



Wilton Park

The Future of Aid: Crisis and Opportunity – How the COVID-19 moment will catalyse change in the aid sector

Summary of Wilton Park virtual dialogue, Thursday 30 April 2020

In partnership with Joep Lange Institute with support from Coalition for Global Prosperity, Development Initiatives, United Nations University, Equal International and the OECD Development Centre

This report summarises discussions from the second in a series of virtual dialogues on the **Future of Aid**, being facilitated by Wilton Park.

This second dialogue focused on how the COVID-19 pandemic could and should serve to catalyse transformation and evolution in the aid sector.

Terminological note:

In this report the following terminology is used to refer to different types of financial flows between countries which have an explicit developmental purpose and objective.

'Aid' is used to mean ODA +OFF so all concessional international public finance for development

'ODA' refers to Official Development Assistance (as defined by OECD – DAC)

'OFF' refers to Other Financial Flows which are not ODA but which meet the broader criteria for being a type of Aid.

Executive summary

COVID-19 has been a 'catalytic shock' to the increasingly dysfunctional 'aid' system.

The response to the COVID-19 pandemic has shown that the global development architecture is weak, and not 'fit for purpose' to respond to a large scale and global crisis. At the same time this crisis has opened an opportunity to 'build back better' by rethinking the global development and financial architecture, systems and the set of modalities used in international cooperation. **Moving beyond ODA to Global Public Investment (GPI) for global public goods.**

Key points raised during the discussion:

- The global response to the unprecedented COVID-19 crisis has shown that the **global development architecture** governing concessional international public finance for development is not 'fit for purpose' and would need to adapt to match the scale of such crises.
- The response has also demonstrated the critical need to **realign the different responses at the global level** - health, development and humanitarian assistance, recognising the secondary impacts on economy, peace, security, human rights, with the SDGs (and SDG17 Partnerships) hardwired into the system.
- There is recognition that in this moment of extreme crisis there are new opportunities, with a once in a generation opportunity to affect real change, and to **'build back better'**.

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- **Global health as a global public good.** Whilst the capacity and resilience of the health sector in developing countries will continue to be tested, there was initially poor international cooperation in the response. Arguably, parts of Africa were better prepared for the COVID-19 pandemic than a number of countries in the north, including using lessons from dealing with the Ebola epidemic, and for example four African universities developing ventilation aids to support COVID-19 treatment.
- **Low Income Countries (LICs)** are likely to be the hardest hit by COVID-19 due to their multi-faceted vulnerability. Understanding what LICs and developing countries more broadly need in the short to medium term is important. The example of Mozambique was shared. (See annex for a short case study). In many LICs, where the state is ineffective or completely absent, the role of non-state actors is critical, but many are now without their normal sources of funding (both domestic and external).
- **More international resources are likely to be needed** in the coming years to finance global public goods, financing and investing in critical public expenditures (both recurrent and capital), and responding to the severe negative economic and fiscal shocks that most countries, especially LIC's will now be exposed to.
- However, **there is likely to be a fall in ODA levels** with a potential for real cuts in aggregate ODA of for example 25% in the next year as donor countries focus available and scarce public resources on domestic priorities and economic recovery. As in 2008, DAC countries may again seek to change the criteria for which expenditures and transfers qualify as ODA to 'retrofit' their own priorities. There will be some hard choices ahead for donors.
- There is a need for a **broader 'toolkit' of available and innovative approaches** to respond to the COVID-19 crisis. This could include an appropriate **fiscal policy response**, on-budget direct financial transfers (OBDTs), formerly known as budget support, if circumstances allow. Other sectors are also critical for managing the response e.g. social safety nets, public financial management system, public procurement systems.
- There is also a need to **learn how to do more with less**. ODA resources can be made to work harder and **leverage much larger non-ODA** lending, including through blended finance instruments at low (or even negative) rates of interest, to finance both the emergency response but also longer-term investment and economic recovery programmes that will be needed. This would shift the burden of responsibility for providing development finance. Whilst ODA is fundamental there is a need to be more ambitious.
- Unequal **power relationships within the aid sector** and outdated 'North gives/ South receives' narrative remain a significant barrier to progress. The 'donor-recipient' dynamic often means recipient governments are more accountable to donors than their public. Significant public finance flows **between countries in the global south**, and increasingly from the global south to the global north, whereas institutions have not evolved accordingly. How can **south-south cooperation and multi-directional bilateral mutual solidarity** amongst nations be built on?
- There is a call for a **revised global aid architecture**, with a clearly defined and commonly accepted role for the multilateral system, recognising the difficulties in generating political will and leadership for a different global bargain. New ideas are needed to create the necessary political incentives to allow for the COVID-19 crisis to be an opportunity towards major transformation of the international system.
- Much contemporary development cooperation is **carried out by non-state and non-traditional actors**, e.g. foundations, private corporations, philanthropists, concerned citizen's groups, municipalities (i.e. local and not central government, particularly in a federal state) – this should all be encouraged, further funded and leveraged, but it cannot replace public funds which have particular characteristics that make it a unique resource. However, in the short term many international NGOs (INGOs) are facing major structural, human resourcing and financial challenges and are putting their in-country programmes on hold at the critical moment when they are most needed.

How the COVID-19 moment will catalyse change in the aid sector: Emerging themes

Theme 1: Reforming the international 'aid' architecture to meet the challenges of the 21st Century

- COVID has provided the catalyst to reform and/or repurpose the global systems and the overall architecture of aid to respond better to the 21st Century challenges and crises that are global in nature.
- These challenges are demanding global multilateral collaboration in new ways. Significant public resources are transferred between south-south countries, and resources are also flowing from the global South to the global North (e.g. Vanuatu pledged US\$750 million to Australia during the bushfire crisis in January 2020, and during the pandemic e.g. China supporting Italy, and Russia supporting the US). What kind of mechanisms will encourage further such multi-directional partnerships and cooperation?
- Existing and new multi-directional partnerships and cooperation are likely to play a major role in driving reform of the overall official aid system. For example IDA membership and its board represents countries beyond the traditional DAC donors and this broader structure could be a way forward for others such as the OECD DAC.
- New or reformed institutions and systems (money, people, expertise, laws, regulations, protocols, cooperation agreements, data sharing, data analysis, procurement, audit etc) need to be in place to respond effectively and quickly to a series of simultaneous large scale crises such as a global pandemic.
- The aid 'industry' also needs to be held more accountable for its actions – including rigorously assessing the actual effectiveness of aid-funded interventions and not just whether they offer value for money for contributor country taxpayers. The role of the citizen is also paramount for holding leadership to account.
- As part of rethinking the current multilateral architecture there should be focus on global norm setting e.g. common standards, common terminology to ensure consistency of approach and to complement initiatives with a regional, national or sub-national focus. Is a new set of principles needed for effective development financing in the post-COVID world? What should be the common principles that should be kept whilst building a new global architecture? Is the Global Partnership for Effective Development Cooperation (GPEDC) the most effective forum for such discussions?

Theme 2: Develop a new toolkit of aid modalities and instruments that are fit for purpose

- The discussion emphasised the importance of having a broader and innovative 'toolkit' of available modalities to respond to COVID-19 and future crises; this could be old tools repurpose or innovative new tools.
- An appropriate **fiscal policy response** to COVID-19 is needed for each affected country to ensure an appropriate balance of domestic taxes, remittances, external borrowing and ODA/OFF is used. Consideration to including new forms of budget support or other types of on-budget direct financial transfers (OBDTs) if circumstances allow.
- Some argue that a 'Marshall Plan' is needed to deal urgently with the economic consequences of COVID-19 ensuring international emergency response fund. This could be managed by a UN agency on behalf of UN members to not only deal with the immediate economic consequences of the pandemic but also with forthcoming challenges e.g. the unsustainable exploitation of natural resources
- Such global funds could also, in the longer term, deal with other climate change-related emergencies and related investments required.
- Alternatively a new type of emergency budget support, perhaps based on the EU's State-Building Contracts (see forthcoming evaluation from DG Devco/ EuropeAid)?
- Such forms of budget support and project-based, programmatic aid finance (e.g. SWAP's) are not mutually exclusive but can complement each other if managed carefully and fully owned at country level.
- In addition global public finance could develop the role of a basic income grant. This could be important not only to overcome the economic consequences of the pandemic but also to play an important role in climate change mitigation.

- Other concrete suggestions on what 'new' instruments are needed include, for example, the role of advance market commitments (eg MedAccess) in ensuring new drugs and vaccines are made available to developing countries at affordable prices.
- How might these new solutions be driven by the values of 'Globally connected and locally driven'? How to ensure there is a principle of local ownership and equity?
- locally-driven solutions and actions are critical – in many instances responses need to be delivered at a 'hyper local' level e.g. village, community, urban slum level. This has proved really challenging for the current aid resource financing system – how to move global money to such local impoverished levels, often remote, sometimes dangerous? There are lessons for example from Sierra Leone's experiences during the Ebola emergency of 2014.
- Whilst the SDGs remain the key framework to progress on sustainable development, both nationally and internationally, there also a range of new local e.g. city level initiatives to examine what meeting the SDG commitment and targets would mean at local level.

Theme 3: Building political appetite for change

- There is a need to question and test the level of political appetite within the UN, G20 etc for changes to the complex landscape of international aid architecture, and to changes around ODA within the OECD DAC.
- How to generate the necessary political incentives, will and appetite for global bargaining?
- In parallel, the case for a new 'aid paradigm' will need to be successfully made with citizens and taxpayers in both 'aid-donor' and 'aid-recipient' countries. As this develops there are likely to be more fruitful conversations between policymakers and politicians.

Conclusions

As these issues are discussed further in this series of dialogues, many questions need to be addressed: What will the new 'normal' look like after COVID-19? What are the new principles and values around which global public funds should be spent? What forms will and should these funds take? What new global instruments will be needed? How to balance the global with the local? Visionary but pragmatic political leadership will be key in shaping this future.

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Annexes

A1. Links to useful resources....

Development Initiatives - have published some new analysis about what might happen to ODA budgets – there are many different factors involved but they conclude that a loss of up to US\$25 billion is not an unreasonable scenario.

<https://devinit.org/publications/coronavirus-and-aid-data-what-latest-dac-data-tells-us/>

UNU-WIDER: Research papers and webinar by Prof. Andy Sumner of King's College, London on implications of COVID-19 pandemic for developing countries.

<https://www.wider.unu.edu/event/andy-sumner-covid-19-and-development>

<https://www.wider.unu.edu/publication/will-covid-19-lead-half-billion-more-people-living-poverty-developing-countries>

IMF/ World Bank analysis of economic consequences of the pandemic:

<https://www.imf.org/en/Topics/imf-and-covid19>

<https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19>

DfID's response to the pandemic:

<https://dfidnews.blog.gov.uk/2020/04/11/we-must-work-together-to-fight-covid-19-outbreak/>

<https://www.devex.com/news/dfid-goes-quiet-on-covid-19-response-96851>

DEVEX articles on impact :

<https://www.devex.com/focus/covid-19>

A2. Further reading

Article about the US response to the pandemic and what this means for global health strategy:

<https://thehill.com/opinion/healthcare/493848-how-covid-19-must-transform-us-global-health-strategy>

Paper by Nilima Gulrajani, Andy Sumner and Myles Wickstead on a new universal global commitment to development:

<https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp-2019-119.pdf>

A new metric called Total Official Support for Sustainable Development (TOSSD) is trying to capture all of the additional resources for development (South-South Cooperation, non-concessional finance, blended finance, etc.) TOSSD has been developed by an international Task Force including traditional donors, SSC providers (Indonesia, South Africa, etc.) and recipient countries (e.g. Bangladesh)

<http://www.oecd.org/dac/tossd/>

ICVA have released a paper on localisation in the COVID-19 humanitarian response that highlights some of the issues raised about financing local associations, and also partnership , leadership etc.

https://www.icvanetwork.org/system/files/versions/ICVA_Localization_COVID19.pdf

Roberto Tibana : Economia Política do Orçamento em Moçambique (with Tony Hodges), 2005, Princípia, Cascais (also available in English in PDF as: Political Economy of the Budget in Mozambique, www.dfid.gov.uk/countries/africa/mozambique.asp)

Various articles and papers on aid effectiveness, aid modalities and role of multilateral system available at:

<https://wordpress.com/view/alanhardingdevecon.wordpress.com>

A3. Mozambique Case Study

Mozambique's experience of aid and aid effectiveness since end of civil war in 1992

(based on Tony Hodges and Roberto Tibana, 2006, The political economy of aid to Mozambique)

- Mozambique has become one of the most aid dependent countries in the world following the end of the civil war in 1992; with the operationalisation of the Paris and Accra aid effectiveness principles donor assistance mainly took the form of the creation of a multi-donor general budget support programme in around 2000.
- Direct budget support (both general and sectoral) was seen as a remedy to the problems of fragmented and untransparent project-based aid by giving the Ministry of Finance and other key institutions, such as the central bank, Auditor General's Office and budgetary committees of parliament, greater oversight and leverage in the way that both domestic and external resources were used to finance key public expenditure programmes.
- Another key aspect of the design of GBS/ SBS programmes was that they were usually established in support of a 'nationally owned' set of policy priorities set out in a Poverty Reduction Strategy or National Development Strategy which had, at least in theory, been developed based upon a national consultation process to define national priorities.
- Under multi-donor budget support the donor had less say over where funds were allocated and spent, leading to them becoming more involved in the policy-making process. This created problems in a country such as Mozambique – with a government which is eager to tap into available donor resources and so increasingly focuses more of its limited capacity and attention on the donor dialogue and review processes at the expense of actually delivering effective public services with whatever resources are actually available.
- Hence, it could be argued that the Government become more invested and thus accountable to donors as opposed to people and parliament – and so constitutional methods to ensure good governance are undermined.
- Some of the key dimensions of the problem are weak domestic institutions to ensure effective public finance management. Mozambique now has a serious problem of hidden debts, where the executive decided to borrow large amounts of money without the authorisation of the legislature.
- When COVID-19 hit, the Mozambican Government asked for help....but there is a lack of mutual trust between the donors and the current government and hence aid in the form of budget support is no longer available. In terms of the Government of Mozambique and donors response to COVID – these problems mean that aid may not be disbursed quickly enough to respond to the COVID-19 pandemic or channelled to where it is most effective.
- Mozambique's experience with aid and particularly multi-donor budget support has been described/ diagnosed in a book by Tony Hodges and Dr. Roberto Tibana called 'The Political Economy of Aid to Mozambique, part of a multi-country analysis of these issues commissioned by DfiD in 2004.