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Task Force 06

STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE

Addressing 21st Century's Agenda: Global Public Investment for Global Challenges

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Abstract

The COVID-19 pandemic made evident the difficulties in addressing global crisis. Faced with these difficulties, the G20 created in 2021 the "High-Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response", whose report pointed out the need for "establishing a global governance and financing mechanism, fitted to the scale and complexity of the challenge". This process resulted in the launch in Bali in 2022 of the Financial Intermediary Fund (FIF) for pandemic prevention, preparedness, and response (PPR) to be hosted by the World Bank. India's G20 presidency followed these efforts, bringing the concepts of "Lifestyle for Environment" and Digital Public Infrastructure. Furthermore, the Delhi Declaration called for the establishment of a New Collective Quantified Goal (NCQG) of Climate Finance. These cases demonstrate G20's centrality in the construction of solutions that tackle the gaps in governance and financing for addressing global challenges, and that transcend the group's boundaries spilling over to other institutions and fora. This paper seeks to reflect on the financial, technical and managerial challenges of the current ODA paradigm and propose alternative solutions and principles based on universality, publicness, globalness, inclusivity and equity. The concept of GPI encompasses such principles through three precepts: all contribute according to their means, all benefit according to their needs, and all decide equitably. With GPI, it is expected to: (i) leverage more and better resources destinated for the production of public value predictably and sustainably; (ii) contribute to the construction of infrastructure and supply of services necessary for addressing global challenges; and (iii) promote equity, addressing structural inequalities and intractable legitimacy gaps.

Keywords: Global Challenges, Financing for Development, Global Public Investment

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Diagnosis Of the Issue

Global challenges such as climate change, biodiversity loss, pandemic insecurity, poverty, and inequality require collaborative action beyond national borders. While International agreements (UNFCCC, the Biodiversity Convention, and the 2030 Agenda) have established necessary goals to tackle these challenges, financial means are still falling short. Discussions on the urgency of addressing these challenges have gained momentum in the wake of the Covid-19 pandemic. Under this impetus, the problem of aligning funding with the Global Challenges agenda started reverberating in the political spaces of the United Nations Organisation, particularly within the Finance For Development (FFD) agenda, and the World Bank, followed by an increased scrutiny of the limits of the international financial architecture vis-à-vis these challenges and other demands from the 21ist Century. On the one hand, the United Nations Secretary-General called for repurposing international cooperation to address the global challenges at the core of the 2030 Agenda (United Nations 2021). On the other hand, the World Bank started to reposition its operations, focusing on increased impact, financing capacity, and a new playbook to address poverty and global challenges (World Bank 2023)[1]. Likewise, Movements as diverse as the Bridgetown Initiative, and the Global Financing Pact, are attempts to find ways to advance the financial component of this emerging global

[1] The World Bank has identified eight such challenges that have cross-border implications and affect all countries: (i) Climate Change Adaptation and Mitigation; (ii) Fragility and Conflict; (iii) Pandemic Prevention and Preparedness; (iv) Energy Access; (v) Food and Nutrition Security; (vi) Water Security and Access; (vii) Enabling Digitalization; and (viii) Protecting Biodiversity and Nature (World Bank 2023, 2).

challenges agenda. Additionally, G20 has made significant strides since 2022 with the Multilateral Development Banks' Capital Adequacy Framework, bringing together various stakeholders but specifically MDBs, to discuss reforms regarding the increase of resource mobilization, access procedures and transparency best practices, among many others.

These movements evidence a common problem: an outdated development cooperation system hinders the implementation of such a transformational agenda. Over the past 60 years, ODA (Official Development Assistance) has been at the core of the Development Cooperation System, supporting national development strategies and programs to reduce poverty in low-income and middle-income countries (LICs and MICs); even though ODA operates on a national scale rather than a global one, it demands global coordination and mechanisms that address challenges both within and across borders. The unprecedented global shock waves of the 2020s highlighted ODA's continuous relevance in supporting national development strategies and providing humanitarian assistance[2]. Paradoxically, however, the polycrisis also revealed old and intractable shortcomings and new and urgent dilemmas. Indeed, facing global challenges ODA faces three dilemmas:

1. Financial subtractability: As the allocation for global challenges increases, some experts warn that it may come at the expense of ODA for national development purposes. Such a risk highlights the need for new norms and metrics and additional funds to address global challenges.

[2] The G77 and China statement at the 2023 Development Cooperation Forum, leaves no room for doubt: "It is imperative that the developed countries fulfill their commitments in order to support national efforts and strategies towards the achievements of the development goals." (G77 and China 2023)

2. Increasing fragmentation: The number of official finance providers, entities, and activities has skyrocketed (World Bank 2023). The proliferation of financial sources and implementing entities and the fragmentation of activities will most likely increase transaction costs and hinder the effectiveness and impact of Official Finance in delivering global benefits or fostering national development strategies (idem).

3. Legitimacy gap: even when assigning resources to address alleged global challenges, agenda-setting processes and allocation decisions are still made in DAC donors' capitals. Besides, the majority of loans are granted at market rate, instead of concessional rate and provided grants.[3] The disconnect between the global agenda and the parochial decision-making process further erodes ODA's legitimacy.

[3] Despite the proliferation of financial sources, only limited instruments are used and countries are borrowing, even at market rate to address these challenges. According to the CPI, in African multilateral DFIs for instance, the primary source of international public climate finance, channelled the majority of loans at market rate(47%) and less than one-third (30%) at concessional rate -mainly in the energy sector, and provided grants (20%) mainly for cross-sectoral adaptation- in 2019/2020 (Climate Police Initiative, 2022).

Recommendations

Current global challenges require public and equitable financial flows beyond existing international cooperation frameworks. Many experts have been working on different proposals to leverage specific and additional funds for addressing global challenges. These proposals include:

- An ODA Tier for Global Public Goods-related Spendings: The new tier would categorise all spending that primarily focuses on global challenges, keeping it distinct from conventional ODA, meant to promote beneficiary countries' development (Rogerson and Ritchie 2020).
- Investments in Global Public Goods: The proposal presented by an expert group commissioned by Norway's Minister of International Development recommends the adoption of a new framework consisting of two main categories with distinct primary objectives and areas of impact: (i) Investments in development (comprising poverty reduction and development and Immediate crisis relief/response and stabilization) and (ii) investments in global public goods for development (Norway 2023)
- Global Public Investment: The proposal aims to establish a new international public finance framework to fund global common needs in addition to ODA. Global Public Investment presents a framework based on four principles: All Benefit, Contribute, and Decide Equitably (ABCDE).[4]

[4] The GPI proposal presented here draws upon the cocreation work conducted by the Expert Working Group on Global Public Investment and a mushrooming literature produced during the last five years (see et al. Reid-Henry 2019; Jonathan Glennie 2020; Esteves, Elouardighi, and Carneiro 2023).

Despite their differences, these proposals agree that Official Development Assistance (ODA) is still an important tool for reducing poverty and supporting the national development strategies. Therefore, ODA resources and mandate should be protected. Moreover, these proposals emphasize the need for a new metric exclusively tailored to finance solutions for global challenges. (Rogerson and Ritchie 2020; Reid-Henry 2019; Esteves, Elouardighi, and Carneiro 2023; Norway 2023).

R1: The G20 should take the lead in establishing new norms and metrics for international development finance to tackle global challenges, throughout

R1a. The establishment of an expert panel and,

R1b. A broad consultation with key stakeholders from multiple geographies and sectors.

R1c. An institutional reform that establishes a steering committee and working group at a global level to ensure continuity

GPI has three significant differences from ODA. First, the **geography**: the globalness of the challenges, policy-making and ownership of the outcomes (Kaul, Blondin & Nahtigal, 2016; Kaul & Blondin, 2016). Second, the type of **instrument**: investment instead of aid or assistance. The investment logic replaces donorship with partnership and is intended to foster a horizontal relationship based on the expectation of mutual benefits and the greatest possible social and environmental returns (Norway 2023). Third, **publicness**: publicness is critical to understanding GPI and distinguishes it from other sources of finance for development. Publicness in GPI not only refers to the type of money mobilised (public, as opposed to private); it relates to process and outcomes (Kaul and Blondin, 2016; Kaul, Blondin & Nahtigal, 2016) — the process through which the solutions for global challenges are manufactured and funded, the outcomes it generates, and how they are distributed. Publicness in GPI unfolds in three dimensions: Benefits, Contributions, and Decision-making, (Kaul, 2016). All these dimensions must be constructed in the light of the principle of Equity.

All Benefit: The GPI approach is predicated on the principle of publicness in benefits, which ensures universal access to the outcomes generated by global solutions. Universal access must be granted equitably, prioritising countries and/or social groups in situations of vulnerability. We suggest adopting the LNOB (Leaving No One Behind) approach as described in the 2030 Agenda. Thus, although everyone will benefit, those who are furthest behind in a situation of the highest vulnerability should be catered for first. This approach will require the mobilisation of indicators other than GDP per capita. The UN vulnerability index or the basket of indicators proposed by the development in transition approach are alternatives to be explored.

All Contribute: GPI proposes a model of universal contributions in which every partner must contribute. GPI fundamentally challenges the donor-recipient dichotomy of traditional aid and advocates for a shared responsibility towards global development. However, the contributions must be calibrated by the differentiation of responsibilities arising from historical injustices and structural asymmetries. In this sense, rather than discarding the principle of CBDR-RC, we should interpret it in the light of the challenges that must be tackled. In this case, we propose a model of contributions based on concentric differentiation between countries (Figure 3). This approach allows for the definition of different layers of responsibility based on a basket of indicators that consider different capacities in general and levels of vulnerability specific to the challenges at hand. The model also includes a commitment by countries to increase their ambition/contribution over time. The circles are supposed to act as indicators that metrify capacities, so the case is laid out on more substantial basis and it takes on a more assertive nature, instead of relying on the “solidarity” of countries.

All Decide: GPI is grounded in global public decision-making processes to determine investment priorities and strategies. Unlike traditional aid models that often mirror the interests of donor countries or, at best, a balance between donor's and recipient's interests, GPI calls for a global dialogue where all nations, irrespective of their economic status, have a say in deciding where and how global public funds should be allocated. Such a principle deepens and bolsters the multilateral institutional architecture. It enables universal participation in decision-making, fosters a sense of global ownership and mutual responsibility, and promotes decisions that reflect shared global priorities. The approach is specifically designed to generate equitable and mutually beneficial outcomes. A global public decision-making method aims to

(i) define global public needs and related policies

(ii) determine contributions and distribution parameters

(iii) guide implementing solutions

(iv) establish oversight mechanisms.

R2: New norms for international development finance for Global Challenges should follow the principle of universal and equitable benefits, contributions, and participation in decision-making.

Scenario Of Outcomes

A Political Demand Analysis to understand how GPI resonates for different groups of countries shows that, regardless of their relative position, most countries are concerned about the possibility of dismantling ODA-based international cooperation. In all these groups, even considering that GPI should not be a substitute for ODA, many respondents felt that its adoption could allow donors to abandon their historical commitments, notably the 0.7% of gross national income (GNI) target. That is why respondents in all country groups stressed the need for resources allocated to GPI to be additional to ODA. Despite common concerns, responses to questions about the incentives for GPI adoption also varied by country group, as described below.

High-income countries

- Burden sharing: Concerning global challenges finance, high-income countries (HICs) and upper-middle income countries (UMICs) are sometimes seen as locked in a game of mirrored distrust, where UMICs fear HICs will shun their historical responsibility, while HICs fear UMICs will not pay their fair share. GPI offers HICs an opportunity to broaden the contributor base with MIC's inputs, while giving MICs a genuine stake in governance.
- Demands for Global Solutions for Global Challenges: Even considering the socio-political polarisation in many countries, the growing demand for solutions to Global Challenges, particularly related to environmental protection, is evident. GPI allows decision-makers to deliver progress on climate and pandemic security and demonstrate global cooperation to protect these vital common goods.

Upper-middle-income countries and middle-income countries

- Standing on the global scene: Many large G20 middle-income economies are pursuing a diplomatic strategy to expand their standing on the global scene. Many are asserting leadership on key Global Challenges (e.g., China on climate and green transition, India on digital development, Indonesia on pandemics, etc.). Compared to ODA (a frame criticised by almost all UMICs and MICs), GPI offers a valuable international recognition and influence pathway.
- Reform of international governance: Many MICs (including leading economies like G20 members) include in their foreign policy objectives the reform of international governance, or global governance, defined as a rebalancing of decision-making procedures considering the current power distribution. GPI, as the first-ever tool of financing to put all countries on an equal footing in terms of agency regardless of income level, can significantly contribute to this reformist agenda.

Lower-middle-income countries and low-income countries

- Increased investments: Low-income countries (LICs) and lower-middle-income countries (LMICs) would be net beneficiaries based on the concept of equitable differentiation, while having greater control over the terms of those receipts.
- Diversification from ODA/graduation dilemma: GPI offers LICs and LMICs an opportunity to diversify the inbound foreign public investments to which they have access, thereby expanding opportunities and reducing risk. This is particularly relevant for countries that are graduating and will face lower levels of concessionality and more scarce financial instruments.
- Secure ODA for poverty reduction and support for national development: Following its reform during the last decade, ODA has been increasingly mobilised to fund

global solutions. Some donors assign approximately 30% of their ODA contributions to global solutions in MICs and even UMICs. GPI is a way to define a stricter understanding and role of ODA, rechannelling its flows, almost exclusively, to LICs.

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