sustainability program.

The upcoming COP27 in Egypt is an opportunity for developing countries to discuss their just energy transition and sustainable development plans or "asks" with AEs and China. COP27 can also be an opportunity to promote principles of sustainable development finance, with special reference to the treatment of new debts incurred to finance the green transition.

The "asks" must find a reasonable compromise acceptable to all parties. For the Marshall Plan, the U.S. administration responded in writing in March 1948 to the initial request from Europe, suggesting a smaller financing and investment counterproposal

partially offset by commitments from other financing institutions, including the newly formed World Bank. The technical plan was also an opportunity to take stock of the extent to which European governments would be ready and able to undertake domestic financial and economic policy reforms to underpin their promise to do whatever they could to help themselves. This would be later a critical part of gaining the support of the U.S. Congress.

Both the technical plan and the process for dialogue between developing countries and advanced economies are missing in the debates today over inclusive and sustainable development, and this is what COP27 could deliver.

A financing plan

The financing plan is another major missing element. The $100 billion climate finance commitment is clearly inadequate. Not only is it far too small, but it is also too narrow—focused only on climate-related investments rather than broader national sustainable development strategies. Importantly, financing promises have not been disaggregated into components: Grants, official loans, and private investments. The plan does not consider contributions of developing countries themselves through domestic resource mobilization. At best it takes existing financing elements (such as the new allocation of SDRs) and asks how best to make use of these, rather than starting with a real understanding of financing requirements.

At COP26, a two-year process was launched to develop a new financing target by 2025 to replace the $100 billion commitment. COP27 is an opportunity to outline the expected details of such a package—how much for adaptation, for loss and damage, how much in grants and in non-concessional loans, and how much from IFIs and from mobilized private finance.

Given the proven difficulties in monitoring additionality of climate finance over development finance, the financing plan should encompass the SDG and climate related agendas together, and all development finance from official institutions should be aligned with these agendas. The SDG and climate agendas are overlapping, but they are often discussed separately in practice. This is a diversion from the real issue of creating channels for funding at scale, as Secretary Yellen remarked.

IFIs are best placed to advance the financing agenda. They have the expertise to understand the different needs for project finance for investments in, for example, renewable energy generation where a stream of project revenues can be used to pay off debts, as compared to the finance needed for adaptation, resilience, or human capital where returns are high in socio-economic terms but may not be financialized. They can advise the broader community on the right blend of instruments, including guarantees, that might be desirable. Importantly, they can present themselves as institutions where significant leverage of donor financing is possible.

A proper financing plan would help narrow the “great finance divide.”[11] If developing countries could access capital markets on a scale and at a price like the access of rich countries, their transition to a low-carbon economy *would need the same actions as* those required if they were to pursue rapid, sustainable, and inclusive growth over the next two decades. The divergence between “economic development” and “climate action” would disappear completely.

The financing needs to be at scale and at the right terms. Sustainable infrastructure requires financing with long maturities, sizeable grace periods, and low real interest rates. Interest rates are a particular problem for investments in a majority of developing countries who face a debt overhang and high-risk premia associated with past borrowing. Half of the total GHG emissions from developing countries is in places with sub-investment grade sovereign ratings. There, real interest rates are in double digit levels. Not only does this make sustainable infrastructure uneconomic and unaffordable, but it also tilts the choice of technology in sectors like electric power generation towards fossil fuels which have lower up-front costs and higher operating costs than renewables.

Because IFIs can leverage public funds, while providing long-term loans at affordable interest rates, they are likely to be the most effective channels through which scaled up financing can happen. But they are not currently equipped to finance multiple concurrent crises and to simultaneously provide significant project finance. They lack headroom and need to be recapitalized. A start to considering this has been made in the context of the G-20 Finance Ministers’ independent review of the multilateral development banks’ capital adequacy frameworks, and this could provide the basis for moving forward, but capital increases have in the past been complicated processes involving changes in governance that are challenging in an environment of sharp geopolitical competition among large shareholders.

There are many specific details to be worked out in a financing plan. It must deal with long-term structural issues, such as the lack of an efficient, international debt resolution mechanism, and the absence of agreed-upon budget classifications for sustainable development, as well as short-term tactical issues (e.g., who will provide financing for the coal-phase-out in South Africa?).

Institutions for implementation

The last step in designing a Global Sustainability Program is to ensure that there are institutions for effective implementation. Here, the IFIs, along with U.N. agencies, have the capacity to act as agents that can monitor and report on progress. They do not, however, have a formal process of engagement with each other and with major shareholders. Also lacking is a developing country implementing agency—the OEEC equivalent. Country platforms are being put forward as a mechanism, with pilots in South Africa, Vietnam, Indonesia, and other countries, but these are still work-in-progress —

[11] https://developmentfinance.un.org/fsdr2022.

and may need to be supplemented by regional platforms and expanded regional project preparation facilities.

A timetable for action

The steps outlined above could conclude with the September 2023 U.N. High Level Political Forum's (HLPF) Heads of State Summit. This quadrennial review of the SDGs is the right opportunity for a financing and implementation reset to achieve the goals and targets, building on the work done in the previous steps. At the same time, the Secretary-General's Summit of the Future presents a parallel opportunity to change the institutions of global economic governance.

This outline of a process suggests there are opportunities to move the agenda forward in a timely way using existing international processes, if knowledge gaps can be filled and a shared understanding built before heads of state are brought in to conclude an agreement. The world needs a Global Sustainability Program that, like the Marshall Plan, replaces the current mood of despair and *ad hoc* responses to immediate crises with a new narrative of sustainable and inclusive growth. Like the Marshall Plan, which provided resources equivalent to around 5 percent of beneficiary country GDP, the Global Sustainability Program must be adequately resourced for the task at hand and must be catalytic in generating a narrative change and an action program. It should be seen as a Grand Bargain between low- and middle-income developing countries and AEs and China.

The parallel should not be taken too literally. There are many differences between the world of today and that at the time of the Marshall Plan, not least in the willingness and ability of the major economies of the world to lead and cooperate in supporting such a plan.

Nevertheless, it seems self-evident that what is being done today is not working at the scale and speed required. Something different is needed. The exact contours and details will need to be worked out, but there are lessons from the history of the Marshall Plan that are pertinent to today's discussions. At a minimum, the various global processes already underway should build on each other with a clear end goal of delivering consensus on a Global Sustainability Program by September 2023.

Calendar of events towards a Global Sustainability Program

DATE	EVENT	OUTCOME NEEDED
June 2022	G7 Summit	• Commitment to pursue SDG and Paris Agendas, and to support "to the extent practical" developing countries that share this commitment.
October 2022	IMF/WB Annual Meetings	• Initiate process to review requirements to triple sustainable lending levels of IBRD and IFC by 2025. Review long-term debt sustainability assessment and absorptive capacity under alternative institutional frameworks. Review adequacy of project preparation funds.
November 2022	G-20 Summit	• Commitment to pursue SDG and Paris Agendas, and to support "to the extent practical" developing countries that share this commitment; indicate support for capital increases for MDB system.
November 2022	COP27	• Costed sustainable development plans and projects from developing country regional groupings; Sharm El-Shaikh principles for carbon-related financing; developing countries agree on policy actions to strengthen environmental and public investment management institutions; and review of country pilot experiences.
April 2023	Financing for Development Forum	• Fine-tune technical plans and financing plan for GSP. • Dialogue with GFANZ, GISD Alliance, and others on private provision of finance.
April 2023	IMF/WB Spring Meetings	• Agree on timetable for capital increases and other balance sheet optimizations for World Bank Group institutions. • Prepare long-term trajectories of country debt carrying capacity.
Around June 2023	G7 Summit	• Commit to raise ODA for sustainable development by 50 percent by 2025.
September 2023	HLPF SDG Summit	• Integrate SDG and Paris agendas into a Global Sustainability Program. Review and agree on broad parameters of technical investment and financing plans.
September 2023	Summit of the Future	• Develop governance arrangements to implement Global Sustainability Program.

Annex

9 Lessons of the Marshall Plan for a Global Sustainability Program

Lesson 1: Measurable objectives are critical to develop support for any program. Prior to the Marshall Plan, considerable amounts of humanitarian assistance were provided by the U.N. and U.S., but in an *ad hoc* way focused on humanitarian relief rather than economic recovery. The Marshall Plan had three overarching objectives, each of which was quantifiable: (i) recovery of industrial and agricultural output; (ii) restoration of sound macroeconomic and financial conditions; and (iii) stimulation of trade.

Today, we again have myriad *ad hoc* responses to short-term crises but no medium- or long-term vision that offers hope of a better future through a coordinated plan. Governments have measurable objectives through the SDGs and Net Zero pledges. However, the goals and targets do not all have the same criticality. Some are necessary and time-bound (e.g., climate mitigation for the largest emitters, nature conservation for countries with the greatest biodiversity). Others are desirable but if timetables slip, they may not result in tipping points from which there is no return. An articulated sense of priorities of those issues with the greatest global or regional spillovers is now needed.

Lesson 2: Local ownership is fundamental to implementation success. An early (and extraordinary for its time) component of the Marshall Plan was its call to European countries to discuss among themselves the contours of what they needed. George Marshall is reported to have said "Europe shall save itself," and one of the priors of the Marshall Plan was an understanding that maximum self-help would be undertaken by aid recipient countries. Of course, there were exchanges and inputs from the U.S. side, but the process was undeniably led by the discussions held by the Committee on European Economic Co-operation in Paris between July to September 1947.

Today, developing countries have little voice in the management of global economic issues, especially on climate change and climate finance, and many of their core issues have been left aside, such as support for adaptation, development of principles for loss and damage, technology transfer, and the economic challenges posed for countries with high discount rates and those facing high costs of capital.

As a result, developing countries have not organized themselves to develop a coordinated "ask" from the international community. There are now opportunities. At the global level, both COP27 in Sharm El-Sheikh and the G-20 hosted by Indonesia (followed by India and South Africa) provide opportunities for developing country views to be heard. Developing countries have also organized themselves in other, smaller groupings; African countries have had regional dialogues with China, the EU, Japan, and the U.S. on

several occasions, as well as with the IMF and World Bank. The V20 group of climate vulnerable countries has been calling for greater attention to adaptation and resilience since its founding in 2015. But these efforts are sporadic and have not yet taken the form of costed, specific investment plans against measurable targets. There are opportunities for using the U.N.'s regional commissions or other groupings to regionalize developing country needs in a systematic fashion and this could generate renewed momentum for change.

As an example, consider how South Africa's Just Energy Transition Partnership, which garnered support from several donors during COP26 in 2021, has grabbed attention despite lacking many of the details needed for implementation. It has delivered a message of a plan for the future that has buoyed hope. Efforts of similar nature, preferably on a regional scale, need to be scaled up into a Global Sustainability Program.

Lesson 3: Conditionality is an important, albeit loaded, element of any partnership, and must be handled with care. During the Marshall Plan, there was considerable conditionality (and policy dialogue) built into the program through the results orientation and through approvals required during implementation of specific investment projects, mostly those financed with counterpart funds that were generated as a by-product of the assistance program. In the best of circumstances, conditionality proved to be a benefit to implementing governments. It gave them the resources to implement structural reforms without having to impose fiscal austerity at the same time. It precluded beggar-thy-neighbor policies of competitive devaluations, high tariffs, and mercantilism. It could also, however, be poorly and inconsistently used. Pet projects of U.S. administrators did not always succeed. Domestic politics crept into project allocations. In Greece, the recipient country with the least developed institutions that was still struggling with armed civil conflict during the Marshall Plan, conditionality was a particularly thorny issue. In some specific cases, Marshall Plan aid was suspended when conditions were not met; for example, it is reported that aid to Germany was withheld until the German national railway agreed to balance its budget.[12]

The same issues emerge today. Many AEs believe that climate finance should be made conditional on a time-bound commitment to phase-out coal but developing countries are reluctant to commit without clear understanding of the implications and prospects for alternative energy supply (a debate exemplified by the COP26 compromise to ask countries to phase down coal). Power utilities in many developing countries are inefficient and in considerable financial difficulties as government regulators force them to keep prices low as a populist political measure. A glance at Yale University's Environmental Performance Index shows that most developing countries have poor policy regimes, including important carbon emitters such as India and Indonesia.[13] Yet it is well understood that strengthening policies and institutions is a long-run effort.

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[12] Reported in EveryCRSreport.com, 2018, "The Marshall Plan: Design, Accomplishments and Significance."
[13] https://epi.yale.edu/#:~:text=The%202020%20Environmental%20Performance%20Index,environmental%20health%20and%20ecosystem%20vitality.

Identifying an adequate speed of improvement consistent with the principle of making every effort to help oneself is the essence of conditionality but does not lend itself to standardized rules; success will depend on a sound understanding of the local context.

Lesson 4: Non-political implementation, based on technical merit of proposals, is required. As part of the Marshall Plan, Congress wisely decided to establish a European Cooperation Administration, outside the normal bureaucracy of the State department or other Federal agencies, headed by and staffed with recognizably bi-partisan, technically competent individuals. It refrained from trying to fund each country program separately (although bilateral agreements were made with each country), or of requiring detailed information on every investment project, recognizing that flexibility to evolving conditions would be important. Equally, however, it was not prepared to simply hand over funds to foreign governments without oversight on implementation. On the European side, the newly established Organization for European Economic Cooperation committed to provide the analyses and statistical information needed for implementation and monitoring.

Today, multilateral organizations, specifically staff in the multilateral development banks, have a useful combination of being non-political and having the technical expertise to advise on individual investment projects and broader policy and institutional strengthening. They can function as the non-political equivalent of ECA because their governance is dominated by AEs. What is lacking is a counterpart grouping of developing countries that can play the role of the (then) OEEC. UN regional organizations or other groupings could potentially play this role (see Lesson 2) but this would need to be formalized.

One implementation innovation that offers promise is the development of country platforms that can provide a multi-stakeholder forum for identifying broad objectives, vision and targets, specific investment projects and financing needs, and for troubleshooting implementation hurdles. Several such platforms are being piloted, and the clear lesson is they must be country-led and country-owned, but the platforms would benefit from standardization if they are to be scaled up over a hundred plus countries and organized across multiple sectors.

Lesson 5: The Marshall Plan combined multiple financing instruments: Grants, loans, and guarantees. After long debate over the composition of grants and loans, most of the funding took the form of grants. After all, the main diagnosis was of a dollar shortage, so having countries take on additional dollar obligations seemed not to be sensible. Importantly, however, even grants carried some obligations. Recipient countries were required to match their U.S. dollar grants received with an equivalent value of counterpart funds in domestic currency. These counterpart funds helped leverage Marshall Plan resources: in the 139 projects directly funded with ECA money, direct Marshall Plan assistance was only one-quarter of the total project investment undertaken.

Less than 40 percent of climate financing provided to date is concessional, despite the high debt levels and growing warnings about debt distress in developing countries. The pledges received to support the South Africa Just Energy Transition have been particularly weak on concessional funds, despite high needs for key components of the program such as compensation for the phase-down of coal. The scarcity of funds is compounded by their lack of leverage. The Green Climate Fund and the Climate Investment Fund go directly into project financing with no leverage.

The multilateral development banks offer the best mechanism for leverage. First, they are able to scale up lending by several times their paid-in capital. For example, the IBRD has a paid-in capital to loan ratio of about 1:16. Second, when done right, MDB project finance can crowd-in private finance. In practice, private mobilization ratios still average less than one, but in theory they should be at least three. Combining the two, each dollar of paid-in capital to MDBs could support $50 of sustainable development investment.

There are many technical ways of magnifying leverage. One is by using counterpart financing. This would formalize commitments on domestic resource mobilization, which have been much discussed since the Addis Ababa Action Agenda on financing the SDGs, but with limited results to date. Mobilizing domestic resources would mitigate one of the main risks of external financing of sustainable infrastructure, namely the exposure to currency and convertibility risk that arises when revenue streams are denominated in local currency and debt service liabilities are in foreign exchange. Another way is by drawing on the resources of national development banks. These institutions could also provide a valuable conduit for counterpart funds. Third, where the risk lies primarily in the convertibility of local currency to foreign exchange, guarantees and other project financing structures can be used. The successful experience with IDA 18's private sector window, which included a component shifting currency risk from private lenders to IDA, is an example of the value that can be added through the right financial engineering.

Lesson 6: Technical assistance in the Marshall Plan was financially small but had high impact. The Plan financed 1500 study tours bringing tens of thousands of Europeans to the U.S. to observe why productivity levels were only one-third those in the U.S.[14] European governments, in turn, launched national productivity drives to inform a large critical mass about how productivity could be raised in almost every sector; their labor productivity growth leapt from 1 to 4 percent per year. The tours were organized in part as a counter to Soviet claims that the Marshall Plan was a Trojan Horse through which the U.S. would strive to dominate European countries. The retort was that a strategy aimed at domination would favor keeping European economies weak and dependent, rather than strong and self-sufficient. The free provision of technical assistance proved

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[14] J. Silberman et al., 1996, "Marshall Plan Productivity Assistance: A unique program of mass technology transfer and a precedent for the former Soviet Union," Technology in Society, Volume 18, Issue 4, 1996, Pages 443-460.

that keeping countries poor and dependent was clearly not one of the Marshall Plan objectives.

Today, technology transfer has been one of the slowest moving parts of the Addis Ababa Agenda for Action. The Clean Development Mechanism was developed as the instrument through which developed countries could transfer green technology to developing countries, but only one-tenth to one-third of CDM projects have in fact enabled technology transfer. South-South technology transfer is equally poor.[15] Several platforms exist to share knowledge on sustainable development, such as the Technology Facilitation Mechanism and the U.N.'s 2030 Connect, and international organizations provide considerable technical expertise through free-standing projects and embedded in investments, but systematic and deliberate knowledge sharing remains weak. There are few programs showcasing the benefits of sustainable development at municipal or firm levels or demonstrating how to quickly achieve benefits. Disputes over intellectual property rights further compound the lack of trust today that sustainable development is of benefit to all countries.

Lesson 7: The multi-country collaboration that the Marshall Plan insisted upon was an early recognition of the idea that global spillovers are important, and that mutual multilateral cooperation improves the chances of success. By bringing countries together, the Marshall Plan was able to accelerate a dismantling of trade barriers within Europe, avoid competitive devaluations, and promote mutual aid. It also forced the Plan's authors to adapt to the situations of different countries. The Swedes and Switzerland did not want to cede sovereignty to any European entity, so the implementation through the OEEC had to be flexible enough to accommodate this. The Benelux countries pushed France to accept more rapid industrialization in Germany than it wanted. By presenting a regional European position, the Plan strengthened confidence that each European country would benefit if every European country were to succeed. In this spirit, there were even overtures made (with much trepidation) to encourage the Soviet Union to participate–something it ultimately declined to do.

Today, there is again a need to be inclusive in selecting countries that could partner in a Global Sustainability Program. Many middle-income countries have been excluded from the assistance programs set up to support developing countries. Others have chosen to borrow at high cost in global private capital markets rather than pay the political price of intrusive conditionality. The contours of a relevant "middle income country" partnership strategy have been debated by IFIs for decades without much success. The MICs' contribution to global public goods provides a new opportunity for mutually beneficial cooperation but there are views in advanced economies to restrict assistance to "friendly" nations, while MICs are skeptical of being asked to choose one path (and

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[15] https://developmentfinance.un.org/technology-transfer.

supplier of technology) over another. Finding the right formula for inclusion is a necessary, if not easy, task.

There is also a need for developing countries to coordinate on new strategies. Not all countries can have a comparative advantage in the new industries of "green hydrogen" for example. Where governments need to be involved in the infrastructure necessary to develop an industry, some form of inter-governmental coordination is called for.

Lesson 8: With the benefit of hindsight, the Marshall Plan turned out to be right-sized. It did not try to finance all investments itself, encouraging the Europeans to mobilize funds from other partners at the same time (the newly established World Bank played a role). It created a mechanism of counterpart funds that permitted new investments to be funded long after the formal closure of the U.S. plan in 1951. The funds were large enough to give credibility to the idea that a cure for European economic ills was being implemented. This credibility provided a major psychological boost that in turn contributed to the plan's success and unlocked further amounts of private investment.

By contrast, the Copenhagen COP 15 summit promised developing countries $100 billion in additional climate finance by 2020. This is equivalent to roughly 0.5 percent of the budgets of G-7 countries put together, compared to the 13 percent of the Federal budget in 1948 that was appropriated by Congress for the Marshall Plan. To make matters worse, the $100 billion pledge is not likely to be fulfilled; it did not come from budgets but largely from multilateral organizations and private mobilized capital; and it is not accounted in a way that permits additionality to be assessed.

In the absence of detailed country plans, it is not possible to be precise about the size of a Global Sustainability Program. But it must be large. U.S. Treasury Secretary Janet Yellen acknowledged in remarks at the time of the 2022 IMF/World Bank Spring meetings, that the additional investment needs of developing countries involve "trillions and trillions" of dollars. This must be disaggregated to understand which countries need the most support and for what purposes, and to further disaggregate into its components: how much from budgets, from international official lenders, from private corporates and investors. How much from domestic resource mobilization in the form of counterpart funds? At a minimum, a Global Sustainability Program must present a program that is credible in meeting the needs of sustainable development and climate action and that delivers the psychological boost that something material will be done to alter the economic trajectory of the world.

Lesson 9: The Marshall Planners paid a lot of attention to gaining popular support for the program. After all, it was designed as a multi-year program that would span an election period. Its credibility depended on being bipartisan. This was achieved by appointing a Republican businessman, Paul Hoffman, as the ECA Administrator. A Citizen's Committee for the Marshall Plan tasked over 300 prominent Americans to give speeches, write op-eds and lobby Congress. Most major business associations came out in favor of the plan. Presidential Committees were set up to bombard Congress and the public with cost-benefit calculations of the Plan. The prevailing wisdom was that the

politics were impossible: A Democratic President trying to win over a Republican Congress, an election looming in 1948, a prevailing spirit of isolationism and a desire for tax cuts after the war.

Today, there is less need to educate people about climate change. In advanced economies, most polls suggest people are concerned that climate change will hurt them personally, and they are willing to make changes in how they live and work in order to mitigate the effects.[16] But they doubt that international efforts will have a significant impact. There is no confidence that there is a workable global plan. A much larger effort is warranted, globally, to advocate for sustainable development.

Annex Table 1 | Nine Lessons of the Marshall Plan for a Global Sustainability Program

	Issue/Commentary	Marshall Plan	Global Sustainability Program
Financing with a purpose	Ad hoc humanitarian relief failed to jump start postwar European recovery prior to the Marshall Plan, even with larger resources.	Measurable indicators introduced: • Recovery of industrial and agricultural output • Stable macro and financial conditions • Trade expansion	Should also have measurable indicators: • Renewable energy access and security • Adaptation and resilience • Stable natural capital and land use • Human capital investment.
Local ownership	Marshall indicated the U.S. would only support "to an extent practical for us" an effort initiated and agreed to by the Europeans.	Truman worked with Congress to develop the European Recovery Program, based on a report prepared by the Committee on European Economic Cooperation.	Need for a collective body (global, regional, sub-regional) to give voice and implementation responsibility to developing countries.
Conditionality	Conditionality is a loaded topic. Done well, it can catalyze needed reforms that would otherwise be stuck. Done poorly, it intrudes on sovereignty and reduces ownership. It is often needed to secure donor support.	Economic reforms, particularly on trade, inflation, and budget stability were done while expanding spending on social projects and infrastructure, dampening popular discontent with economic management.	Price/subsidy reform in key sectors (electricity, fuel) are necessary in many countries. Budget revenues from royalties and taxes on fossil fuels will have to be replaced.
Implementation	Infrastructure projects in particular are hard to implement and have always had their fair share of white elephants	Implementation was jointly undertaken with local officials and a U.S. official from the Economic Cooperation Administration, a	Some oversight of the investment program is necessary to retain confidence in the quality of projects and to build trust in the technical soundness, despite inevitable

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[16] https://www.pewresearch.org/global/2021/09/14/in-response-to-climate-change-citizens-in-advanced-economies-are-willing-to-alter-how-they-live-and-work/pg_2021-09-14_climate_0-01/.

	although average returns are generally high.	self-standing new agency created outside of the existing Federal bureaucracy. ECA officials had significant say over how counterpart funds were invested.	setbacks in selected cases. The World Bank, regional development banks, and national development banks could play this role. Country platforms are a new mechanism for coordination.
Financing instruments: External grants and domestic funds	Grants, loans, guarantees, and domestic currency counterpart funds were all mobilized.	Grants constituted the bulk of the program. Recipient governments established counterpart funds in local currency that were lent out, including to private business, for approved investment projects. A massive "dollar shortage" meant that taking on more dollar obligations through loans would be detrimental to the program's objectives.	Most mitigation projects will generate a revenue stream in local currency; hence managing forex risk is a key obstacle. It can be managed either through provision of forex (or convertibility) guarantees, or by mobilizing more domestic finance. National development banks could play an important role as intermediaries.
Technical assistance	Although often small in financial terms, technical assistance can play a vital role.	Study tours were funded for European officials and business leaders to identify and copy U.S. business practices. U.S. business leaders also went to Europe to assess the situation.	With lots of experimentation and innovation, especially in adaptation, resilience, and land use management, knowledge platforms and exchanges will be valuable.
Multi-country collaboration and inclusion	Recovery is easier, economically and politically, if several countries adopt similar programs at the same time. Where economic spillovers are important, it is inefficient to exclude countries on the basis of political friendships or values.	Specific programs were put in place to stimulate intra-European trade. Specific topics, such as the degree to which Germany should be allowed to industrialize, had to be negotiated. There was also debate on inviting the Soviet Union (and its allies) to participate. Overtures were made but the rules for inclusion, such as providing access to economic data, proved too intrusive.	Broad acceptance of the idea that a big investment push to transform economies is the best development approach is needed. Having multiple countries (and institutions) align with this vision and organizing regional projects (e.g., regional resilience projects and regional trade in electricity) will be useful. However, upper-middle-income countries have been largely excluded from development assistance in almost all spheres. Substantial support for countries like South Africa, Turkey, and Colombia is not easily provided under current policies.
Size of assistance	The Marshall Plan turned out to be "right-sized." It was catalytic (George Kennan commented on the "amazing psychological success") yet sufficiently large to credibly be viewed as a	Marshall Plan resources were $4 billion in 1948, equivalent to $47 billion today. This equaled 13 percent of the Federal budget. The Marshall Plan resources were not enough to drive economic growth by themselves, rarely exceeding 5 percent of	Rich countries pledged $100 bn in climate finance in Copenhagen, an order of magnitude smaller than what experts believe is needed. This would be equivalent to 0.5 percent of G-7 government budgets if all the money came from national treasuries (most comes from multilateral institutions). The GSP needs a realistic financing

	cure rather than a palliative.	recipient country GDP. But a 5 percent of GDP fiscal stimulus is very substantial, multipliers were high as the output gap was large and funds were targeted at key constraints. Revolving counterpart funds (see above) permitted new investment for years after the end of the Marshall Plan.	plan that can deliver $1-2 trillion per year to developing countries over decades.
Secure domestic support	A multi-year program needed popular support and good public understanding of the program.	A Citizen’s Committee for the Marshall Plan was formed to create a campaign with events and news articles to educate the public and generate popular enthusiasm.	While there are *ad hoc* speeches and reports on climate change, few developing countries have campaigned domestically in favor of a sustainable development trajectory or articulated the benefits of participating in a global program. People in AEs are not convinced global programs are workable.

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