Sustainable development finance proposals for the global COVID-19 response

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GLOBAL WORKING PAPER #141
AUGUST 2020

Global Economy and Development at BROOKINGS

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Working paper #141
Global Economy and Development
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Brookings gratefully acknowledges the support of the Bill & Melinda Gates Foundation.

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I. Background

The sharp global recession now expected in 2020 (negative 5.9 percent GDP per capita according to the IMF) coupled with devastating actual and potential loss of life and health damage due to COVID-19 has left the global macroeconomic and development playbook in tatters. Countries have announced $11 trillion in new fiscal measures to mitigate the impact and this figure will surely rise as additional stimulus packages get tabled.[1]

Governments in major advanced economies have found they can raise finance on domestic capital markets without adverse impact on inflation or on the cost of capital. In several cases, there appears to be a "free lunch" being served by savers prepared to receive negative real interest rates in exchange for principal security and liquidity. Estimates of the size of sovereign bonds with negative real rates exceed $10 trillion.[2] On average, government spending in rich countries has risen by over 13 percentage points of GDP, and the public sector has provided a similar amount in loans and guarantees, totaling a 26.5 percentage point increase in public debt.[3]

The situation is more nuanced, and unpredictable, for emerging and developing economies, especially those with thin domestic financial markets. For these countries, most additional financing must come from abroad. The question at the heart of this paper is "where will the money come from to respond, restore and reset programs for sustainable development?" The answers lie in an assessment of international financing instruments.

There are three clear phases in the economic response to COVID-19. First, there is an immediate *response* to save lives. Countries must manage the health crisis by expanding public health services and flattening the curve to avoid overburdening hospital capacity through lockdowns, social distancing, and clear communication to the public of their social responsibilities. Second, there are steps to *restore* livelihoods and mitigate the socio-economic impact of the crisis and the multiple global economic shocks of falling commodity prices, trade, tourism, remittances, and, in some cases, capital flight, along with major losses in jobs and wages. Third, there is a "build back better" agenda of *resetting* growth along a path of improved sustainability, inclusion, and resilience.

Each of the three phases has distinct requirements for public spending and, in the context of falling revenues, for public deficit financing. The health requirements of purchasing protective equipment, therapeutics, diagnostics, vaccinations (when available), and deploying armies of contact tracers and other professionals are sizable. The mitigation steps of protecting individuals from falling into destitution, avoiding business bankruptcies, safeguarding the financial sector against bad loans, protecting the country reputation for creditworthiness and preserving market access are a major expense both above the line of fiscal deficits and below the line with guarantees and public sector loans and equity infusions. Mitigation needs a fast infusion of public funds, which argues in favor of using existing spending mechanisms like social assistance programs. "Build back

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[1] IMF. 2020. "World Economic Outlook Update." June 2020.

[2] Eisen. 2020. "Negative-Yielding Debt Tops $10 Trillion." The Wall Street Journal, June 2.

[3] Gasper and Gopinath. 2020. "Fiscal Policies for a Transformed World." IMF Blog.

better" offers the promise of very high returns from investments that are intentionally sustainable, that are labor intensive, and that have high fiscal multipliers. Projects that accelerate a green transition and that strengthen safety nets and health and education systems fall into this category.

The common thread is that in each phase the economic, social, and environmental returns to public spending vastly outweigh the financial costs of financing, at least in countries with reasonable governance and implementation capabilities, and access to capital at reasonable cost. There is by now a deep literature on fiscal multipliers in developing countries, that documents the magnitude of the short-term impact on GDP and jobs, as well as the medium-term impact of lower energy costs, accelerated innovation and learning, and well-known spillovers from better health and education amongst citizens.

With most countries today finding themselves in a Keynesian moment in which they can implement the practical experiences of effective public programs, the problem has become one of finding the funds to expand public spending, rather than coming up with new ideas for sound public projects.

Some developing country governments have been able to access off-shore dollar bond markets at reasonable rates: Mexico raised $6 billion in April; Egypt $5 billion in May with market access buttressed by strong support from multilateral and bilateral creditors.[4] Other countries are in the queue for 2020, including Cote d'Ivoire, Turkey, and South Africa. According to the IMF, emerging market economies are likely to add 5.5 percentage points of GDP to their fiscal deficits, and 6.8 percentage points to their public debt levels, in 2020.[5]

Most developing countries, however, especially those below investment grade, are abandoning plans to access global capital markets. Countries that are participating in debt standstill programs, or hope to participate in these programs, are committed to abstaining from new non-concessional debt. Cameroon, Ethiopia, Kenya, Nigeria, and Pakistan are among large developing countries falling into this category. These countries, on average, are keeping their plans for additional fiscal deficits at below 2 percentage points, thereby keeping public debt levels from rising by more than 3 percentage points.

These plans show a large shortfall compared to estimates of needs. The IMF and UNCTAD independently suggested around $2.5 trillion would be needed for developing countries to respond to the pandemic and associated economic shocks.[6] The existing international financing architecture provides only a fraction of this. As of July 2020, the IMF had committed about $250 billion to 102 countries.[7] The World Bank Group has announced its willingness to commit $160 billion over 15 months.[8] Even allowing for other multilateral

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[4] Reuters. 2020. "Mexico launches $6 billion, three-part U.S. dollar bond offering." April 22; Magdy. 2020. "Egypt Sells $5 Billion Eurobond in Its Largest-Ever Issuance." Bloomberg, May 21.

[5] Gaspar and Gopinath. 2020.

[6] Georgieva. 2020. "Opening Remarks at a Press Briefing by Kristalina Georgieva following a Conference Call of the International Monetary and Financial Committee (IMFC)." IMF, March 27; UNCTAD. 2020. "UN calls for $2.5 trillion coronavirus crisis package for developing countries." March 30.

[7] IMF. 2020. "Covid-19 Financial Assistance and Debt Service Relief." July 29.

[8] World Bank. 2020. "World Bank Group: 100 Countries Get Support In Response to COVID-19 (Coronavirus)." Press Release, May 19.

development banks and agencies, the developing world faces a potential shortfall of close to $2 trillion.

For this reason, several proposals have been made for innovations that could potentially raise large amounts of financing for development. Some require a political push for more generosity from rich countries, often coupled with financial engineering to maximize impact, while others require reforms in the international economic system that would permit developing countries to mobilize resources by and for themselves.

This paper seeks to review the more promising proposals in a systematic way. We have limited the selection of proposals to those that are (i) already being discussed in official policymaking circles; and (ii) are large enough to have a material impact given the scale of the identified gap. Our purpose is to summarize enough of the details to permit the reader to understand what each proposal can and cannot do, and where the political sticking points might lie. Our hope is to contribute to a more informed discussion of how to move forward and where to focus efforts for advocacy.

Before starting, one fundamental point requires clarification. There are two global problems that need to be solved. One is avoiding unnecessary suffering and deaths in developing countries. There is a serious risk that because lockdown policies are economically costly and can generate prolonged debt crises, developing country governments might rationally choose to be less aggressive on the health front, and to accept higher deaths, with spillovers to other countries trying to contain the pandemic.[9]

A second problem is that capital in the global economy is being misallocated on a massive scale, and this inefficiency has high costs that can be ill-afforded at this time. The issue is the presence of a "debt overhang" in many developing countries. When a new creditor lends to an indebted government, it joins the queue of other creditors to get repaid, especially for general purpose lending. If the government is already facing debt service troubles, then the new creditor, too, may not be repaid on schedule even if the new project it finances yields a high return that is higher than the cost of funds. In domestic capital markets, this type of problem is overcome through first settling old debt claims in bankruptcy or other voluntary debt restructuring processes based on existing assets, before the new creditor adds additional assets to the company. But there is no equivalent in international capital markets, so "debt overhang" problems can persist. This prevents the efficient allocation of new capital and is costing three groups of people very dearly: those within developing countries who needlessly suffer when public spending is restrained, existing creditors who will suffer from the inability of a country to implement high return spending, and new investors who have to seek returns in other markets usually offering far lower interest rates.

The next section of this paper looks at financing proposals that could potentially expand fiscal space in developing countries. Even though it is well understood that the vast majority of spending to build back better will come from domestic resource mobilization, including in developing countries,[10] we focus here on international resource flows because most developing countries do not have the liquidity to tap local currency markets to a significant degree, and because there are limits in the short- to medium-run on their ability

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[9] Arellano et al. 2020. "Deadly debt crises: COVID-19 in emerging markets." NBER Working Paper 27275.

[10] Kharas and McArthur. 2019. "Building the SDG economy." Brookings Institution Report.

to raise more taxes. They should pursue the longer-term tax and capital market development reforms, but the response over the next couple of years will depend on access to foreign capital.

Section III expands the discussion of public financing to include how private sector financing could be better deployed. A final section offers summary assessments of scope, timeliness, and political will to advance the proposals.

II. Public Sector Financing proposals

Even before the COVID-19 pandemic, developing countries were struggling to find the resources to implement the transition to a low-carbon and inclusive economy. Although as a group developing countries account for a minority of global carbon emissions, they account for a far larger proportion of the growth under a business-as-usual scenario. The next 10-15 years are critical; the world will need to more than double the existing public capital stock, and most of these investments will be in developing countries, largely outside of China.[11]

Post-COVID, the problem has become more complex; there is now greater public awareness and understanding of the linkages between issues. For instance, climate change is already increasing the number of annual global deaths by around 150,000 according to the WTO, and this number is set to steadily rise over the next decade. Resilience, digitization, and urbanization must all be factored into the new transitions.

Yet at the same time, the context for change is improving, and the solutions that are being put forward are more straightforward than before. The world has shown it can mobilize over ten trillion dollars to deal with problems when called upon to do so, with limited adverse effects, at least in the short run. The real cost of capital is lower than ever before, making the economics of sustainability—which requires large scale capital investments in power, transport, water and sanitation, communications, buildings and green spaces—far more favorable. Technology has improved to a level where economic efficiency, resilience. and sustainability can be jointly achieved if efficient pricing mechanisms are put in place. This is not a new agenda—the G-20 took up sustainable infrastructure in 2010, endorsed a Global Infrastructure initiative in 2014, started a roadmap to infrastructure as an asset class in 2018, and has regularly reaffirmed the importance of the topic. In short, the agendas of dealing with COVID-19, the Sustainable Development Goals (SDGs), and the Paris Climate agreement are aligned but now need to be integrated.

To repeat an earlier point, the dominant part of new sustainable investments and spending will need to come from the public sector and the main source of financing will be domestic taxes. But the scale and urgency of the current context mean that relying on taxes alone will not be sufficient. There is no historical precedent for taxes to rise by the amount needed in the short window of the next decade. For most developing countries, resources from abroad will play a critical role, hence the focus of this paper.

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[11] Bhattacharya et al. 2019. "Aligning G20 Infrastructure Investment with Climate Goals and the 2030 Agenda." Foundations Platform 20: A report to the G20.

1. Debt standstills and relief

The most advanced proposal relates to a debt standstill with potential for debt relief for selected countries.

Following a call from the African Ministers of Finance,[12] G-20 leaders have agreed to a Debt Service Suspension Initiative (DSSI) that would suspend bilateral debt repayment to countries that request such support from May 1 until the end of 2020.[13] All IDA countries and Angola are eligible. As Table 1 below shows, these countries have a total of $75 billion in principal and interest payments on medium- and long-term debt in 2020 and 2021.

There are four key points for assessing the impact of the debt proposals: the coverage of creditors, the time frame, the degree of concessionality of any debt relief that is offered, and the eligibility of countries to whom relief is offered.

Table 1: Total debt service, all DSSI countries (billions USD)

Creditor Type	May-Dec 2020	Jan-Dec 2021
Total Official multilateral	$9.7	$13.7
Total Official bilateral	$11.6	$16.6
Total Non-official	$5.4	$6.5
Total Bondholders	$4.8	$6.0
Total	$31.5	$42.9

Source: World Bank International Debt Statistics (2020)

On *coverage*, about 30 percent of debt service is owed to multilateral creditors who have indicated they would not participate in a debt standstill. They have a valid argument. The money that is repaid simply gets recirculated to developing countries, so in net terms, the official multilaterals will not be withdrawing resources from developing countries regardless of whether they participate in a debt standstill or not. This may not, however, be true on a country-by-country basis.

Coverage is also unclear because of the many categories of debt. Even though China has agreed to participate in principle, along with its key state-owned banks, it may yet distinguish between "developmental" loans and commercial loans in practice. In the latter case, several Chinese loans are resource-backed, that is they have formal collateral in the form of natural resources built into the loan contracts. In these instances, the Chinese creditor could voluntarily agree to a temporary standstill, but the chances of extending this into some form of debt relief are small.

It remains unclear whether non-official private bank creditors, commodity traders or bondholders will participate. The former, organized by the Institute of International

[12] UN Economic Commission for Africa. 2020. "Report on African Ministers of Finance Meeting: Emergency Request to the International Community on COVID-19 Response."

[13] G20. 2020. "Communique – G20 Finance Ministers and Central Bank Governors Meeting." April 15.

Finance, have expressed willingness to engage in discussions, but neither they nor selected debtors with market access are in favor of a coordinated standstill on private debt service. Some of the countries that the DSSI is supposed to help have been reluctant to ask private creditors to participate in the program because they fear a ratings downgrade. These countries, then, have made a calculation that they prefer to maintain the limited access they have to capital markets by avoiding any negotiation with private creditors, rather than risk a ratings downgrade.[14]

The world of private finance is complex, and the original providers of credits may have entered into swaps and other hedging instruments, making the process of renegotiation even more complex. Indeed, even the act of starting discussions between a debtor country and an official bilateral creditor could trigger a default event in some private debt contracts. The very first step, then, is to ensure that there is no collateral reputational damage from the debt service standstill initiative. This is the current state of play: an effort to devise a template for private creditors to waive the triggering of a default clause in private contracts in the event of negotiations between countries and their official creditors.

The position of bondholders has been less uniform, and there is no organizing group that can represent everyone. A small group of “vulture funds” have in the past looked to profit from other creditors’ willingness to reschedule by holding out for full payment. Their bargaining power has been weakened by the increased use of collective action clauses, but there are challenges to these as well in new negotiations between Argentina and its private creditors.

On *timing,* the current standstill agreement is through December 2020. This is indeed the critical period for developing countries to be able to deploy additional fiscal resources. The situation is likely to be most urgent now than next year, when most forecasters, including the IMF, expect there to be a relatively strong recovery. Nevertheless, some governments are arguing that they have already budgeted for, and sometimes paid, debt service installments for this calendar year, and are more concerned about next year, when they can go through a considered process of reprogramming and cash flows saved because of the DSSI.

On *concessionality,* there is little progress yet. The IMF Board approved immediate debt service relief to 25 countries under the Catastrophe Containment and Relief Trust (CCRT), providing grants to cover debt service.[15] However, the total amount available under the CCRT is $0.5 billion, and as of early July only two countries, Tanzania and Yemen, had received funds, totaling about $35 million.

On *eligibility,* a limitation of the current DSSI program is its exclusion of non-IDA countries. It does not cover middle-income countries, many of whom are highly vulnerable. The list of IDA countries is based on per capita income levels, not on vulnerability, and so is a highly incomplete indicator of a country’s capacity to manage debt or of its vulnerability to external shocks. In the current context, it would be preferable to base eligibility on the

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[14] Moody’s has downgraded the rating or outlook for 21 developing countries since the COVID-19 outbreak.

[15] Georgieva. 2020. “IMF Executive Board Approve Immediate Debt Relief for 25 Countries.” IMF Press Release, April 13.

size of the shock, an approach that would provide help to many small islands and other states dependent on tourism, remittances, or commodity prices.

Overall, it seems that the debt standstill could provide some liquidity relief, helpful for the first phase of government response to COVID-19, potentially amounting to $12 billion this year and $17 billion next calendar year, but far short of the large amounts initially hoped for. The calls from 100 civil society groups to ask creditor nations to go further, permanently canceling all debt repayments to free up $25.5 billion in 2020 alone, that would have been relevant for the ensuing phases of restoring and resetting growth, are unlikely to be heeded.[16] Debt relief could yield individually useful transactions through, for example, debt for nature swaps, but in the past, these have not scaled to a significant degree.

At least some of the debt standstill will benefit private creditors, as happened during earlier debt relief programs, so the amounts available for higher developing country spending will be correspondingly smaller. To maximize the benefits for developing countries, governments could make use of the precedent set by U.N. Security Council resolution 1483, which granted a debt-shield mechanism to prevent commercial creditors from suing the government of Iraq to collect on sovereign debt. With this in place, Iraq was later able to settle its commercial debts through a combination of a debt buyback, at a discount for small debtors, and a debt-for-debt swap with a haircut for larger creditors. Absent this or a mechanism with similar impact, a considerable share of any debt relief could accrue to private creditors, despite the call by G-20 leaders for private creditors to also share the burden of the economic shock that has hit poor countries.

A further limitation to debt relief as a channel for increasing public spending by developing country governments is that there must be an accompanying IMF program at the same time. The IMF is required to consider whether a member's external debt is sustainable, before extending new assistance. The bias in their programs, then, is towards reducing fiscal deficits, not expanding them. Already this is entering into the negotiations between countries and the IMF, with the latter pushing for smaller fiscal deficits than governments would like.

All told, there is considerable potential for debt relief to play a significant role in opening fiscal space for developing countries, but current efforts are operating on the margin as a result of strict eligibility rules, absence of concerted concessionality discussions, imposition of conditionalities, and leakage into rewards for private creditors. Negotiated and voluntary debt relief may protect countries from additional legal and economic costs that could accompany debt defaults, and so is needed at this time, but the likelihood that it will lead to substantial expansion in, or safeguarding of, public investments for inclusive and sustainable development in low income countries seems slim.

2. Expanding Multilateral Development Bank (MDB) activities

Multilateral development banks have an advantage over other lenders because they enjoy preferred creditor treatment, meaning that borrowing countries will repay them before they repay others. This means that MDBs are the only lenders who can avoid the "debt overhang" problem. The preferred creditor treatment permits MDBs to be counter-cyclical —

[16] Doherty. 2020. "Calls for debt relief to help the poorest nations fight coronavirus." The Guardian, April 12.

even in a context of deteriorating public finances of their clients. If the projects they finance yield a real return that is above the cost of funds, then everyone benefits: the recipient country government gets a net economic benefit, the MDB has a positive development impact and gets repaid out of the project returns, and existing creditors have a better chance of getting their money back because of the improved economic situation.

The crucial insight is that successful investments, where project returns exceed the cost of funds, improve creditworthiness regardless of whether a country is in debt distress or not. If money is available at concessional terms, it is easier to meet the criterion of project returns exceeding the cost of funds, but in cases where fiscal multipliers are very high, as in the present state of the world, spending financed by non-concessional funds will likely still improve creditworthiness.

The volume of the MDBs' counter-cyclical response is closely tied to their capital and equity base, as well as to the funds they have mobilized on concessional terms. Luckily, both the World Bank and the African Development Bank have just had major capital increases approved last year. As Table 2 below shows, the World Bank now has an authorized capital of $329 billion (paid-in plus callable capital); the African Development Bank had its capital more than doubled last year to $208 billion. The World Bank's private sector arm, the International Finance Corporation, also had its capital more than doubled. The IFC can leverage its capital with private funds to a far larger degree than the sovereign lending arms of the MDBs, so the relatively small capital increase can still unlock a substantial amount of net new flows.

Table 2: Recent MDB capital increases (billions USD)

MDB	Date of increase	Capital base before	Capital base after
IBRD	2018	$268.9	$329
IFC	2020	$2.6	$8.20
AfDB	2019	$93	$208

Source: Congressional Research Service (2018). "2018 World Bank Capital Increase Proposal"; AfDB. (2019). "African Development Bank Shareholders approve landmark $115 billion capital increase, signaling strong support."

Based on this capital increase, the World Bank Group has committed to provide $160 billion in financing over the next 15 months, more than doubling its average pre-COVID commitments of about $60 billion in FY2019 and FY2018. It is also trying to accelerate disbursements from these loans. The World Bank has a crisis response window, with a $2.5 billion allocation, and an immediate response mechanism from which countries can access up to 5 percent of their undisbursed IDA balances. At the end of FY2019, IDA had about $58 billion in undisbursed but already committed funds, implying that an additional $3 billion in immediate funding could in principle be made available.

Other MDBs negotiated substantial increases in capital after the 2008 financial crisis. The Asian Development Bank tripled its capital base from $55 billion to $165 billion in 2009, by combining balance sheets with the Asian Development Fund,[17] but it will use most of

[17] ADB. 2010. "General Capital Increase V."

this firepower in the next two years, leaving the institution capital-constrained in the medium-term. The European Bank for Reconstruction and Development had a 50 percent capital increase in 2010, from $20 billion to $30 billion.[18] The Inter-American Development Bank had a $70 billion increase approved in 2012, raising its total capital base to $171 billion,[19] but it too is planning on using most of its borrowing authority over the next two years.

Much of the MDB response to date has been to bring forward grants and loans, from both concessional and non-concessional windows. Without a change in their business models, they would have to retrench, starting around 2022 or 2023. This makes the financing unsuitable for the long-term economic transitions of "build-back better." To avoid such a retrenchment, there are a number of technical fixes that are possible, but that require shareholder agreement. First, while maintaining a AAA rating, MDBs could expand their loan books by at least $750 billion simply by using better accounting practices on how capital is counted, something that the major rating agencies have encouraged them to do.[20] Second, they could take a policy decision to move towards industry standards on risk management variables like equity-loans, increasing the leverage ratio. Third, they could make additional efforts to seek local counterpart funds and private participation in projects. Fourth, they could turn-over their loans and not hold them all to maturity, freeing up capital space or additional projects. Fifth, they could request shareholders to provide them with additional capital.

Because of their seniority in being repaid, ability to package loans with policy reforms, and close dialogue with client governments through country-based offices, more lending from the MDBs is a powerful mechanism for expanding fiscal space. They have significant amounts of committed but undisbursed resources that they could permit countries to tap into, to a far greater degree than the current 5 percent of IDA's immediate response mechanism. They could extend non-concessional lending to poorer countries, given the very low real interest rates that MDBs are able to offer today to any client. They could mobilize additional private capital through greater use of guarantees and expansion of their private sector windows and guarantee facilities like the Multilateral Investment Guarantee Authority. They are a proven financial mechanism for multiplying shareholder contributions many times, so further capital increases could vastly expand their activities.

The MDBs are already providing counter-cyclical lending to alleviate the response and recovery phases. They could do more but face the prospect of having to retrench sharply if they do so, without some change in their business model. For example, IDA will exhaust much of its three-year lending authority in the next two years and will then be faced with either reducing activities sharply, borrowing more, or returning to shareholders for a further replenishment.

A quantum expansion in non-concessional MDB activities is feasible and practical and is one of the cheapest, most effective mechanisms for addressing the short, medium, and long-term crises that developing countries now face. However, they need a concerted signal from their major shareholders to be considerably more ambitious in their activities.

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[18] Williams. 2011. "EBRD capital increase becomes effective." EBRD News.

[19] IDB. 2012. "IDB capital increase approved in vote."

[20] Humphrey. 2020. "All hands on desk: how to scale up multilateral financing to face the COVID-19 crisis." ODI Briefing Paper.

For the moment, major shareholders are cautious but if they commit to a path towards reforms, MDBs could accelerate financing for all three phases of response, recovery, and reset in a very significant way.

3. Special Drawing Rights (SDR) expansion

The SDR is a liquidity instrument, an interest-bearing international reserve asset, created by the IMF and held by central banks. It can be exchanged by member states for freely usable currencies. For example, a developing country could request an advanced economy Central Bank to buy or swap its SDRs for a currency that can be used for the purchase of real goods and services in the market. The purchaser receives a formula-based interest payment (currently at very low levels), while the seller must pay the same interest rate, so the SDR system remains self-financed.

EU leaders, including President Macron and Chancellor Merkel, and African leaders, have called on the IMF to issue additional SDRs to help finance Africa's COVID-19 response.[21] Larry Summers and Gordon Brown put out an op-ed calling for an allocation of $1 trillion in SDRs to respond to COVID-19.[22] The Financial Times editorial board has called for $1.37 trillion.[23] Other scholars have called for a range of responses, from $3 trillion to a more modest $500 billion.[24]

SDR allocations appear to be "free money" for everyone, so should, in theory, be attractive to all countries. They have been used before, most recently in response to the financial crisis, when the G-20, led by urgings from UK Prime Minister Gordon Brown, put their weight behind a proposal for a general SDR allocation of $250 billion and a special allocation of $21.5 billion in 2009.[25] This provided unconditional financial resources that countries could use to alleviate liquidity constraints in an environment where trade and other credit markets were seizing up. Emerging markets and developing countries got $100 billion of this total, of which $18 billion went to low income countries. Today, because there are many fewer low-income countries, their share of any new SDR issuance would only be 1.5 percent. Table 3 below shows existing SDR allocations and shares by different country groupings. Any new SDR allocations would be expected to keep this distribution unchanged.

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[21] European Council. 2020. "Only victory in Africa can end the pandemic everywhere - World leaders call for an urgent debt moratorium and unprecedented health and economic aid packages." Press Release, April 15.

[22] Summers and Brown. 2020. "National governments have gone big. The IMF and World Bank should do the same." Washington Post, April 14.

[23] Financial Times Editorial Board. 2020. "New issuance of SDR is vital to help poorer countries." Financial Times, April 12.

[24] Weisbrot and Arauz. 2020. "G20 Should Call for IMF to Issue 3 trillion SDRs, CEPR Economists Say." CEPR Press Release, March 26; Gallagher, Ocampo and Volz. 2020. "It's time for a major issuance of the IMF's Special Drawing Rights." Financial Times, March 20.

[25] IMF. 2017. "Special Drawing Rights (SDR) allocations."

Table 3: Cumulative SDR allocations

Country	SDR, billions	Share
G-7	92.5	45.3%
G-20	133.9	65.6%
North America	41.3	20.2%
Europe & Central Asia	81.8	40.1%
East Asia & Pacific	32.7	16.0%
Middle East & North Africa	17.5	8.6%
Latin America & Caribbean	15.6	7.6%
South Asia	6.1	3.0%
Sub-Saharan Africa	9.0	4.4%
High income	143.5	70.3%
Upper middle income	39.9	19.6%
Lower middle income	17.5	8.6%
Low income	3.1	1.5%

Source: IMF (2017). "Special Drawing Rights (SDR) allocations."

Stripped down to the basics, the actual use of an SDR has the same characteristics as a bilateral loan from one Central Bank to another. A general SDR allocation is not the equivalent of printing money in a reserve currency. This is the feature that complicates the debate over the role of SDRs in combating crises like the current pandemic. Many bilateral governments feel that if they are to make a loan, they should be able to determine the conditions associated with that loan, rather than making it automatic. For countries like the United States, which is the largest holder of SDRs and the most likely purchaser of SDRs as others try to obtain U.S. dollars to be used for international transactions, there are already programs of swap links between the Federal Reserve Board and selected other countries. The United States is not a supporter of a new generalized SDR allocation that would basically extend these swap links to countries beyond those they have designated as key partners—imagine the politics of the U.S. implicitly making a loan to China or Iran.[26]

An alternative proposal is therefore being advanced by the IMF Managing Director, Kristalina Georgieva. Under this proposal, countries that have excess SDRs (and there are about $200 billion in SDRs that remain untouched from the 2009 allocation) could lend them at low current SDR rates to a special Trust Fund, administered by the IMF, that could then on-loan the SDRs to developing countries. In this fashion, the arrangement could mimic that of a general SDR allocation but with greater discretion as to who participates and who receives the funds.[27] The SDRs made available can then be tailored to specific "high-return" projects, ranging from debt relief, to poverty reduction, to health systems strengthening. A scheme like this is limited in its size – south of $200 billion – but may be more politically palatable than a generalized SDR allocation that could easily be $1 trillion.

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[26] Politi. 2020. "US holds off on IMF plan to boost emerging economies' finances." Financial Times, April 15; Politi. 2020. "Mnuchin defends US opposition to emerging markets liquidity plan." Financial Times, April 16.

[27] Johnston. 2020. "IMF offers partial debt relief, but US continues to block SDR allocation." CEPR, April 15; Plant. 2020. "Making the IMF's Special Drawing Rights Work for COVID-19 Economic Relief." CGD, May.

SDRs provide a quick and time-tested way for financing during a crisis. The re-allocation proposal is modest in size, but would help with the immediate phase of responding to the crisis. However, a large new allocation of SDRs would be needed if this instrument is to be significant in financing the longer-term recovery and re-set phases. The debate for non-specialists then should be about whether the "bird in the hand (or almost in the hand)" is worth more than the "bird in the bush."

4. More aid

There have been a number of appeals for more aid to combat the health and humanitarian aspects of the crisis. The UN called for increases in aid to help the poorest countries fight the virus, launching a $2 billion Global Humanitarian Response Plan in March under the auspices of the Office for the Coordination of Humanitarian Assistance (OCHA).[28] By May, the UN updated its response plan to call for $6.7 billion in order to expand the program to include additional countries needing help as well as to deal with a newly emerging food crisis.[29] Overall, OCHA estimated the costs of protecting the most vulnerable 10 percent of the population could amount to $90 billion, almost the size of a full year of net ODA disbursements from member countries of the OECD's Development Assistance Committee.

There are additional costs associated with the development of efficient production and equitable global distribution of vaccines, therapies, and diagnostics to frontline workers and vulnerable groups, estimated by the ACT-Accelerator work streams to cost an additional $27 billion over the next 12 months.[30] In May, the European Commission and its partners held a "Coronovirus Global Response Pledging Session" and has since raised almost 16 billion euros, mostly from European countries and agencies. The United States, notably absent in the initial pledging session, has now committed $545 million towards these COVID-19 relief efforts.[31] Importantly, the global response also includes commitments of cash or material support from developing country governments, philanthropies, and corporations.

The increased commitments are welcome but there are concerns over whether aid pledges are new and additional or simply a front-loading of commitments. In past crises, aid has initially held up, but over time as the cycle of new commitments and disbursements passes through donor budgets, aid tends to get squeezed. Already, the UK government has announced ODA funding reductions of 2.9 billion pounds for 2020. In a similar vein, the EU's multi-year framework budget cuts aid volumes compared to current financing and may reallocate towards the EU neighborhood rather than on the basis of development needs.[32] These come on top of a declining cycle of net ODA disbursements that dates back to 2017 (Figure 1).

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[28] UN. 2020. "Funding the fight against COVID-19 in the world's poorest countries." March 25.

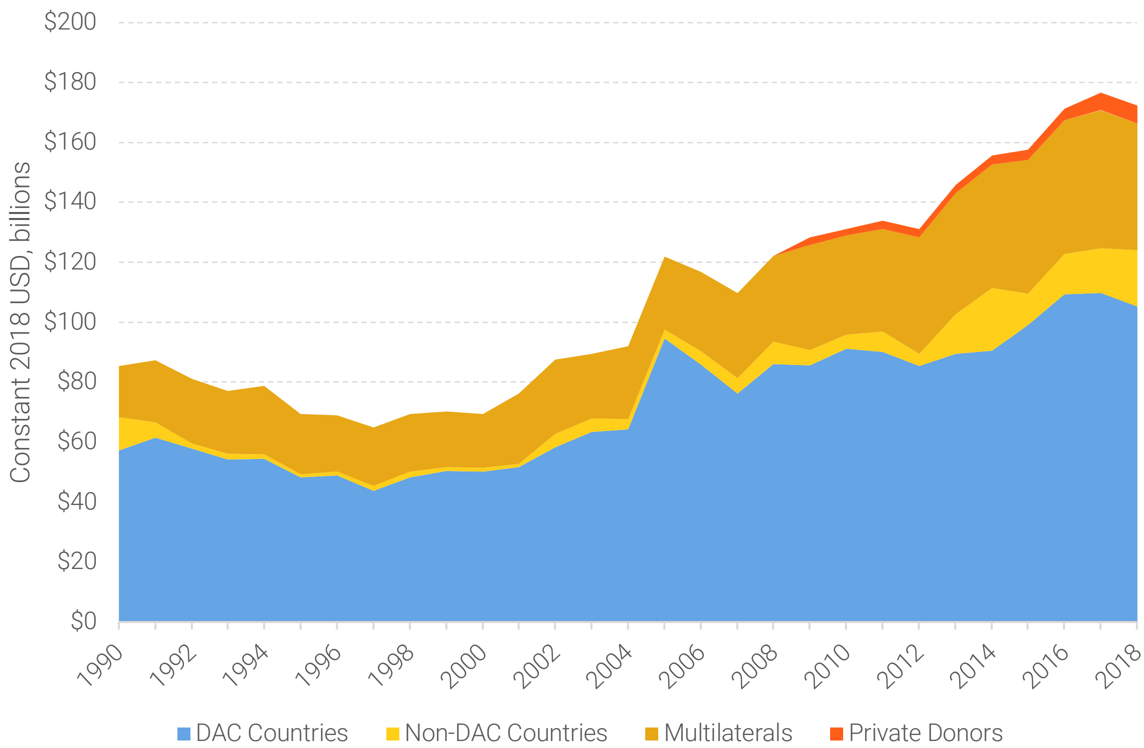
[29] UN May 2020. "Updated COVID-19 Global Humanitarian Response Plan." Press Release, May 7.

[30] WHO. 2020. "ACT-Accelerator Update." Press Release, June 26.

[31] European Commission. 2020. "Coronavirus Global Response: Breakdown of the pledges made today in the 'Global Goal' Summit." Press Release, June 27.

[32] Foresti. 2020. "What the EU recovery fund means for Europe and international development." ODI Blog, July 23.

Figure 1: Total net ODA disbursements



Source: OECD/DAC (2020)

The World Bank's IDA 19 replenishment surpassed funding targets despite lower than normal pledges from the United States. Its commitments permit a grant/lending program of $82 billion over the next 3 years.[33] In response to COVID-19, IDA has committed to a $50 billion program over the next 15 months, with most of its remaining funds spent within the next two years.[34]

Ultimately, low income countries rely on aid from rich countries to help them weather global economic shocks. This time, however, the response from rich country governments does not seem to be generous, as they wrestle with large domestic requirements at the same time. There will undoubtedly be some shifting of aid towards health and humanitarian assistance, and some forward shifting of aid that will help in the response phase, but aggregate volumes of aid look set to fall rather than rise, especially in the medium term, so it is unlikely, at this stage, to be a significant factor for the recovery and re-set phases.

[33] Edwards. 2019. "World Bank hits IDA replenishment target despite smaller US pledge." Devex, December 16.

[34] World Bank. 2020. "Debt Service Suspension and Covid-19 Factsheet." May 11.

5. Fossil fuel levies, the Climate Damages Tax, and carbon offsets

Fossil fuel subsidies remain one of the leading drains on fiscal resources. Fuel subsidies, defined by the IMF as fuel consumption times the gap between existing prices and efficient prices, amounted to an estimated $5.2 trillion in 2017.[35] The pre-tax subsidy (which G-20 countries had pledged to get rid of at Pittsburgh in 2009) amounted to just under $300 billion, while the remainder of the subsidy reflects the unpriced damage caused by the burning of fossil fuels, local pollution, road damage, congestion and accidents caused by cheaper-than-socially-desirable availability of petrol. Across all fuels, only about one-quarter of the subsidies are due to not costing the damage caused by future climate change. Three-quarters of the subsidy, almost $4 trillion, represents local costs.

Why do these subsidies exist? Some policymakers believe that higher energy costs would lead to slower GDP and employment growth. But a recent paper suggests this is not true. If anything, the reverse holds; high carbon taxes have had a zero to moderately positive effect on GDP and employment growth in Europe over the last thirty years.[36] While the evidence is consistent with carbon taxes replacing other more distortionary taxes, and so stimulating growth, other evidence suggests that pressure to innovate in the face of higher carbon prices is also a significant growth driver.

Launched during COP24, 50 leading civil society organizations put forward a proposal for a Climate Damages Tax (CDT), or fossil fuel levy on each ton of coal, oil or gas extracted (coal and oil are responsible for almost 90 percent of global fossil fuel subsidies). Such a tax would be used to help pay for costs of climate change related natural disasters, as well as incentivize a move away from fossil fuel dependence. A number of government officials from SIDS joined the call for a CDT, citing the undue burden climate change places on their small, under resourced states. For example, during Cyclone Pam in 2015, Vanuatu lost $450 million or 64 percent of GDP.[37]

Advocates point out that the fossil fuel industry is responsible for 70 percent of greenhouse gas emissions, so they should shoulder the bulk of the costs for ramifications of climate change. The proposed tax would initially place a $5 levy on each ton of CO_2 emissions, rising by $5 per year until 2030, and then $10 per year until 2050. They estimate that this could raise $300 billion a year by 2030.[38] A portion of funds would go to overseas disaster recovery efforts, while another portion would be retained by the home country to support domestic green energy and transport transitions. Under the proposed graduated system, rich countries would keep about half of revenue for domestic resiliency efforts and poor countries would keep 100 percent, with middle income countries falling somewhere in-between. Money would flow through existing national systems for royalty

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[35] Coady et al. 2019. "Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates." IMF Working Paper 19/89.

[36] Metcalf and Stock. 2020. "The Macroeconomic Impact of Europe's Carbon Taxes." NBER Working Paper 27488.

[37] Goering. 2018. "Fossil fuel tax proposed to cover rising costs of wild weather." Reuters, December 10.

[38] Richards et al. 2018. "The Climate Damages Tax: A guide to what it is and how it works." Stamp Out Poverty, Practical Action, and WWF.

payments. The overseas payments could go through an entity set up under the Green Climate Fund.

The climate damages tax is one instrument for using carbon pricing as a cost-effective means to help countries transition to low-carbon alternatives. In the past year, the IPCC, IMF, and OECD have all reiterated their support such instruments. The IMF recently pushed for establishing a voluntary carbon price floor to encourage a more competitive global market for carbon, showing that the G-20 countries could reduce carbon emissions by one-third by 2030 if they imposed a $70 per ton carbon tax.[39]

In 2020, there were 61 carbon pricing initiatives around the world, consisting of 31 emission trading systems (ETSs) at the regional, national and subnational level, and 30 carbon taxes, primarily applied at the national level.[40] These initiatives cover 12 gigatons of CO2 equivalent, about 22 percent of global greenhouse emissions. The average price for carbon is far below what is required, at only $2 per metric ton of CO2, with individual schemes ranging from less than $1 to $119 per ton. 50 percent of carbon pricing regimes are priced at less than $10 per ton. In 2019, carbon pricing initiatives raised $45 billion in revenues, an increase of $1 billion from 2018, with half of these funds invested back into environmental and development projects.

Yet current carbon prices remain too low to meet the targets set out in the Paris Agreement. Today, less than 5 percent of global emissions are priced at a level consistent with meeting the goals, which would require a carbon price of $40 to $80 per ton of CO2 now, rising to $50 to $100 per ton by 2030.[41] As Figure 2 below shows, no country has a high carbon tax and at the same time a high share of emissions covered by the tax. Places like California and Quebec (and to a lesser extent Japan) have good coverage but at a low carbon tax rate. Conversely, Sweden, Switzerland, Liechtenstein, Finland, and France have high tax rates but relatively low coverage.

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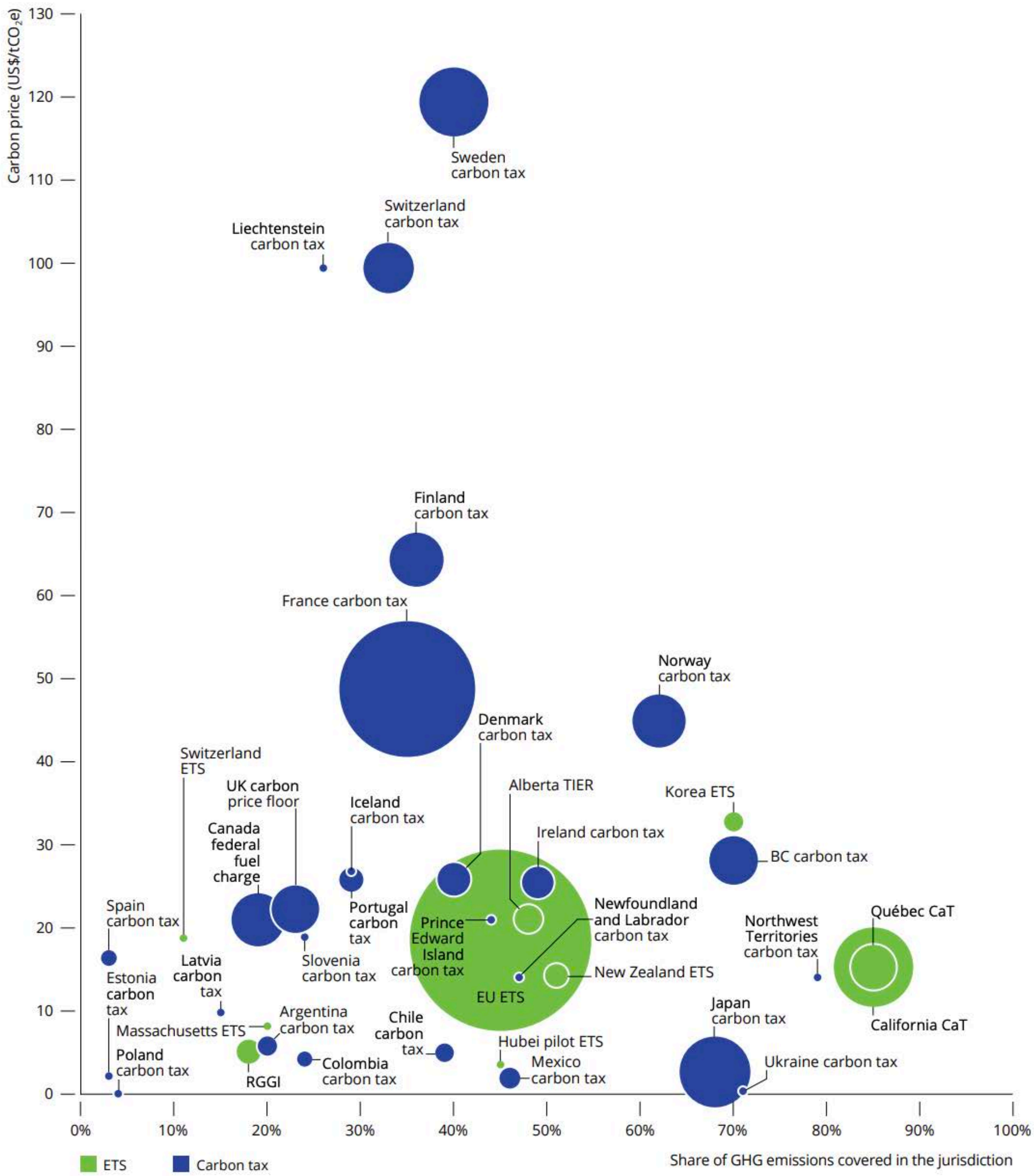
[39] Lagarde and Gasper. 2019. "Getting Real on Meeting Paris Climate Change Commitments." IMF, May 3.

[40] World Bank. 2020. "State and Trends of Carbon Pricing 2020."

[41] CPLC. 2017. "Report of the High-Level Commission on Carbon Prices."

Figure 2: Carbon price and share of emissions covered by existing carbon pricing initiatives



Note: Government revenues from carbon taxes, auctioned allowances and direct payments to meet compliance obligations. The size of the circles is proportional to the amount of government revenues except for initiatives with government revenues below US$100 million in 2019; the circles of these initiatives have an equal size. For illustrative purposes only, the nominal prices on April 1, 2020 and the coverages in 2020 are shown. The carbon tax rate applied in Argentina, Finland, Ireland, Mexico and Norway varies with the fossil fuel type and use. The carbon tax rate applied in Denmark and Iceland varies with the GHG type. The graph shows the average carbon tax rate weighted by the amount of emissions covered at the different tax rates in those jurisdictions. The middle point of each circle corresponds to the price and coverage of that initiative.

Source: World Bank (2020). State and Trends of Carbon Pricing 2020.

Existing carbon pricing schemes can be built upon and aligned to generate additional efficiencies. Article 6 of the Paris Agreement encourages countries to increase the ambition of their carbon reduction targets by using the lower marginal cost of abatement that may be present in other countries. Modeling suggests the costs of carbon reductions can be cut in half through a cooperative international approach of this kind.[42] Among the largest of such schemes are the EU Emissions Trading Scheme, the Clean Development Mechanism, the COP24 Joint Implementation mechanism, the Carbon Offset and Reduction Scheme for International Aviation (CORSIA), and the Reducing Emissions from Deforestation and Forest Degradation (REDD+) mechanism.

Carbon offsets can be a source of significant revenue for developing countries, especially for those in the tropics where reforestation provides cheap mitigation opportunities. But the EU emissions trading scheme, the world's largest offset market, does not plan to buy international credits after 2020.[43] The CDM is due to expire at the end of 2020. Countries are still able to strike bilateral deals for mitigation credits, but the uncertainty associated with new international rules will prevail until a new agreement can be reached at COP 26. Airlines are also pushing for a relaxation of CORSIA credits considering their precarious financial straits following travel-related declines associated with the pandemic.

Carbon offsets may not offer much potential for developing country financing in the short-run, and any new scheme such as the Carbon Damages Tax that could impact developing countries would take considerable time before implementation could start. However, a change in carbon pricing is an essential ingredient in any long-term global reset. The global amounts that can and should be raised by efficient carbon taxation are very large. Some portion of this can be help developing countries make their own contributions to tackling climate change. Already, there is a very substantial overlap between climate finance and development finance. It is time to integrate these streams within a long-term sustainable financing architecture.

6. Multinational corporation taxation

Governments lose \$500 to \$600 billion a year due to corporate tax shifting.[44] Low income countries account for \$200 billion of this, larger than the \$150 billion they receive in ODA.[45] Zucman and his coauthors estimate that 40 percent of U.S. multinational corporations' overseas profits are transferred to tax havens.[46] Indeed, American Fortune 500 companies held \$2.6 trillion overseas in 2017.

Figure 3 below gives estimates made by the IMF of revenue losses from tax evasion and avoidance. The amounts foregone by low income developing countries are comparatively modest.

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[42] Edmonds et al. 2019. "The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges." IETA, University of Maryland and CPLC.

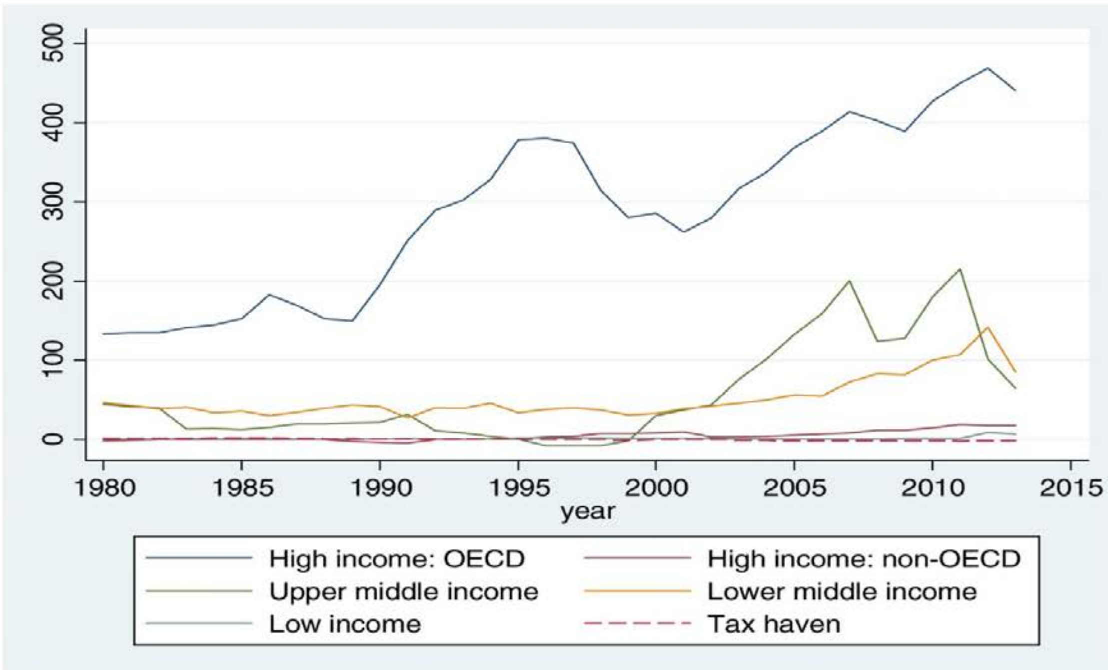
[43] European Commission. 2019. "Market Stability Reserve."

[44] Crivelli et al. 2015. "Base Erosion, Profit Shifting and Developing Countries." IMF Working Paper 118; Cobham and Janský. 2018. "Global Distribution of Revenue Loss from Corporate Tax Avoidance: Re-Estimation and Country Results." Journal of International Development 30 (2): 206–32.

[45] Shaxon. 2019. "Tackling Tax Havens." IMF Finance & Development 56(3).

[46] Torsolv, Wier and Zucman. 2018. "The Missing Profits of Nations." NBER Working Paper 24701.

Figure 3: Revenue loss from corporate tax avoidance by income group (billions USD)



Source: Cobham and Janský (2018). Data taken and adapted from Crevelli et al. (2015).

A number of efforts to combat MNC tax evasion are already in process:

- The Global Forum on Transparency and Exchange of Information for Tax Purposes—An OECD initiative, the Forum, with a membership of 161 countries of which 88 are developing, works on global tax transparency and exchange of information standards. There are two standards currently being monitored by the Global Forum. First, the Forum has implemented a peer review process for exchange of information on request to ensure proper implementation of standards and provide an assessment of areas for technical capacity building. Through its voluntary disclosure program and offshore tax investigations, countries have captured an additional 100 billion euros in revenues.[47]

  Second, the Global Forum is also reviewing the implementation effectiveness of the automatic exchange of information, a new standard to help tax authorities identify offshore holdings of domestic taxpayers. More than 90 jurisdictions exchange information automatically through this portal. Information for 84 million offshore accounts with a value of 10 trillion euros was exchanged in 2019, leading to the identification of 110 billion euros in previously hidden money.[48]

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[47] OECD. 2020."Putting an end to offshore tax evasion."

[48] OECD. 2020. "OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors." July.

- Inclusive Framework on Base Erosion and Profit Sharing (BEPS)—An OECD initiative to address tax avoidance, improve coherence of international tax rules, and push for more transparent exchange of information between countries. Each year, countries lose an estimated $100 to $240 billion due to BEPS practices by MNCs, or 4-10 percent of global corporate income tax revenue.[49] One hundred thirty-five countries are working to implement actions spelled out under the BEPS framework. Negotiations are proceeding on two main pillars: Pillar 1 sets rules for who pays taxes where, and what portion of profits should be taxed in various jurisdictions, with particular complications emerging on the taxation of digital companies, and Pillar 2 sets a minimum level of taxation to prevent a race to the bottom. All countries are committed to advancing negotiations, although political consensus may need further time to develop. The OECD will present blueprints and technical proposals to the G-20 in October 2020, but important stakeholders, including the United States, continue to express reservations.[50]

The year 2020 is the deadline set by the G-20 to adopt a multilateral, consensus-based solution to tax challenges posed by the digitalization of the economy. Failure to reach an agreement would be a severe setback to developed and developing country governments trying to recoup the cost of managing the pandemic. Some battles that have been waged over the long-term are being won, for example, the adoption of country-by-country reporting for all multinationals above a minimum revenue threshold size. The improvements in transparency and coherence in international taxation will undoubtedly help developing countries, but progress may be slow. To date, for example, deep dives by the Tax Inspectors Without Borders program in the area of mining taxation have only yielded some $334 million in revenue for all of Africa.[51]

There is progress being made on fair rules for taxing MNCs and developing countries will reap some of the rewards. This will be particularly valuable for the re-set phase, and of particular help for low income countries where the amounts of potential revenue that could be recouped is significant compared to the size of their GDP.

7. Capturing illicit financial flows (IFFs)

By their very nature, measuring the extent of illicit flows is not easy, and numerous estimates exist for their size. The United Nations Economic Commission for Africa's High-Level Panel on Illicit Financial Flows from Africa estimates that IFFs could be as high as $50 billion per year, double the amount of ODA received by African countries.[52] The Economic Commission for Latin America and the Caribbean estimates that IFFs totaled $85 billion in 2016, 1.5 percent of regional GDP.[53] Conservative estimates of the size of corruption leakage in developing countries range from $20 to $40 billion per year.[54]

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[49] OECD. 2020. "BEPS."

[50] Phillips Erb. 2020. "U.S. Pauses OECD Talks After Expressing Concern Over Digital Tax." Forbes, June 19.

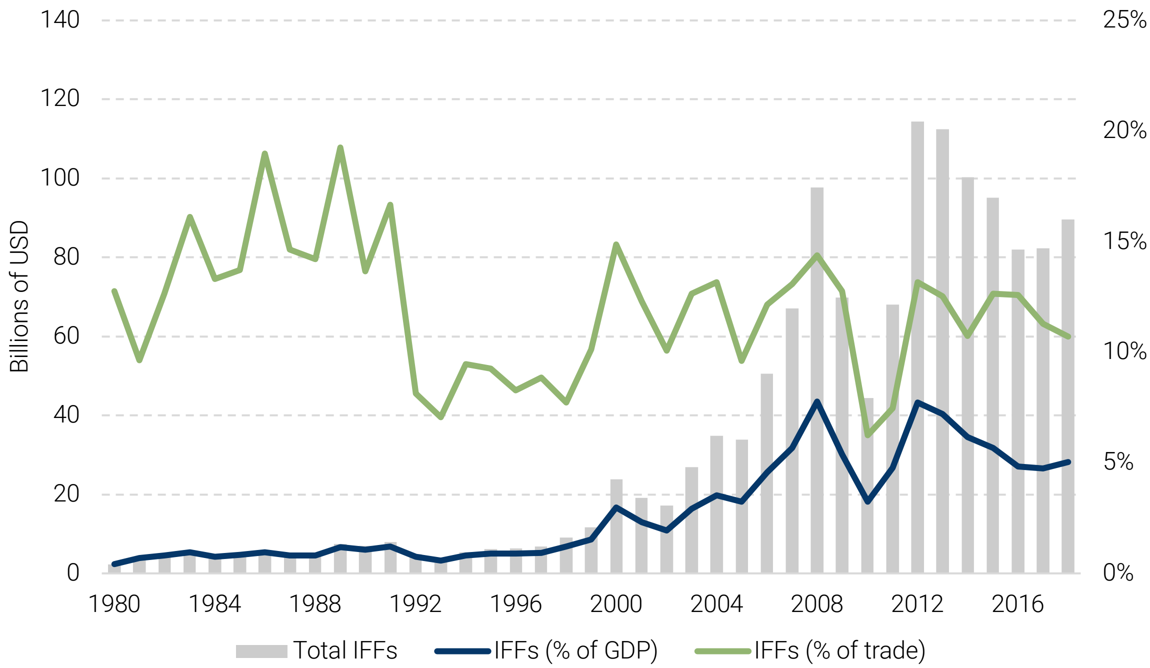
[51] OECD. 2020. "OECD/G20 Inclusive Framework on BEPS." Progress report July 2019-July 2020.

[52] UNECA. 2020. "High Level Panel on Illicit Financial Flows."

[53] ECLAC. 2019. "ECLAC Reiterates the Importance of Reducing the High Level of Tax Evasion and Illicit Financial Flows to Increase the Region's Fiscal Space."

[54] StAR. 2019. "Stolen Asset Recovery Initiative Brochure."

Figure 4: Evolution of aggregate illicit financial flows out of Africa



Source: Singe, Sow and Madden (2020). "Illicit financial flows in Africa: Drivers, destinations and policy options." Brookings Africa Growth Initiative Policy Brief. Data from IMF Balance of Payment and IMF Direction of Trade Statistics.

In many instances, these flows form part of a wide array of illegal activities. The UN Office on Drugs and Crime (UNODC) estimates that income from all criminal activities, excluding additional revenue from tax evasion, may have been as high as $2.1 trillion in 2009, or 3.6 percent of world GDP.[55] Transnational crime accounted for $875 billion of this, with 70 percent of these proceeds laundered through the international financial system. Another study estimates that drug trafficking profits reached $426 to $652 billion in 2014, accounting for a sizable share of the $1.6 to $2.2 trillion in total transnational organized crime profits.[56] Less than 1 percent of these illicit flows are currently being seized and frozen.

The World Bank and the United Nations Office on Drugs and Crime launched the Stolen Asset Recovery Initiative (StAR) in 2007 to end safe havens for corrupt funds. StAR provides policy advice, capacity building, and case assistance to governments working to recover assets. Their asset recovery database reports that $8.2 billion in stolen funds have been frozen, confiscated or returned since 1980.[57]

The Extractive Industries Transparency Initiative (EITI) perhaps represents one step forward in improved transparency and accountability around often hidden financial flows. EITI promotes the accountable management of oil, gas, and mineral resources. EITI

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[55] UNODC. 2011. "Estimating illicit financial flows resulting from drug trafficking and other transnational organized crime."

[56] Mavrellis. 2017. "Transnational crime and the developing world." Global Financial Integrity.

[57] StAR. 2019. "StAR Annual Report 2018."

requires members to disclose information about production and revenues all along the extractive industry value chain, to hold government accountable for ensuring profits benefit the public. As of 2020, 53 countries have joined EITI, disclosing $2.7 trillion in revenues.[58]

The United Nations established a Financial Accountability, Transparency and Integrity Panel to develop recommendations for easing the recovery of stolen assets.[59] The panel will deliver their report in September, but already two things are clear. First, the recovery of stolen assets is a time-consuming and complex procedure, requiring considerable international cooperation to be successful. Second, the process of hiding assets is enabled by fee-seeking professionals who can be shielded from prosecution by pleading ignorance about the source of the funds. Efforts to promote "enhanced due diligence" have been rejected by important member states including Australia, Canada, China, and the United States.

Without stronger international measures including cooperation on the sharing of information, efforts to halt illicit financial flows, and accelerate recovery of stolen assets will be hampered. It is unlikely that additional funds can be raised in the short- to medium-term from clamping down on illicit financing. The required changes are deep-seated and the needed culture changes do not enjoy global support. Nevertheless, addressing illicit flows is a key issue in establishing a fair and transparent set of rules for international finance in the long-term.

III. Mobilizing Market Forces

Complementary to the efforts to provide additional public finance, there are a set of proposals to mobilize market forces in support of the SDGs that are making some headway. These will primarily affect those countries that have reasonable access to private capital flows, but if they gain momentum, they could lead to a sharp turn in the global economic system. Already in 2020, there is substantial progress in investor attitudes towards climate change, reflected in a number of asset managers supporting shareholder resolutions for companies to adopt climate-related financial disclosures, specific carbon emissions targets, management remuneration linked to climate key performance indicators, and other governance measures.

Globally, these activities are growing. The Global Sustainable Investment Alliance (GSIA) reports that socially responsible investments, which account for environmental, social, and governance (ESG) issues amounted to $30.7 trillion in 2018.[60] The largest portion, $19.8 trillion, is simply negative screening; investors who have ensured their index funds do not include sectors like tobacco or weapons manufacturing. Investments that meet some form of ESG integration account for $17.5 trillion. The share of sustainable investments relative to total asset portfolio ranges from 63 percent in Australia/New Zealand, 50 percent in Europe and Canada, 26 percent in the U.S., and 18 percent in Japan.

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[58] EITI. 2020. "Global Factsheet, June 2020."

[59] FACTI. 2020. "In-depth background papers have been published." Press Release, July 20.

[60] GSIA. 2019. "2018 Global Sustainable Investment Review."

Increasingly, specific corporations have signed on to various SDG and Paris Agreement pledges, promising to evaluate investment decisions by considering how they contribute to SDGs and climate change. Goldman Sachs, for instance, has committed to deploying $750 billion across their advisory, investing, and financing portfolios to help address climate change and invest in a green economy by 2030.[61] The European Green Deal Investment Plan, the financing arm of the European Green Deal launched in 2019, aims to mobilize 1 trillion euros in public/private investments in the green economy over the next decade.[62]

The International Platform on Sustainable Finance (IPSF) was launched in October 2019 by Argentina, Canada, Chile, China, India, Indonesia, Kenya, Morocco, Norway, Switzerland, and the EU.[63] These countries are responsible for half of global carbon emissions. The platform aims to exchange information about best practices for sustainable finance, scale up existing finance initiatives, and enhance international cooperation and alignment.

The Climate Bond Initiative (CBI) works to mobilize the $100 trillion international bond market to advance climate change solutions. From 2008 – 2018, more than $521 billion in green bonds were issued.[64] In 2019, green loan issuance reached $257.7 billion, marking 50 percent growth from 2018.[65] Chinese green bonds reached $55.8 billion in 2019, $31.1 billion of which met both Chinese and CBI green bond definitions.[66]

To date, sustainable finance initiatives are voluntary and decentralized, with various definitions applied by different institutions. Efforts to standardize ESG investment terminology and definitions are necessary moving forward. With this comes the need for the adoption of global standards around definitions and measurement, for example, to ensure that U.S. and Chinese green finance statistics are measuring the same concepts.[67] The movement of private capital towards the same set of objectives as official development finance leads to optimism that public-private financial partnerships can be structured that would generate large multipliers for sustainable development finance.

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[61] Goldman Sachs. 2020. "Sustainable Finance at Goldman Sachs."

[62] European Commission. 2020. "What is sustainable finance?"

[63] European Commission. 2019. "International Platform on Sustainable Finance Factsheet."

[64] Climate Bond Initiative. 2018. "Green Bonds: The State of the Market in 2018."

[65] Climate Bond Initiative. 2019. "2019 Green Bond Market Summary."

[66] Climate Bond Initiative. 2019. "China Green Bond Market: 2019 Research Report."

[67] Papageorgiou, Schmittmann and Suntheim. 2019. "Connecting the Dots between Sustainable Finance and Financial Stability." IMF Blog, October 10.

IV. Summary and concluding remarks

All the proposals outlined above for increasing financial flows to support sustainable development are worth pursuing. All require a considerable dose of political will, and, at least in so far as support for developing countries is concerned, there needs to be a willingness for major economies to coordinate internationally to be effective. At present, both the political will and the willingness to coordinate seem to be in short supply. There are clear and actionable proposals on the table, but global support has not been organized in an effective way.

Amongst the various proposals we have reviewed, two stand out as having the potential to reach scale for the response and recovery phases, building on political collaboration mechanisms within existing institutions. They are:

- A new allocation (and reallocation) of SDRs
- Greater ambition of MDBs

The proposal for SDRs enjoys the benefits of precedence in 2009 and clear implementation guidelines that limit political interference. If accompanied by the IMF proposal to pool unused SDRs from selected countries on a voluntary basis with requests from developing countries, the final allocations can be distributed to align better with needs.

Greater ambition for the MDBs can also be relatively easily implemented, partly by taking the recommendations of the Eminent Persons Group report on making the global financial system work for all to its logical conclusion.[68] A clear indication now that shareholders would support scaled-up activity by MDBs would allow them to bring forward loans and credits with the assurance that they would not later need to retrench. Modest amounts of new paid-in capital can be leveraged multiple times. Committed but undisbursed funds can be repurposed. Debt overhang disincentives can be avoided thanks to the preferred creditor treatment of MDBs.

Debt relief could open fiscal space in the short-term but the DSSI, as currently structured, is falling short of its potential and several potential beneficiaries have indicated a desire not to participate. To make the DSSI more attractive would require reform of credit rating agencies' methodologies and mandatory participation of private creditors. The latter could be achieved through a UN Security Council resolution, but the political will to pass this seems absent. Selected transactions, such as debt-for-climate swaps may be beneficial in specific cases but are unlikely to be scaled to the necessary degree.

More aid seems unlikely in the present environment, despite the zero or even negative real cost of capital in several advanced economies. Aid can, however, act as a catalyst and multiplier of other sources of finance, especially climate finance.

Fossil fuel subsidies have complex domestic considerations and the pure subsidy element (prices below cost) are small compared to the implicit subsidy (lack of efficient taxation). The implicit part is harder to see directly and relies on analysis of the impact on jobs and growth that is subject to debate. Although the academic literature points to

[68] G20 Imminent Persons Group. 2018. "Making the Global Financial System Work For All."

considerable benefits of imposing fossil fuel taxes, the subjectivity of analysis leaves open the door to strong opposition by vested interests. Although reform of fossil fuel subsidies may not provide resources in the short run, it is critical to the longer-term recovery and re-set phases of managing the crisis.

Multinational corporate taxation is slowly gaining traction, but is a medium-term proposal, requiring national legislation to take effect. The biggest gainers will be large economies; most developing countries are unlikely to benefit to any significant degree, but selected low-income, commodity exporters could see real gains over time.

Tackling illicit financial flows is a time-consuming and complex process requiring substantial international cooperation (including in some instances cooperation by sub-national jurisdictions). Rapid, concerted progress is technically feasible, especially if progress can be made on disclosure of beneficial ownership and enhanced due diligence by financial professionals but would require a level of political will and global coordination that will take time to develop.

Meanwhile, in addition to the need for additional public finance, there is a corresponding need for private corporates to spend better. Many voluntary measures are gaining steam, and now need to be standardized and consolidated to permit comparisons across firms that could ultimately drive investment allocations. The importance of private capital underlines the need for developing countries to maintain and improve access to global capital markets, not by a race to the bottom on requiring minimal disclosures and regulations but by greater adherence to the rule of law.

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