Directing Development resources effectively - one innovation at a time

Perspectives paper #2 of the Global Partnership

Global Partnership for Effective Development Co-operation

'There are no 'whales' when it comes to development finance'

This paper is the second in a series emerging from the Global Partnership's work on 'effective multilateral support': framing an understanding of an effective multilateral system by way of the effectiveness principles – country ownership, inclusive partnerships, a focus on results, and mutual accountability.

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In international finance, a 'whale' is a market-actor with enough resources to unilaterally move the price of an asset on a public market; achieving a market outcome while acting independently. Though not entirely, of course. The price-shifts driven by 'whales' depend on other market actors responding to an initial (larger-than-usual) signal, to induce a truly dramatic effect.

Our ambitions in terms of the 2030 Agenda represent nothing more or less than fundamental human dignity – for all. It is a tall order. And even in a country like Bangladesh – one of the fastest growing economies of the last decade, allowing us to lift millions out of poverty year on year – there are no 'whales' when it comes to development finance. The truth is neither public nor private finance alone can achieve the transformative agenda we have set for ourselves on the road to 2030.

Development actors must innovate if they wish to signal to other actors, and induce the scale of effect our ambition demands. And each entry to this paper describes efforts by multilateral organizations to do just that – point to new, and increasingly tested, ways to direct development financing to where it is needed and leverage other resources, and doing so in ways that are unmistakably aligned with the **effectiveness principles.**

- Marcos Neto, Fabienne Michaux, and Sara-Lisa Ostarvik, at UNDP's Finance Sector Hub, share their experiences with instruments designed to bridge the financing, and accountability, gaps, building on the principles of ***country ownership***, ***inclusive partnerships*** and ***transparency and accountability*** through Integrated National Financing Frameworks, SDG Investor Maps, and SDG Impact standards.
- Shantanu Matur, Lead Advisor for Global and Multilateral Engagement at the International Fund for Agricultural Development (IFAD), shares their take on how IFAD and other multilateral financial institutions can work with local public development banks for ***locally-owned*** and ***inclusive*** rural transformation.
- Jorge Moreira da Silva, Director of the OECD's Development Cooperation Directorate (DCD), takes a forward look at how a ***results-oriented*** and ***inclusive approach*** can be the basis for strengthening multilateral finance for pandemic preparedness and response, so that our response to the next emergency builds on the lessons from this one.

UNDP

Focusing on SDG results: The dual challenges for development financing

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By current estimations, the annual SDG financing gap is US$3.7 trillion – up from US$2.5 trillion pre COVID-19.[1] Only 20% of global capital is held in developing countries, and yet it makes up 84% of the world's population.[2] Newspapers are filled with examples of how capital allocation decisions and the activities they finance are having negative impacts that could be avoided or significantly reduced – while sustainable and impact finance currently account for a tiny fraction of capital markets and assets in the financial system.

Besides the financing gap, the second greatest challenge facing SDG financing is to ensure that investments and activities are truly contributing to positive outcomes for people and planet, while minimizing negative and unintended consequences. Although over US$30 trillion of financial assets are labelled as "sustainable" finance[3] it is unclear how much of it truly promotes sustainable development. The risk of "SDG-washing" – where claims of positive SDG-impact are misleading or even false – is real. There is a need to differentiate good practice from good marketing, and to ensure that "sustainable financing" activity translate to real development outcomes on the ground.

Over the past three years, UNDP has developed a portfolio of SDG Finance initiatives to address these two critical gaps. The Integrated National Financing Frameworks (INFFs), the SDG Investor Maps and Platform, and the SDG Impact Standards – each in different ways premised on the effectiveness principles, and working toward more effective development results – are the focus here.

A country-owned and inclusive approach to bridging the financing gap

UNDP works closely with countries to direct more capital to the SDGs and those that need it most. UNDP partners with governments around the world to develop their INFFs, to increase and better align financing for national priorities and the SDGs. The aim is to strengthen nationally-owned planning processes, and overcome existing impediments when financing sustainable development and the SDGs at the country level.

They take an inclusive approach to finance – public, private, domestic, international – and provide a framework for enhancing coherence and formulating risk-informed financing strategies that can support countries recovering from the COVID-19 pandemic and its economic fallout.

SDG Investor Maps and SDG Impact Standards were created to contribute to the INFF processes by providing:

- Insights on SDG-aligned investment opportunity areas and specific private sector business models with potential to contribute positively to the SDGs,
- Data on enablers and barriers to private sector investment towards the SDGs,
- Entry-points for Public-Private Financing Dialogues,
- Guidance needed to manage impact, including on how to prioritize when setting goals and making sure that invested capital is managed efficiently and effectively to contribute to sustainable development,
- Capacity development and the use of a common language to analyze and manage impacts on the SDGs.

In effect, the Investor maps and Impact standards build on

[1] OECD (2020), Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet, OECD Publishing, Paris, https://dx.doi.org/10.1787/e3c30a9aen

[2] Ibid.

[3] Ibid.

the foundations of INFF work (with 70+ countries in the process of designing and implementing their INFFs) aligning both public and private sector capital towards the achievement of the SDGs.

What does this look like in practice? In Cambodia, the INFF's Development Finance Assessment (DFA)[4] found that securing private sector capital flows to offset the decrease in development aid and concessional loans will be a key factor to ensure the country's smooth transition from a Least Developed to a Middle-Income country. The Cambodia SDG Investor Map is being developed to showcase such opportunities in an evolving ecosystem with specific SDG enabling opportunities for the private sector. UNDP Impact Measurement and Management (IMM) training and advisory services on the SDG Impact Standards provided at the country level in Cambodia will enable investors and enterprises to take meaningful action on these opportunities.

In Bangladesh, ongoing INFF work has identified areas such as Climate Finance, Water and Sanitation, and Renewable Energy as key themes that are a part of the national government's COVID-19 recovery plans. The SDG Investor Map development process for Bangladesh is exploring these themes using a private sector lens to identify convergence with the most urgent sustainable development needs and the government's goals.

In Malawi, its SDG Investor Map confirmed an alignment of government policy priorities, its SDG needs, and investment potential in sectors that were also prioritized in the 2018 DFA, namely energy, agro-processing, and tourism. The Malawi SDG Investor Map is being developed in tandem with further INFF steps and a complementary Digital Finance Ecosystem initiative, in an effort to find solutions to some of the key challenges highlighted in the DFA. It is centred around the need to attract private investment, create a favourable climate for business-led investment, and enhance awareness about public-private partnerships and development finance institutions. The goal is to address the lack of financial intermediation, especially through potential regional synergies and innovative financing models. The Malawi SDG Investor Map will also seek to pilot a new approach to transparency and accountability – that also drives policy action – with a strategic reporting model that will enable partners to use the findings and work towards the adoption of the SDG Impact Standards by involved organisations. But, as we see below, reporting is just one aspect of accountability.

Bridging the accountability gap – UNDP's Impact Measurement and Management innovations building confidence in SDG financing.

The SDG Impact Standards are standards of practice for Enterprises, Bond Issuers and Private Equity Funds. They have been created to help investors, issuers, and enterprises embed the management practices necessary to contribute positively and authentically to the SDGs. In addition, the OECD-UNDP Impact Standards for Financing Sustainable Development, developed through the OECD DAC Community of Practice on Private Finance for Sustainable Development (CoP-PFSD) and endorsed by the DAC in March 2021, are a tool for the OECD DAC (Development Assistance Committee) donor countries to better manage the impact of their investments channelled through private sector partners. This set of four global internal management standards focus on decision-making: best-practices on how to integrate contributing to sustainable development into an entity's strategy, management approach, transparency, and governance to maximize the likelihood to have a positive contribution to sustainable development. The SDG Impact Standards move organizations from SDG alignment to SDG action – from considering the SDGs as an add-on to *what* gets done, to *how* all business gets done.

UNDP is already working with bond issuers to help them build impact and the SDGs into their work at all stages, providing technical guidance on SDG Impact Standards for Bonds, and advisory services for developing, issuing and using the proceeds of SDG bonds. In Indonesia, UNDP supported a Green sukuk and the New Development Bank's (NDB) recent SDG bond. NDB has become the first issuer to use the UNDP SDG Standard in the Debt Capital Market globally. The transaction generated a high demand from a diverse investor base. The proceeds will be used to finance RMB 7 bn (USD 1.08bn) Emergency Program Loan for Supporting China's Economic Recovery from COVID-19 in line with Sustainable Development Goal 8: decent work for all.

Building on this UNDP is now developing an external assurance framework (an "SDG Impact Seal"), to launch in 2022, which will make it possible to authenticate investments that truly contribute to the SDGs.

The SDG Impact Standards – together with UNDP Impact Measurement and Management trainings, education, guidance, and advisory services – pave the way to achieve a new approach to investing, that puts sustainable impact at the

[4] UNDP (2021) Cambodia's Development Finance Assessment https://www.kh.undp.org/content/cambodia/en/home/library/cambodia-s-development-finance-assessment-.html

core of investments: in a way that is nationally owned, mutually accountable, inclusive of different types of finance, and clearly focused on SDG results, for an all-around more effective approach to sustainable development.

IFAD

Country-owned and inclusive rural transformation – The Role of Multilateral Financial Institutions in catalyzing Public Development Banks, and the private sector for sustainable development

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There is broad consensus that realizing the SDGs and the Paris Agreement on climate change require a transformative agenda for agriculture and food systems. In this context, the importance of mobilizing more investments and aligning them to sustainable development and inclusive rural transformation objectives, is widely acknowledged.

The gaps in investment

Estimates of investment required for achieving these goals show that the financing needs are considerable although the appraisals of incremental financing requirements differ significantly. FAO, IFAD and WFP (2015) estimate that US$265 billion per year is needed to reach "zero hunger" by 2030 (SAFIN, 2021). UNCTAD (2019) estimated total investment needs for food and agriculture (including processing facilities, rural infrastructure, and research and development) to achieve related SDGs in developing countries at US$480 billion annually, with actual investment at US$220 billion, thus leaving a gap of US$260 billion. All these estimates suggest that transforming food systems to deliver healthy people, a healthy planet, and a healthy economy will require US$300 – US$350 billion extra per year over the next decade. The COVID-19 pandemic has only added to these financing challenges.

Meeting the needs will require finance from all sources to work together in alignment with the 2030 Agenda and the objectives of the Paris Agreement, adapting their business models to step up investments at the needed global scale. The extension of the Debt Service Suspension Initiative (DSSI) led by the World Bank through to the end of 2021 – will help most developing countries to focus on their own domestic priorities including putting SDG delivery back on track. A Common Framework for Debt Treatments beyond the DSSI is in the making, while some IFIs are expecting historical highs in their replenishments (IFAD-12, IDA-20, AfDB in 2022).

Country tools for country ownership – a Role for PDBs

Public Development Banks have, however, a considerable untapped potential here, as financial institutions with state/public capital with a mandate to pursue developmental goals, (as opposed to solely commercial objectives in their bank operations). In this context, Public Development Banks are distinct from State-owned commercial banks (Weiss, 2015, World Bank Group & World Federation of Development Financing Institutions, 2018, IFAD, 2020, SAFIN, 2019, 2021). PDBs also differ in their mandates and instruments. Non-sector specific PDBs have significant portfolios in agriculture or in other activities within food systems (e.g. in financing rural infrastructure, agro-processing, or other). Other PDBs have a dedicated focus on rural development or on agriculture.

Yet other PDBs have a primary focus on agriculture, but their portfolio includes other sectors. This is based on the notion that supporting sustainable small-scale farming through inclusive agri-food value chain development is between two to three times more effective as a means to eradicate poverty than other sectors. Some PDBs target small-scale enterprises including producers, while others focus their portfolios on larger agribusinesses or larger investments, for instance in agricultural infrastructure and markets. This diversity is key to understanding the role of different types of PDBs in advancing the 2030 Agenda (IFAD, 2020, SAFIN, 2019, 2021). However, their overarching goal is to address market failures, with counter-cyclical roles, and greater risk tolerance than other financial institutions. Besides, they are also viewed by governments as one element of the institutional landscape that they can rely on – directly or indirectly – to realize sustainable development objectives set at the country level (IFAD, 2020, SAFIN, 2021). Given their public mandate and close proximity to public policy and governance institutions, Public Development Banks (PDBs) can play a catalytic role supporting the offer of accessible, affordable and usable financial services for rural poor people socially, environmentally and economically sustainable outcomes across food systems.

Inclusive approaches – reaching more people, mobilizing more people

PDBs (which are already responsible for over two-thirds of formal financing for agriculture), have a particular responsibility to both model and facilitate a change of course across the financial ecosystem. This includes mobilizing sustainable and green finance, blended solutions and public-private financing schemes, adopting digital solutions across their business operations, and delivering a suite of financial services and products to different types of clients in food systems – including women, youth, SMEs and smallholders.

At the same time, private investment in agriculture and/or in other activities within food systems is often constrained by a variety of risks, costs (e.g. due to poor infrastructure), and poor economic returns. In this context, PDBs are capable of increasing their capacity to crowd in, de-risk, and help align commercial finance to the SDGs and to climate-related goals such as those set under the nationally determined contributions (NDCs) in the Paris agreement.

Stimulating responsible private investment and financial innovations – such as through blended finance – are required to improve food security and nutrition and inclusive rural transformation – and to address the post pandemic gap in ODA. UNCTAD has estimated that around 75 per cent of the financing gap could be financed, in principle, by the private sector – with the potential to mobilize US$195 billion annually. PDBs are actively engaged in platforms where private investors, businesses, philanthropists and other entities are already investing to fund SDG-aligned projects. These platforms blend PDB finance with concessional resources from governments and public finance in order to improve the terms and conditions of their funding, and attract further private capital.

In their Communiqué (Matera, June 2021) the G20 Development Ministers have welcomed the establishment of a "Finance in Commons" Working Group on Financing Sustainable Food Systems, led by IFAD, that is meant to bring together Public Development Banks (PDBs), recognising the critical role of the private sector to build upon public efforts to improve agri-food systems. As a concrete action – emerging out of the Food System Summit (FSS) (23 September 2021) – is the advent of a 'Coalition for Action' to launch a PDB global Platform (with focus on increasing investments in inclusive and sustainable food systems chains) for accelerated learning, innovation, mobilization and deployment of capital and services.

Going forward, closing the financing gap will require strong international cooperation and political will to enhance the fiscal space for sustainable domestic financing. Multilateral Development Banks can work with PDBs and validate sustainability-related financial instruments, encompassing (sustainability/green) bonds, funds and other investment vehicles aimed at advancing sustainable development objectives, to become possible long-term financing instruments for international and national public financial institutions.

OECD

Learning from COVID-19 and using the effectiveness principles to strengthen multilateral financing for pandemic preparedness and response

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This contribution is based on the Perspective paper "Strengthening multilateral financing for pandemic preparedness and response – What implications for DAC Members" (OECD, forthcoming), which is part of the OECD Multilateral Development Finance Series and explores the recommendations of two recent high-level independent panel reviews of the international COVID-19 response.

Background

The international community has come up with innovative mechanisms to promptly address the most pressing financing needs generated by the COVID-19 pandemic. For example, the Access to COVID-19 Tools Accelerator (ACT-A) facility has been at the centre of multilateral efforts to fund the development, production and equitable access of COVID-19 testing, treatments, and vaccines. COVAX, the vaccine pillar of ACT-A, allowed to pool international resources to finance the procurement and equitable distribution of COVID-19 vaccines, incentivising vaccine manufacturers to produce sufficient quantities of COVID-19 vaccines through advance market commitments.

Efforts to prevent future pandemics will likewise depend on the international community's ability to secure adequate financing and design effective delivery mechanisms for pandemic preparedness. Recently, some concrete proposals have been put forward by two independent panel reviews of the international response to the COVID-19 crisis:

- ***The G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response*** presented its official report to G20 Finance Ministers and Central Bank Governors in July 2021, calling for an increase in international

- financing for pandemic prevention and preparedness by at least 75 billion USD over the next five years, or 15 billion USD each year, at least doubling the current spending level (G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response, 2021).

- The findings echoed some of the recommendations presented in May 2021 by the ***Independent Panel for Pandemic Preparedness and Response*** (IPPPR), which had been mandated by the World Health Assembly, to reflect on the lessons learned from COVID-19. (Independent Panel for Pandemic Preparedness and Response, 2021).

Both reviews stress the importance of using multilateral approaches and innovative solutions to make effective investments in pandemic preparedness[5]. Despite some slight differences, the findings and recommendations of the two reviews are largely aligned as regards the need for additional financing devoted to pandemic preparedness and response. Indeed, both reviews call for (i) the creation of a dedicated facility to scale up financing for pandemic preparedness, and (ii) an expanded role and strengthened financial capacity for existing multilateral organisations – such as the World Health Organisation (WHO) and the multilateral development banks (MDBs) (OECD, forthcoming). Importantly, the proposals from each not only point the way to a stronger response to future pandemics, but they create clear space for the effectiveness principles to guide the proposed work, and ensure more effective outcomes moving forward.

Scale up financing for pandemic preparedness through the creation of a new facility

The two independent panel reviews agree on the need for a dedicated facility in charge of raising public funds from member states and channeling them through the multilateral system. The G20 HLIP calls for the establishment of the Global Health Threats Fund, a dedicated fund mobilising 10 billion USD per year, to support investments in global public goods for pandemic preparedness. This reinforces an earlier recommendation made by the IPPPR, which called for a pandemic financing facility financed through long-term (10–15 year) contributions of approximately 5–10 USD billion annually to finance ongoing preparedness functions.

Although the two reviews agree on the need for such a facility, the scope of the mandate and functions of the proposed instruments differ. The IPPPR suggests that the facility should finance developing countries' pandemic preparedness activities through support for national strategies and regional surveillance platforms and R&D efforts. The G20 HLIP, on the other hand, recommends that the facility should also be charged with global functions that would benefit developed countries as well.

There is consensus among the two reviews that countries' financial contributions to the facility should be allocated in a way that considers countries' ability to pay. The IPPPR proposes to base the allocations of the contributions to the new facility on the financing framework of the Access to COVID-19 Tools Accelerator (ACT-A). The formula used to calculate countries' assessed contributions reflects that countries that can afford to pay more and those that benefit most from a stable international economy and global trade, should contribute more (Røttingen et al., 2021).

The proposals also include innovative financing features. For example, the IPPPR suggests to equip the fund with the ability to issue bonds to provide emergency funding to countries once a pandemic event hits. The bonds would be backed by the future flow of annual member contributions.

Expand the role and strengthen the financial capacity of existing multilateral institutions.

Proposals to strengthen pandemic preparedness also call for change in the multilateral development finance architecture to address the challenge of financing global public goods. For example, the G20 HLIP review argues for an expansion of the core mandates of the World Bank and regional MDBs to include the provision of global and regional public goods. As part of these measures, the G20 HLIP proposes to establish a dedicated pandemic prevention and preparedness window within the International Development Association (IDA), the concessional lending window of the World Bank Group. This recommendation is in line with recent research showing that the existing pandemic financing windows of multilateral organisations focus mainly on crisis response and insufficiently support measures to manage and pre-empt these recurring risks (OECD, 2020).

The two reviews also highlight the need for MDBs to raise additional financing and leverage innovative tools. The purpose of this recommendation is to ensure that the greater focus on global public goods does not come at the expense of other development goals, such as poverty reduction, which lies at the core of many MDBs' mandates. For example, the G20 HLIP suggests that multilateral development banks

[5] The recommendations of the two reviews will be further discussed at the G20 and the World Health Assembly.

(MDBs) and the International Monetary Fund (IMF) form pandemic response windows that are automatically triggered to provide swift, scaled-up access to funds in the case of a pandemic. MDBs are further called upon to develop insurance schemes to pool resources and risks among countries to enable better management of pandemic risks.

The panels recommend to establish the financial independence of the WHO through a transformation of its funding framework. WHO's funding vulnerability was found by both reviews to have limited the organisations' response capacity to the COVID-19 pandemic by impacting its independence, flexibility and agility[6]. The G20 HLIP reaffirmed this recommendation, calling for an increase of "assessment-based core contributions to two-thirds of the budget for the WHO base program, and an organised replenishment process for the remainder of the budget."

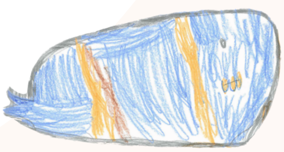
The design of new mechanisms to finance pandemic preparedness should be guided by the effectiveness principles

There is a need to ensure that financing mechanisms for pandemic preparedness are governed by a set of principles that safeguard the effective and accountable use of public resources. As the recommendations from the two reviews are discussed and taken forward at the G20 and the World Health Assembly, the development effectiveness principles could provide a relevant and useful benchmark to assess and fine-tune the design of the multiple proposals on the table.

Efforts to raise financing for pandemic preparedness should be guided by a focus on results and accountability. There is a strong case for linking discussions on the new financing mechanisms to results-based accountability. Member states contributing additional financing to new or existing facilities should obtain assurance on the effective use and actual impact of their financial contributions. This implies, among other things, to agree on metrics to track results, and to assess the cost of underinvestment. The new mechanisms to finance pandemic preparedness could also benefit from the use of the Total Official Support for Sustainable Development (TOSSD), a new international standard that allows to measure the full array of resources in support of the 2030 Agenda[7].

In line with the principle of inclusive partnerships, ensuring complementarity and co-ordination between the various actors and their financing mechanisms for pandemic preparedness could be a key success factor. The two reviews propose that the new facility should co-ordinate global efforts for pandemic preparedness and channel resources through a variety of existing multilateral institutions, such as the Global Fund and the WHO. They also call to expand the mandate of MDBs to cover global public goods. Given the variety of multilateral institutions expected to contribute to the global efforts for pandemic preparedness and response, the level of complementarity and co-ordination of their activities could greatly affect their effectiveness.

Discussions to refine the design of new financing mechanisms for pandemic preparedness need to include how to align their activities with partner countries' needs and capacities. A key focus of new mechanisms for pandemic preparedness and response should be to support and strengthen country systems and local capacity to ensure that global financing channelled through the multilateral system is responding to the partner countries' priorities. Ensuring predictable and flexible funding of the new mechanisms would also enhance country ownership, by providing multilateral entities with greater agility to align their activities with the evolving needs of partner countries. The recommendations made by the two independent panels to increase the share of core contributions to the WHO and to fund the new facility through annual contributions point in this direction already. However, to build consensus among the numerous contributors to these facilities, the discussions on funding quantity and quality should be linked to a reflection on the governance, mandate and performance of the multilateral channels to ensure that additional financing translates into effective delivery and impact.



[6] Concerns about the funding vulnerability of the WHO have also previously been raised in the OECD's 2020 Multilateral Development Finance report (OECD, 2020).

[7] In particular, Pillar II of the TOSSD measure specifically tracks the financing of global public goods through domestic financing, or financing of global-level functions (International TOSSD Task Force, 2021).