

Global development cooperation in a COVID-19 world

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I. Contours of a COVID-19 world

COVID-19 and the economic response have amplified and changed the nature of development challenges in fundamental ways. Global development cooperation should adapt accordingly. This paper lays out the urgency for new methods of development cooperation that can deliver resource transfers at scale, oriented to addressing climate change and with transparency and better governance. It looks at what is actually happening to major donor countries' development cooperation programs, where the principal gaps lie, and offers some thoughts for how to move forward, notwithstanding the clear geopolitical rivalries that are evident.

The most immediate challenge is to provide a level of liquidity support to countries ravaged by the global economic downturn. This is the broadest and deepest downturn in the global economy that has ever been seen. The International Monetary Fund (IMF) projects a fall of 4.9 percent in global GDP in 2020, and a fall of similar magnitude in emerging market and developing countries (EMDEs) ex-China.¹ The World Bank projects 93 percent of all countries in the world will go into recession in 2020.² Many developing countries will see double-digit declines in GDP, with some recording downturns not seen in peacetime.

Alongside the short-term challenge of recovery, COVID-19 has laid bare longer-term trends that have pointed for some time to the lack of sustainability—environmental, social, and governance—in the way economic development was occurring in many places, including in advanced economies. The sharp reduction in productivity growth, the growing degree of inequality, the collapse of biodiversity, land degradation, ocean overfishing, and, of course, climate change all indicate the need for a reset of plans and priorities. This was already foretold in the negotiations leading to the adoption of the Sustainable Development Goals (SDGs) in 2015. However, what was agreed to then as a theoretical concept of an improved development pathway has now given way to a recognition that decisive change is now needed if countries are to avoid destabilizing forces.

This new landscape has significant implications for development cooperation in terms of scale, development/climate co-benefits, and transparency and accountability. First, our understanding of the scale of resources that could be made available has changed. There had already been a discourse about the increased needs to meet the SDGs (the “billions to trillions” discussion), but those were taken as aspirational rather than foundational, and often dismissed as impractical. COVID-19 has changed this, with \$12 trillion quickly mobilized to address its impact within major economies. The IMF

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¹ <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEUpdateJune2020>

² <https://openknowledge.worldbank.org/handle/10986/33748>

suggested that at least \$2.5 trillion would be needed for EMDEs.³ The African Union has called for \$100 billion per year for that continent for the next three years.⁴ Much higher levels of resource transfers to developing countries need now to be discussed in global policy circles than was the case before COVID-19.

Perhaps the most telling statistic lies in the distinct fiscal response to the crisis.⁵ Advanced economies have plans to raise fiscal deficits by 9 percentage points of GDP in 2020, and to add a further 11 percentage points of GDP to their gross public debt through loans and guarantees to keep their businesses afloat. In emerging markets, the equivalent numbers are 3 and 2 percentage points of GDP, while in low-income countries they are 1 percentage point and negligible support. These differences are not due to differential health or economic impacts of COVID-19 but are purely the consequence of access to financing. Advanced economy governments have the exorbitant privilege of borrowing in their own currencies, while developing countries cannot; they are dependent on access to official development cooperation and to global capital markets. Scaling-up finance for development has therefore moved to center stage in a with-COVID-19 world. Advanced economies are being pressured, including by their own civil societies in some cases, to use their exorbitant privilege to help others. Whether they will resist, as in the past, or try to accommodate to a certain degree, is key to the with-COVID-19 discussion on development finance.

Second, the big effort to link climate change and development cooperation, which was agreed to in the SDGs, also has significant implications for development cooperation. At the risk of a vast oversimplification, climate change mitigation, with its focus on new investments in sustainable power, transport, and buildings to transition to a low-carbon economy, requires a front-loaded agenda, in much the same way as the International Finance Facility for Immunization (IFFIm) provided front-loaded resources for vaccinations after its introduction in 2003-2004. Demographic and urbanization pressures require new infrastructure to be built now in the developing world. If done in a sustainable fashion, there is a chance to reduce carbon emissions thanks to the lock-in effects of sustainable infrastructure assets. But sustainable investments often cost more up-front, biasing liquidity-constrained countries to adopt least-cash solutions rather than least-cost solutions in their infrastructure choices. This must change.

In an additional complication, most infrastructure finance is debt finance, requiring long maturities and affordable rates. The with-COVID-19 world has already reduced creditworthiness of many developing countries, and every expectation is that the worst is still to come in 2021.

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³ <https://www.imf.org/en/News/Articles/2020/03/27/tr032720-transcript-press-briefing-kristalina-georgieva-following-imfc-conference-call>

⁴ <https://www.uneca.org/archive/stories/communiqu%C3%A9-african-ministers-finance-immediate-call-100-billion-support-and-agreement-crisis>

⁵ <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

Third, if focus does shift to a sustained expansion in sustainable infrastructure, where developing country needs could amount to 5 percent of GDP, then governments and state-owned utilities in developing countries will have a much larger role. Most sustainable infrastructure, with the exception of power generation and information and communications technology (ICT) backbone infrastructure, is implemented by the public sector or public agencies. But there is no shared understanding as to the definition of sustainable development investment. Already there is a concern that the large volume of funds being mobilized to support the recovery effort cannot be adequately tracked. With weakening parliamentary and civil society oversight in some places, there is a need for more radical transparency and monitoring of development spending that would give comfort to people in recipient and donor countries alike that money is being wisely spent. This is not “conditionality,” something that donors have rightly been criticized for in their dealings with developing countries. It is a call for transparency; for finance to be sustainable and enjoy wide popular support, the links with expenditure and the development benefits that it brings about must be strengthened.

The remainder of this paper looks at development cooperation through these three lenses of scale, links to climate change, and transparency and governance. The next section briefly discusses recent trends in development cooperation, followed by a discussion of the emerging gaps. The last section offers some thoughts for opportunities to fill these gaps.

II. Recent shifts in development cooperation strategy

The U.S., European Union, and U.K. have all recently embarked on major shifts in their development cooperation practice. This section briefly reviews these changes.

1. United States of America

For many years, there has been a bipartisan consensus on development cooperation in the United States, resulting in several bipartisan initiatives even in the divisive political atmosphere of the current administration. The United States passed the BUILD Act in 2018, transforming the Overseas Private Investment Corporation (OPIC) into the U.S. International Development Finance Corporation (DFC), and more recently passed the Global Fragility Act of 2019 to re-establish U.S. leadership in the fight against extremism and violent conflict. Both pieces of legislation enjoyed support amongst the development stakeholders in the United States.

However, there have been efforts to roll back development cooperation support. The Trump administration launched a Foreign Aid Review that controversially would have placed more power over development cooperation in the hands of the State Department. Its core basis was to “realign foreign assistance for a new era of great power competition.” The review has never been finalized and is still pending, but some of its principles indicate the direction of change: A focus on friends and allies; a move towards self-reliance; links with bilateral trade; voting record in the United Nations and so forth. An example of this injection of foreign policy into development cooperation was the decision to cut off aid to Northern Triangle countries—Guatemala, Honduras, and El Salvador—that did not cooperate with the administration’s immigration agenda.

One major thrust of U.S. development cooperation is to reduce the level of assistance. At 0.16 percent of gross national income (GNI), U.S. assistance is among the lowest of any Development Assistance Committee (DAC) member country, but in absolute terms, the U.S. remains the world’s largest donor. Under the administration of President Trump, there has been an annual dance on aid budgets; the administration routinely presents a budget with sharp aid cutbacks, often amounting to one-third reductions, while Congress has equally routinely restored funding to previous levels. This dance appears to give each party the political cover needed, but what is clear is that there is no appetite for large increases in aid in this United States government. What is more concerning is that the U.S. has also used its influence to halt other global initiatives to expand financial assistance to developing countries. The most notable example is the opposition to a new issuance of special drawing rights (SDRs) by the IMF, a move which would not have cost the U.S. Treasury anything and which could be accomplished without recourse to a Congressional vote. The only scenario under which the U.S. is likely to expand its foreign assistance substantially is if this is cast as a necessary tool to combat China’s global influence.

The politicization of foreign assistance by the United States has spilled over into multilateral institutions. Those in good standing, such as the World Bank, the Global Fund, GAVI, the World Food Program, and UNICEF continue to receive U.S. financial support. Those that are not perceived as advancing administration priorities, like the World Health Organization, the Green Climate Fund, and the Global Agriculture and Food Security program, have had U.S. support reduced to zero. Along with the decision to exit the Paris Agreement, and continued opposition to use the terminology of the SDGs, the U.S. remains at odds with much of the rest of the development community.

Because U.S. development cooperation is largely in the form of grants, its ability to front-load is quite limited. In theory, the DFC could expand its operations, but it shows no signs of emerging as a large-scale player. Its capital is limited to \$60 billion, and stringent accounting rules have been adopted. For example, each dollar of equity carries a one-dollar capital charge. There is no “expected loss” accounting.

U.S. agencies are quite transparent in their activities—Publish What You Fund classifies the Millennium Challenge Corporation (MCC) and USAID as very good and good respectively on transparency—and the U.S. is an active supporter of the Open

Government Partnership which promotes tools for monitoring and accountability of SDG progress. However, lack of standardized definitions—a global problem—still hampers assessment of the U.S. contribution to the SDGs. Without a very clear message on benefits achieved, the narrative for expanding U.S. assistance becomes a muddy mixture of national security, promotion of democratic values, and humanitarian assistance.

Polling data suggests that the American public believes the U.S. should be spending more on aid and would be prepared to pay higher taxes to finance this. A University of Maryland poll, conducted in October 2019, found majority support among Republicans and Democrats to increase U.S. aid for the purpose of eliminating hunger, providing universal vaccines and water and sanitation coverage, as long as other countries also did their share. The polling reveals two points: A clear and strong link between spending and program objectives is needed to generate support for a scaled-up program; and collective action is preferred to national action.⁶

The Biden administration has recognized some of these weaknesses and moved to elevate the role of development cooperation. It proposes to include additional funding for foreign assistance, especially for health, in its forthcoming budget proposal. It has also been very explicit in tying together the narratives of sustainable development and climate change.

2. European Union (EU)

The European Union's development cooperation footprint has been laid out in its Multiannual Financial Framework (MFF) for 2021-2027. This suggests a small increase in development cooperation compared to the current 2004-2020 period. The "Neighborhood and the World" heading will receive 118.2 billion euros over the 7 years, slightly more than 10 percent of the total EU budget. Given that the U.K. will no longer contribute, the EU framework represents a step increase in aid from all other member states, although most European countries remain below the 0.7 percent target they endorse in principle.⁷ The EU is second only to America as the largest aid provider in the world and is perhaps the least volatile among large aid donors.

In addition to its own financing, the EU has also taken the lead as a global convener for a Coronavirus Global Response. The Access to COVID-19 Tools Accelerator was sponsored by the EU and U.N. agencies and seeks to raise \$35 billion to ensure equitable access to vaccines, diagnostics, and therapeutics.

Notwithstanding the planned increase in aid, the MFF has smaller amounts for development cooperation than the original proposal from Commission technocrats. It allocates much higher amounts for humanitarian assistance, but very modest amounts

⁶ http://www.publicconsultation.org/wp-content/uploads/2020/07/SDG_Report_0720.pdf

⁷ <https://www.cgdev.org/blog/eus-recovery-budget-how-prominent-international-development>

for migration and for peace and fragility. Developing countries will not be able to access the large Next Generation Europe recovery fund. Aid to Africa, already on the decline, will not rise.

If the EU is to markedly increase its development cooperation, it will most likely be through the operations of the European Investment Bank (EIB). Already the largest development financial institution in the world, the EIB has long experience in lending to small and medium enterprises and has made a commitment to support 1 trillion euros in investments for climate action over the next decade. Most of this will of necessity be within Europe, but the EIB already has made loans to 162 countries; about 10 percent of its portfolio is outside the EU. There is active consideration of forming an affiliated European Development Bank to strengthen Europe's capacity to respond to global and regional economic challenges beyond its limited fiscal firepower.⁸

Europe has ambitions to become the first major climate-neutral continent and has allocated 400 billion euros to support member states efforts to implement the European Green Deal. From this perspective, the EU is fully aligned with the idea of a with-COVID-19 build-back-better environmentally sustainable and socially inclusive agenda. For Central and Eastern European economies, a Just Transition Fund is available to support the transition away from coal and fossil fuels.

The EU is developing norms and standards for its sustainability transition. Its focus is on energy (renewables and building efficiency), transport, and land use (carbon sinks and natural capital). By specifying targets in each area, and linking achievement of these to its spending instruments, the EU is modeling the kind of transparency and governance that will be needed globally.

3. United Kingdom (U.K.)

The U.K. has the third biggest aid budget and diplomatic network in the world. It made two of the most significant changes in decades to its development cooperation in 2020. The main headline was the decision to merge the U.K.'s Department for International Development (DFID) with the Foreign and Commonwealth Office into a new Foreign, Commonwealth and Development Office (FCDO). While this was a major step for the U.K., depriving the development community of its prized Cabinet-level seat, it represents a return by the U.K. to an institutional design that is common across the world and favored by Conservative politicians. It codifies a movement among many aid donors to underline the links between aid and foreign policy to promote British interests and values overseas, a move in the direction taken by Canada and Australia in 2013. In this, the FCDO may depart from the more technocratic positions taken by DfID; indeed, in announcing the merger, Prime Minister Boris Johnson explicitly spelled out the likely

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⁸ <https://www.brookings.edu/opinions/europe-needs-its-own-development-bank/>

implications; should, he asked, the U.K. give the same amount of aid to Zambia (for poverty reduction) than to a strategically important European neighbor like Ukraine?

The experience of other countries in merging development and diplomacy suggests that it can take considerable time to align the different cultures and experiences of the two. The most recent merge of a similar nature was the absorption of Australia's AusAID into the Department for Foreign Affairs and Trade (DFAT) in 2014. According to an independent review undertaken five years later, the merger precipitated a considerable turnover of staff and loss of talent—1000 staff years of experience left the department in the immediate aftermath of the merge and an additional 1000 staff years have since left.⁹ Development professionals have specialized skills in planning and implementation that foreign office generalists often do not possess. Against this negative, the review also noted greater alignment with government priorities of shifting resources to the Pacific and towards infrastructure and humanitarian assistance.

A historical side-note: When President Kennedy created USAID in 1961, one of his first actions was to take control of aid away from the U.S. Ambassador in Seoul and give it to a resident USAID official. With this move, U.S. development cooperation shifted from a largely humanitarian operation to take on a more developmental orientation. The Korea Development Institute was established a decade later in 1971 to provide stronger domestic input into research and planning of Korea's development path, something the State Department would never have contemplated. The tug-of-war for control over development cooperation, between diplomats and technocrats, continues today as it has for 70 years.

The lesson for the U.K. is clear. It may be hard to scale up assistance even if desired. Scaling up is about both money, staff capacity to develop sound programs in partnership with local government officials with whom they have trusted relationships, and systems to expedite implementation. Each of these will face pressure in the merged office.

In terms of money, it is by no means assured that the U.K. government is committed to more aid. The second headline news event of 2020 was a government announcement of cuts of up to 2.9 billion pounds, an 18 percent cut on 2019 aid levels, and an amount that is not consistent with the forecast fall of U.K. GNI and the corresponding reduction in aid that would be consistent with the legally-binding U.K. aid floor of 0.7 percent.^{10,11} The uncertainty over aid levels and intentions is magnified by the recent U.K. history of efforts to count as aid more of the peacekeeping, demining, and civil-military humanitarian expenditures carried out by the government.

In its efforts to align aid with the national interest, the U.K. has clearly signaled an intention to help developing countries transition to a green economy. At the U.N. General

⁹ <https://apo.org.au/node/223736>

¹⁰ <https://www.gov.uk/government/speeches/prime-ministers-statement-to-the-house-of-commons-16-june-2020>

¹¹ <https://www.bbc.com/news/uk-politics-53508933>

Assembly in 2019, Prime Minister Johnson announced a doubling of the U.K.'s international climate finance commitments for the next five years.¹² As host of the COP26 climate meeting in Glasgow next year, the promotion of climate finance will be a priority for the U.K.'s Global Britain campaign.

The U.K. is one of the most forward looking countries in tracking attitudes towards aid and basing messaging (and perhaps policy) on the most effective messages. The Aid Attitudes Tracker, and its successor the Development Engagement Lab, show that the public's willingness to give aid depends critically on the topic and the way it is presented. For example, in the U.K., three times as many people argue that aid should be given to those who need it most and because it is morally right than to those who think it will benefit U.K. businesses, jobs or better trade deals.¹³ These respondents would not respond well to Prime Minister Johnson's point about reducing aid to Zambia in favor of aid to Ukraine because the U.K. has a greater national interest in Ukraine.

As a pointer to why the prime minister may have taken this view, prior surveys had also shown that two-thirds or more Britons felt that corruption made it pointless to give money to help reduce global poverty. From this perspective, Zambia would be less appealing than the Ukraine. The example reinforces the need for better linkage between spending and "build-back-better" if a scale up of development cooperation is to happen. Transparency, messaging and good governance will be key.

III. Gaps and issues for global development

1. The global commons

Perhaps the most obvious of the gaps in global development is the absence of any specific mechanism for discussing burden-sharing and responsibilities for the global commons. This is a long-standing issue, covering peacekeeping, health research, biodiversity, oceans, and climate change. Part of the problem lies in ODA accounting. According to the OECD's DAC, who are the standard setters for what counts as aid, the principal purpose of any aid must be for the economic development and welfare of developing countries. But this definition is awkward when applied to spending on the global commons where benefits accrue to everyone. In practice, it has meant that France counts research done by the Institut Pasteur on infectious tropical diseases

¹² <https://www.gov.uk/government/news/uk-aid-to-double-efforts-to-tackle-climate-change>

¹³ <https://www.birmingham.ac.uk/research/quest/towards-a-better-society/Attitudes-towards-aid.aspx>

(affecting developing countries), while the U.S. does not count research into HIV/AIDS conducted by the National Institutes for Health (affecting citizens of all countries, developed and developing). Yet both types of research save lives in developing countries and are important factors in development cooperation.

Absence of a consistent approach to funding the global commons has led to underinvestment, as the theory of public goods would suggest. Take the example of biodiversity conservation. The OECD estimates global biodiversity finance at \$78 billion to \$91 billion per year (2015-2017 average), from all sources, public and private. Of this, \$3.9 billion to \$9.3 billion is international, with the higher figure including financing for projects where biodiversity is a secondary objective. However, the report also notes that \$500 billion per year is spent by the public sector around the world in ways that are potentially damaging to biodiversity.¹⁴ This kind of conduct happens under the radar because metrics are not routinely collected on the management of the global commons, so there is no transparency or governance of the cumulative effort. The importance of new standards, definitions, and monitoring is such that four out of five key recommendations of the OECD report are for improvements in data definitions and monitoring, while the fifth recommendation is to analyze effectiveness of spending.

The experience of other forms of delivery of public goods or management of the global commons is similar. Warnings about underinvestment in pandemic health monitoring have been made for some time. The Global Preparedness Monitoring Board issued just such a warning in September 2019, but little notice was taken. In its second report, issued in September 2020, it largely reiterated the same messages. Not enough financing in preparedness is available. The Board estimates costs of better preparedness to be an increment of \$5 per person per year, while benefits, as COVID-19 makes clear, could potentially be in the tens of trillions of dollars of losses averted.¹⁵

In a similar vein, even in the midst of the pandemic, the emergency appeal for \$35 billion to ensure equitable access to vaccines, diagnostics, and treatments to speed an end to the pandemic has not been quickly filled—despite G-20 countries having committed more than \$11 trillion to combat the effects of COVID-19 in their own countries.

On climate change, arguably the greatest challenge of all, there is confusion as to whether the original climate finance target of \$100 billion by 2020 has actually been met, and no guidance for finance targets beyond. Partly, this is a reflection of the understanding that emissions reduction commitments must be improved upon and the financial targets would need to be correspondingly larger.

Regardless of the sector—health, oceans, climate, biodiversity—the message on the global commons is the same. Each area warns of a sense of urgency, of scientific

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¹⁴ <https://www.oecd.org/environment/resources/biodiversity/report-a-comprehensive-overview-of-global-biodiversity-finance.pdf>

¹⁵ https://apps.who.int/gpmb/assets/annual_report/GPMB_AR_2020_EN.pdf

tipping points that could lead to irreversible damage if action is not taken now. Delay is viewed as unacceptable.

A second theme of reports on management of the global commons is that costs are modest compared to benefits, both positive as in creation of green economy jobs or recovery of fishing stocks, or avoided losses, as in the case of pandemics and biodiversity. Prevention is called for, not mitigation. This is a challenge for development cooperation which is at its best when reacting to a crisis, rather than in acting to prevent a crisis. The many cries for prevention, whether for conflict or preparedness for natural disasters, to be funded through development cooperation have largely gone unheeded.¹⁶

The third theme is the absence of any serious global collective effort for implementation: a secretariat body that can generate and analyze appropriate data, evaluate efforts and impact of spending programs and inform the political leaders of the world for them to take action. The G-20 provides a forum for political discussion, but for all the talk about expanding the G-20 remit to “strong, sustainable, balanced, and inclusive growth” none of the reports of the IMF, World Bank, or OECD to the G-20 have mentioned biodiversity or oceans.

The lack of a structure for delivering on global public goods is not new. The International Task Force laid out the challenges in 2006, but to no avail.¹⁷

2. Sustainable infrastructure and the debt overhang

A second major gap that has been revealed is in the ability to scale up finance for sustainable infrastructure. There is an urgency to address infrastructure spending as a means of avoiding carbon lock-in. The evidence is overwhelming that getting infrastructure right is a far more efficient and effective solution than the grow-now-and-clean-up-later approach that has been followed by today’s advanced economies. There is a narrow window to get infrastructure right in developing countries, while the dynamics of demographic change and urbanization are still in flux. But after a decade or so, this window will close and any changes to infrastructure will involve a retro-fit, a far more cumbersome and costly endeavor.

Rough estimates are that developing countries will need at least \$1 trillion (5 percent of their aggregate GDP, ex-China) per year in additional infrastructure investment to be able to transition towards sustainable trajectories.¹⁸ This amount is mostly for power, transport, and buildings. It will be concentrated in cities. Yet there are no mechanisms to allow cities to take advantage of the global channels for development finance. In most

¹⁶ See, for example, “Natural hazards, Unnatural disasters”, World Bank and UN, 2010, <https://issuu.com/world.bank.publications/docs/9780821380505>

¹⁷ https://www.keionline.org/misc-docs/socialgoods/International-Task-Force-on-Global-Public-Goods_2006.pdf

¹⁸ A. Bhattacharya et al, 2020, (forthcoming)

countries, cities have to get approval to borrow from national authorities and have no independent revenue sources or credit rating. This asymmetry between city access and national access can also play into domestic politics.

The recognition that sustainable infrastructure will form a large part of the strategy for recovery from the COVID-19 induced economic downturn puts into sharp focus the debt problems of developing countries. Most infrastructure will be public. A few sectors, like power generation and ICT backbone infrastructure, enjoy significant private provision, but well over 70 percent of infrastructure investment will be undertaken by government Ministries or state-owned utilities in developing countries. Regardless of the sector, 70 percent or more of infrastructure finance is in the form of debt. Indeed, this has to be the case because it is essential for infrastructure to be kept affordable, and that requires cheap financing. The debt, in turn, comes from three main sources in roughly equal magnitude: official financing from multilateral institutions and OECD/DAC bilateral agencies; semi-official financing by state-supported banks, like China Ex-Im Bank and the China Development Bank who have financed Belt and Road Initiative projects, but also IndiaEximBank and other financial institutions in major emerging economies; and sovereign borrowing from global capital markets.

The problem is that many developing countries are faced with debt problems. 43 countries have already availed of the Debt Service Standstill Initiative (DSSI) put forward by the G20 in April 2020. The initiative is widely expected to be extended to the end of 2021 and could potentially also be expanded in scope. These countries will have difficulty in raising funds on global capital markets. Other countries, too, face more expensive financing because of the down-grades on their credit rating that has happened in the aftermath of COVID-19.

Official institutions make much of the potential to raise domestic tax revenues in developing countries as a way of paying for infrastructure. They have been doing this. But a rising tax effort is typically linked to economic growth and the broadening of the tax base. It happens slowly over time, not at the speed needed for front-loaded sustainable infrastructure investment. This is not to underplay the importance of domestic revenue mobilization—it is ultimately the foundation for improved creditworthiness—but it suggests that access to debt will continue to be important for the coming decade of action.

3. Plugging the Leaks

When the idea of official development cooperation took hold, after World War II, based on the success of the Marshall Plan and the establishment of new development agencies under the U.N. (IMF, World Bank, FAO, UNICEF), its major purpose was to transfer resources and technical assistance to developing countries. On a gross basis, trillions of dollars have indeed been transferred, but on a net basis, the transfer is far smaller. According to the IMF, capital has been flowing uphill from developing to developed countries for some time. Since 2000, the net flow of resources to developed

countries was \$4.4 trillion. Most of this surplus was in Asia, but even Africa has had a net inflow of less than \$400 billion since 2000—an average of less than \$20 billion per year—5 cents per person per day.

The structures of the international financial system have not helped incentivize resource flows to developing countries. Developing countries have lost between \$620 and \$970 billion a year through questionable tax practices, customs fraud, corruption, and other illegal or illicit activities.¹⁹ While accurate numbers are hard to verify, they are surely substantial, and of a roughly equivalent size to gross inflows for development.

The point is simple: development cooperation cannot succeed in its major objective of resource transfer unless leaks in the system are plugged. The OECD is working on new rules for the fairer taxation of multinational enterprises (the Base Erosion and Profit Shifting agenda), including minimum tax provisions, and provides technical assistance through its Tax Inspectors Without Borders program.

Enablers in advanced economies who hide behind “ignorance” defenses, and secrecy laws protecting against disclosure of beneficial ownership of assets are examples of mechanisms used to facilitate illicit flows.

Development cooperation agencies should work with counterparts in tax departments, and with prosecutors of fraud, embezzlement, and other financial crimes in justice departments in a whole-of-government approach to ensure that public channels for resource transfers towards developing countries are not offset by the exploitation of private channels to reverse the flow of funds.

IV. New institutional arrangements and cooperation strategies

At the end of World War II, the Bretton Woods conference provided the setting for countries to devise institutional structures to meet the most pressing challenge at hand. At that time, the challenge was reconstructing European economies, destroyed by war and suffering from a severe shortage of hard currency liquidity. The U.S. provided this through the Marshall Plan, a program that disbursed \$13.3 billion to 16 European

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¹⁹ https://assets-global.website-files.com/5e0bd9edab846816e263d633/5f15c02cd2766c40ce963878_FACTI_percent20BP7_return_percent20of_percent20assets.pdf

countries over 4 years, representing just over 1.1 percent of the U.S. economy per year, and about 3 percent of the recipients combined national income.²⁰

The lesson from this history is that in the throes of crisis, a sense of international collective action and an understanding of the nature and scale of the problem led to new solutions. The diagnosis was one of a shortage of capital undermining trade and economic growth which could make European countries vulnerable to the spread of communism. Times are different today, but there is a need for a similar sense of collective action to resolve issues of responsibilities for management of the global commons and the shortage of liquidity for developing countries to embark on a build back better program post-COVID-19. A new Bretton Woods 2.0 conference could provide the basis for moving this agenda forward.

The Bretton Woods 2.0 should have a central focus on strengthening the global development finance system. Multilateral banks and funds sit at the apex of this system. They have a long history of playing both the counter-cyclical role that is called for today in the recovery from COVID-19, as well as an investment financing role, particularly in infrastructure, that is called for by the need to transform economies. They have championed the transition to a green economy and have made strong commitments to help bring this about.

Multilateral Development Banks (MDBs) are unique institutions for these times. Their preferred creditor treatment helps them overcome the debt overhang problem. Their AAA credit rating helps them provide long-term finance at affordable rates to developing countries. They have a strong track record on promoting policy reform and good governance. Their financial business model permits high leverage of shareholder capital. They have significant size and volume of operations. They have a range of instruments that can be deployed—grants, concessional credits, non-concessional credits, guarantees, technical assistance.

MDBs are however constrained by their shareholders. They have leaned forward to front-load their activities. They could do more, but then risk a sharp curtailment in the future if funds and equity capital are not topped up, or if other risk management policies are not relaxed.

A number of fixes to raise the scale of MDB activities are possible. From a technical perspective, these are not difficult to identify. For example, while maintaining a AAA rating, MDBs could expand their loan books by at least \$750 billion simply by using better accounting practices on how callable capital is measured.²¹ They could move towards industry standards on risk management variables like the equity-loans ratio. They could mobilize more private capital and local counterpart funds, potentially using national banks as key local counterparts. They could sell selected loan assets, if these

²⁰ <https://fas.org/sgp/crs/row/R45079.pdf>

²¹ https://www.odi.org/sites/odi.org.uk/files/resource-documents/200408_mbdcs_coronavirus_final_0.pdf

were properly priced initially. As a last resort, they could ask shareholders to provide them with additional equity. Each of these measures, however, requires shareholder support to take on greater ambition and potentially more risk. Shareholders have been reluctant to agree. Some have taken the view that markets could better play the role of resource transfers, a view best expressed in the Meltzer Commission report on the future of the IMF and the World Bank, issued in 2000.²² That report famously called for getting the World Bank out of lending and turning it into a grant-making institution to the poorest countries. At that time, and still today, views on the appropriate role of the MDBs, especially in middle-income countries, were sharply divided.

If shareholders were to agree to allow MDBs to pursue far greater ambition, the technical fixes illustrated above would give them more financial firepower. However, to truly reach scale they would also need to upgrade effectiveness and move from a project approach to a program approach, something that is increasingly done for middle country countries receiving IBRD loans, but not for other countries. And program loans suffer from the absence of a strong link between funding and expenditure. It is hard to specify exactly what the money is used for, because it becomes mixed with general Treasury resources.

To complement program loans and introduce greater specificity into the spending/finance nexus, a promising idea is the use of country platforms, preferably organized and governed by the developing country government or a designated agency. These are being piloted by the World Bank, but so far they are organized as coordination mechanisms across donors, in disparate sectors, with limited, if any, private participation. Alternative structures, including some with private sector governance, may be attractive.

Thinking on country platforms for sustainable infrastructure finance is fast evolving. The FAST-infra working group is developing a proposal for a technology-enabled securitization platform to simplify analysis and structuring, improve risk management and monitoring, and bring consistency to financial and regulatory reporting. The idea would be to develop a platform with enough transparency, standardization, and reporting to allow any bank to offer loans to a pool with modest transaction costs. If the pool initially contains projects in OECD countries, and gradually adds emerging market-based projects, risk can also be mitigated. This would broaden the scope of potential investors. For example, Solvency 2 rules would force a European insurer to charge about 40 percent of a loan for Latin American or African infrastructure against its capital; a pooled approach could reduce this substantially. The transparency and governance offered by a solid platform is part of its attraction to development cooperation providers as well as to commercial financial institutions.

Platform approaches could offer specialized portfolios. They would work best if there is a solid pipeline of projects to be financed. Here, National Development Banks (NDBs)

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²² <https://www.govinfo.gov/content/pkg/CHRG-106shrg66721/html/CHRG-106shrg66721.htm>

could play a role. There are now 539 development finance institutions worldwide,²³ defined as legally-independent, financially sustainable, government-supported financial institutions (banks and insurance companies) in pursuit of public policy objectives. These are spread across the world, in Africa, Asia, Europe, and the Americas. With their public policy focus, NDBs are ideal partners to participate in platform approaches and provide origination, guarantee, and work-out services.

V. Managing geopolitics

Overshadowing both of the suggestions above, for a Bretton Woods 2.0 and for the establishment of expanded multilateral activities based on a platform approach, is the geopolitical contest between the United States and China. Much of the perceived shift in the use of aid to serve national interests can be understood in terms of the effort to align countries with one or the other side of this contest. This too has historical antecedents. Aid was used by both sides as a tool of foreign policy during the Cold War. From a development perspective, the results were not good. There was no focus on aid effectiveness until, after the Cold War, development cooperation focused on results rather than relationships.

The irony of the with-COVID-19 world is that it may have lessened the willingness of major powers to work together for the good of the planet or of national development. If development cooperation at both global and national levels turns into a struggle between competing geopolitical systems, a race to the bottom could resume with dire consequences for all.

The vision instead for development cooperation is for a significantly expanded scale that, like the Marshal Plan, could be a few percentage points of recipient countries' economies. These need not be purely concessional resources, although those will have a role to play, especially for the management of the global commons. Given the low real interest rates prevailing in global capital markets, and the ability to expand intermediaries like MDBs, non-concessional loans will be a major instrument for most countries. These need to be linked to climate change by prioritizing sustainable infrastructure. And that, in turn, requires platforms for transparency and good governance that are compatible with private financial institutional regulations.

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²³ https://www.idfc.org/wp-content/uploads/2019/07/nse_development_financing_research_report_no-1-2.pdf

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