EXPERT WORKING GROUP
ON GLOBAL PUBLIC INVESTMENT

Global Public Investment in the age of Covid-19

The Covid-19 pandemic and struggles over the fair distribution of vaccines globally have underscored the limitations to present ways of meeting global public goods requirements and protecting global common interests. This comes on top of the multi trillion-dollar funding gap confronting the United Nations' Sustainable Development Goals before 2030. To address these challenges, a new approach to international public finance is needed: one that incorporates the lessons of several decades of official development aid (ODA) yet which operates differently: including all countries as co-participants in a framework of international financing for common needs. The funding response to Covid-19 highlights what is possible in the current global political context, but also what challenges remain to be addressed.

Background and Need

A year into the Covid-19 pandemic and the incredible efforts of our scientists to develop vaccines in record time have underscored the unique value of public investment when private finance is unable or unwilling to fill the gap. But we have also seen that ingrained problems of free-riding and the privatisation of public goods can jeopardise the international commitments needed to ensure the equitable distribution of global public goods such as vaccines. This in part explains the current US$19bn funding gap in the Acces to Covid-19 Tools Accelerator (ACT-A) facility.

In response to the rising economic and human costs of Covid-19, influential voices have begun calling for a paradigm shift in the way we finance our global common needs. Over the past twelve months such calls have been issued by IMF Managing Director Kristalina Georgieva, by the G20 High Level Independent Panel on financing the Global Commons for Pandemic Preparedness and Response, by the Finance in Common summit of public development banks and, most recently, via calls for a new Pandemic Treaty. None have as yet have come up with the necessary vision.

The most concrete proposals to date envisage funds for increasing global health security or pandemic preparedness war chests. While a welcome and much-needed improvement, such fighting funds would address only part of our global common vulnerabilities, of which climate change may soon be an even more pressing example. Without a more general and organised framework for raising greater quantities and better distributing public money internationally the idea of sustainable development is little more than an aspiration; without greater public investment internationally global productivity will not pick up again after Covid-19 and economic stability will remain fragile.

This situation could be turned around if national leaders committed to a system of global public investment in which all countries participate fairly as contributors and recipients alike. No common financing mechanism on its own can guarantee that pandemics are avoided, climate change arrested, or multilateralism restored. But an inclusive approach to international public finance would provide a critical means for the world's countries to work together to achieve these ends.

The proposal

Global Public Investment (GPI) offers a better way of securing the funds needed to meet our growing needs for global, regional and national public goods, services and infrastructure, to reduce our shared vulnerabilities to things like infectious diseases, and to protect the global commons. It would improve the ability of all individuals to live healthy, fulfilling and productive lives. **GPI moves us beyond a system where these things are paid for via limited, fragmented and often bilateral (even private)**

assistance to a system based upon *sustained co-responsibility*. Rich and poor countries would work together with all contributing on a fractional, fair and ongoing basis, and with all having a say in how the money is allocated: locally, regionally *and* globally. By bringing more countries to the table as contributors and decision-makers alike, GPI would not only raise more money, it would ensure that funds go to where they make most difference, and it would encourage local monitoring. It would allow us to raise the level of our ambition and build a more prosperous future for all.

Such an approach represents an effective and realistic response to some of the most significant limitations of the current international economic order. One such limitation is the delimited scope and quantity of traditional Official Development Assistance (ODA) and the inherent power disparities of a donor-recipient approach to international finance. Another is the difficulty of funding global public good requirements, such as vaccines or clean energy, without cooperative agreements. Efforts to address these two problems have to date achieved only modest success: in part because decision-makers continue to think of public money as an optional extra at the international scale – to be undertaken *if and when possible*. But railways were not lain across continents *when possible*: they were built at the moment they were needed by far-sighted individuals reaching for new sources of funding, and often that funding came from abroad. Likewise, the internet was not an *incremental* improvement to television: it offered something different altogether, paid for by the public purse. Global Public Investment, like the internet, is something new: a paradigm shift that can help solve the problem of inequality and exclusion in our own times.

How would Global Public Investment work?

Implementing Global Public Investment is within our grasp. As with the technologies on which the internet was built, many of the core elements of GPI in fact already exist: be it South-South and Triangular Cooperation programmes or global sovereign risk insurance schemes. Global Public Investment builds upon some of the most important lessons we have learned about international financing in recent decades and takes inspiration from ground-breaking international institutions such as the Global Fund to Fight AIDS, Tuberculosis & Malaria. These lessons are encapsulated in the four core pillars which define Global Public Investment, extending the unique role of public money to the international scale:

1. Universal Contributions. Global Public Investment moves us beyond the current international order of "donor" and "recipient" countries: instead *all* countries contribute, according to their ability, and *all* countries receive according to their requirements. By expanding the geography of which countries contribute and implementing new criteria of burden-sharing between them, GPI can raise substantially more money.

2. Ongoing Commitments. Global Public Investment moves us away from the insistence that countries "graduate" after achieving a relatively low level of income per capita and thereafter should receive little or no concessional international finance. **Global Public Investment means an *ongoing* commitment to investing in public returns**. If we are to address today's global challenges countries must be able to plan over the longer term.

3. Co-Responsibility. In order to ensure (1) and (2) Global Public Investment moves us away from entrenched and unjust power relations, replacing them with **a more democratic and accountable approach to the way that international public finance is *governed*.** Poorer countries would finally be put on an equal footing with richer ones, changing not only the decision-making structure, but also the type of outcomes that are prioritized. Governance would not be weighted according to contribution (favouring rich countries) or by one-country-one-vote (favouring smaller, poorer countries) but by a graded system that gave all countries, including middle income countries, a fair share in decision-making power.

4. Co-Creation. Global Public Investment moves us beyond a fixed and ready-made financing process into a more organic and dynamic process where rich and poor countries co-design, consult and co-produce impactful solutions relevant to their needs locally as well as globally. **Global Public Investment truly means that *all* contribute, *all* benefit and *all* have a say.**

These four pillars – the "four Cs" – offer a blueprint for international public finance in the twenty-first century. GPI also requires entrenching the internationally recognised principles of transparency, leaving no one behind, and common but differentiated responsibility.

What Makes Global Public Investment Necessary?

Beyond the immediate need for a more effective global pandemic response, there are at least five reasons why a new approach to international public finance is needed today.

Coordination and Control. First, we live in a globalized world yet we lack a coordinated system for organizing how governments might *collectively* spend money on global problems. The world is not organised as a country and has no common fiscal system or agreed set of principles (in contrast to the greater level of international coordination we see in the monetary realm). Yet as world citizens we are all vulnerable to certain problems that exceed the capacity of any one nation state to address on its own and that require public intervention *internationally*. There is a clear need today for **an easily understood mechanism by which governments can secure and allocate public money internationally**. Such an approach cannot just be bilateral (which IDA and IBRD funds have tended to be – in contrast to the more recently established AIIB) and could potentially be implemented via a regionalised structure.

Capacity Building. Second, it matters not just how much money we raise but also that **the right sort of money is raised and spent well**. During the Great Financial Crisis of 2008, governments spent vast sums of money to avoid another Great Depression. Not all of it was well used and stimulus spending generally stopped well short of reform. Governments learned the domestic lessons of this in the years of economic reconstruction that followed. But it has taken the Covid crisis for them to recognize the same lessons apply internationally too. Current estimates suggest Covid-19 has already increased global poverty by 7%. The faster and more effective international financial cooperation that a system of GPI could have enabled, would have reduced that impact and prevented years of hard-won gains being undone.

Resilience and Response. Third, while the huge COVAX shortfall has lain bare the **limits to our current way of managing fiscal cooperation** between countries, a further crisis – the climate emergency – awaits us just around the corner. We are entering a new era in history in which our planetary security will hang upon the extent to which we successfully cooperate to **ensure the supply of essential *global* public goods** (such as shared satellite tracking), to **protect the global commons** (such as the ice caps) and to **secure the right technology, infrastructure and institutions** (such as clean power) needed to meet the challenges that modern society confronts.

Enhanced Social Returns. Fourth, the need for GPI is not all about the problems of the present. GPI enables **pooling of resources for investing in future social returns**. In particular it can support things that we all need but which, because they are not especially profitable, can b hard to finance: including basic health care and infrastructure needs. Similarly, as *public* money GPI can tolerate a **higher risk-envelope** when it comes to making such investments, allowing monies to be directed towards higher-risk/higher reward investments, much like venture capital. We would never have got to the moon if NASA had not been prepared to take incredible risks, but ODA and private sector investments are highly risk averse. Addressing challenges as complex as climate change will require a considerably higher risk tolerance than current approaches are able to provide.

<u>Shared Benefits</u>. Fifth, GPI represents **a unique value proposition for richer, poorer and middle-income countries alike: an incentive for all to participate.** In contrast to present approaches to international public finance, be it the Green Climate Fund, Gavi, or bilateral ODA, Global Public Investment would crowd in more Upper and Lower Middle Income Countries as contributors. It would raise more money than ODA currently does, expand the range of things that international money can be spent on, and spread the burden of revenue raising and responsibility for making decisions about how it is spent much more widely. This in turn would make GPI more robust and predictable, making it easier to leverage private markets and to increase both the size of the overall pie and the time frame over which it can be disbursed.

What needs to be done?

There are numerous ways that GPI can be introduced as a viable approach to international public financing. Most immediately, multilateral organisations could adopt the core pillars of GPI within existing governance arrangements and mechanisms. Over the longer term, our inherited post-1945 architecture of ODA needs transforming into a new structure of international public finance for the twenty-first century. The two approaches should be considered together. The **first** route points to a series of pathways by which the viability of GPI can be tested. The **second** points to the beginnings of a much broader debate over what sort of post-2030 international architecture will be needed to take forward the ambitions of the SDGs (2015-2030).

To capitalise on the growing momentum and support for GPI from government agencies, multilateral organisations, NGOs, and civil society organisations, international political will now needs to be built at the highest levels of government. In particular, leaders of the G-7 and G-20 nations this year need to agree upon a comprehensive list of steps towards implementing GPI as well as to consider how the principles of GPI can already be used to address existing problems, particularly the need to secure sufficient vaccines globally to tackle Covid-19. The following steps in particular should be considered:

1. Existing intergovernmental panels and frameworks (such as the G-20 High Level Panel and T-20 dialogues) should **embark upon a high-level consideration of GPI** focused upon how GPI principles may be used to ameliorate the current crisis of pandemic response (including consideration by GAVI, CEPI, the WHO and the Co-Chairs of Norway and South Africa of ways in which GPI principles could be applied within COVAX to overcome current barriers of burden sharing and equitable access).

2. The UK government, as host of this year's G-7 summit and COP-26, and the tripartite host nations (Italy, Indonesia and India) of the G-20 (2021-23) should **agree upon ways in which it may be feasible to implement GPI** both <u>multilaterally</u> (via existing organisational structures) and via enhanced <u>leading nation</u> commitments to a common global arrangement.

3. Multilateral Development Banks, finance ministries and regional public development banks should, in accordance with the 2020 Finance in Common declaration and in support of upcoming international summits such as the 2021 SDG High Level Political Forum, **agree upon the concrete mechanisms by which statutory national contributions could be collected, managed and disbursed** in accordance with the principles of GPI.

4. Finally all stakeholders should **contribute actively to the consultation and co-creation phase of the forthcoming Global Consultation on GPI**. In contrast to other proposals for international financing mechanisms, GPI is being co-created with the active input of global South and CSO voices. This provides it with a unique legitimacy in the international financing landscape.