Horizon 2025—End of the Beginning: Development Cooperation in the Pandemic Age

Homi Kharas, Andrew Rogerson, Beata Cichocka

Abstract

COVID-19 and economic responses to it have amplified and changed the nature of development challenges in fundamental ways. Global development cooperation should adapt accordingly. The focus of our analysis is on the “intelligent reconstruction” phase of 2022-2030, once the immediate stabilization of economies and the health pandemic have taken place. We look at changes in the development context that may have long-term effects: global growth, debt, budget deficits and taxes, aid, capital markets, along with poverty and vulnerability. We suggest that aid is moving beyond altruism to become an instrument of national self-interest and of better planetary management of the global commons. These new objectives for aid put more emphasis on what is happening within each country, rather than across countries. Metrics of environmental sustainability and social inclusion performance, as well as governance, will become more important determinants of aid’s effectiveness. We identify the trade-offs in using aid to simultaneously relieve debt distress and development distress, and conclude that other instruments beyond aid are needed. Prominent among these is far more ambitious use of multilateral and national development banks, and global policies to reduce capital outflows from developing countries. We encourage the delineation of areas of cooperation and competition between geopolitical rivals, to limit the tainting of development priorities with elements of “us” versus “them.”
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<th>Description</th>
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<tr>
<td>ASPIRE</td>
<td>Atlas of Social Protection Indicators of Resilience and Equity</td>
</tr>
<tr>
<td>BEPS</td>
<td>Base Erosion and Profit Shifting</td>
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<tr>
<td>BRI</td>
<td>Belt and Road Initiative</td>
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<tr>
<td>BTI</td>
<td>Bertelsmann Transformation Index</td>
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<tr>
<td>CRA</td>
<td>Credit Rating Agency</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DFI</td>
<td>Development Finance Institution</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DIB</td>
<td>Development Impact Bonds</td>
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<td>DSSI</td>
<td>Debt Service Suspension Initiative</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EMDE</td>
<td>Emerging Markets and Developing Economies</td>
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<td>EPI</td>
<td>Environmental Performance Index</td>
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<tr>
<td>ESG</td>
<td>Environmental Social Governance</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<td>FCDO</td>
<td>Foreign Commonwealth and Development Office</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GAVI</td>
<td>Global Alliance for Vaccines and Immunization</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GPE</td>
<td>Global Partnership for Education</td>
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<td>GPG</td>
<td>Global Public Goods</td>
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<td>GRF</td>
<td>Global Resilience Framework</td>
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<tr>
<td>ICSD</td>
<td>Investment and Capital Stock Dataset</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IDEA</td>
<td>International Institute for Democracy and Electoral Assistance</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LNOB</td>
<td>Leave No One Behind</td>
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<tr>
<td>G20-LTIC</td>
<td>G20 Long Term Investors Club</td>
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<tr>
<td>MDB</td>
<td>Multilateral Development Bank</td>
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<tr>
<td>MFF</td>
<td>Multianual Financial Framework</td>
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<tr>
<td>MIC</td>
<td>Middle Income Country</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MOPAN</td>
<td>Multilateral Organisation Performance Assessment Network</td>
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<tr>
<td>NDB</td>
<td>National Development Bank</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>NGEU</td>
<td>Next Generation EU</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
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<tr>
<td>PPE</td>
<td>Personal Protective Equipment</td>
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<tr>
<td>RCT</td>
<td>Randomised Control Trial</td>
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<tr>
<td>SARS</td>
<td>Severe Acute Respiratory Syndrome</td>
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<td>SDG</td>
<td>Sustainable Development Goals</td>
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<td>SDR</td>
<td>Special Drawing Rights</td>
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<tr>
<td>TE</td>
<td>Trading Economics</td>
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<tr>
<td>TOSSD</td>
<td>Total Official Support for Sustainable Development</td>
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<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNDS</td>
<td>United Nations Development System</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children's Fund</td>
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<tr>
<td>UN OCHA</td>
<td>United Nations Office for the Coordination of Humanitarian Affairs</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>WASH</td>
<td>Water and Sanitation Hygiene</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WEO</td>
<td>World Economic Outlook</td>
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<tr>
<td>WFP</td>
<td>World Food Programme</td>
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<tr>
<td>WGI</td>
<td>World Governance Indicators</td>
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<td>WHO</td>
<td>World Health Organisation</td>
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Executive summary in 15 action points

International development agencies and their political overseers face multiple stresses in the pandemic era. Some of these are transitory, others will endure. Development strategists must avoid the twin temptations of reaching too fast for magic-bullet solutions backed by scant evidence, or sticking to tried and tested approaches, applicable on closer inspection to a world gone by. We cannot entirely dissipate this “fog of war” for them, but offer some compass bearings on the choices ahead, including what they should do themselves and what may be best left to others.

In the pandemic era, national development officials and policymakers should:

1. **Double Up:** ambitions for aid and non-aid resource flows must rise to accommodate higher debt relief, GPG spends, humanitarian action, and sustainable investment needs (S2,5)
2. **Be a Tortoise not a Hare:** stay focused on long-term programs to help develop lagging regions, countries, and subnational pockets where chronic poverty is concentrated (S2*,6)
3. **Heal Multiple Fractures:** inclusive programs must reduce extreme income poverty, but also inequities and vulnerabilities, and build resilience and trust (S2,3)
4. **Adopt, Adapt, Improve:** policy experimentation and big data are driving new learnings, and ways of learning, within and across countries, regardless of income levels (S3*)
5. **Aim over the Horizon:** tackle global systemic issues holding back capital flows to developing countries, going well beyond traditional limits of aid agencies (S2,5)
6. **Acknowledge Love, Greed, and Fear:** the traditional solidarity motive for aid is now legitimately combined with “naked” national interest, and the common good or survival (S3*)
7. **Reconstruct Intelligently:** focus attention on transformative options within countries with sound environmental and social resilience patterns and good governance (S3)
8. **Apply Band Aids:** extended humanitarian assistance is needed more than ever in some places, while deeper, independent development processes unfold (S4)
9. **Focus on Solvency not Liquidity:** markets focus on liquidity and austerity, but official approaches to debt distress should consider a realistic time frame to grow into solvency (S5)
10. **Defeat Remoteness:** invest in mass access to digitalised services to connect everyone, everywhere, hugely cost-effective, thanks also to positive societal spill overs (S6)
11. **Live to Learn, Learn to Live:** scale up dynamic education, health, and social protection spending, creating sustainable fiscal space for each (S6)
12. **Use Longer Levers:** think laterally about using aid to mobilise private capital, by leveraging financial and implementation capabilities of MDBs and national development banks (S6*).
13. **Benchmark to Cash:** mainstream cash transfers as an aid effectiveness index benchmark, to which all other development programmes are compared (S6)
14. **Help Yourself by Helping Others:** include benefits from wider GPG-related investments and reciprocal national interest benefits to set aid target well above 0.7% (S6)
15. **Think Variable Geometry:** build flexible alliances and platforms, including with China and the more agile multilaterals, on an issue-specific and country-specific basis (S6*)

Please note, **S=** numbered section references

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* *= echoes/extends previous H2025 findings
1. Introduction

“If we want everything to stay as it is, everything must change.” (Tomasi di Lampedusa, 1958)

Genesis and timescale

This is the third in a series of horizon-scans of international development trends and challenges, which we began in 2012. We revisited our original findings five years on (Kharas and Rogerson, 2017): though their 2025 end-point loomed larger, powerful new forces and uncertainties were at play which called for a re-appraisal. The same “mirage effect” applies now, with barely five years left to run (and ten for the world to deliver on Agenda 2030).

The COVID-19 pandemic and its consequences provide an obvious candidate for a new inflection point. But not everything (with a nod to The Leopard, cited above) will be either new or worse because of COVID-19; much will remain the same or be reinforced; and new opportunities and risks will emerge, but not traceable solely to the pandemic. In what follows, we try to distinguish observable trends from policies and outcomes that may be desirable but are not inevitable. This is not always an easy balancing act.

Our current timeframe is as follows. We focus here on the crucial “intelligent reconstruction” window that opens when (1) the virus risk becomes manageable, through some combination of immunization, tracking and treatment advances plus sustainably changed behaviours, and (2) the most damaged economies and societies are minimally stabilised, but not yet reset on a clear path to sustainable progress. It takes as given the massive macroeconomic stimuli already in play, but with an uncertain future trajectory and unclear implications for emerging markets.

This window runs, we assume, from late 2021 at the earliest, through 2025 and at least to 2030. While the planning for transformative investments should be starting already, the financing and implementation will not be lined up for some time to come. We are therefore deliberately looking past the first phase of major humanitarian and emergency macroeconomic responses which are already well underway, and will dominate aid agencies’ spending for another 18 months, at least. We also must ask however whether high and rising lending trajectories, built up during this emergency surge, can be sustained throughout the reconstruction decade, or thereabouts.

Our basic premise: COVID-19 and economic responses to it have amplified and changed the nature of development challenges in fundamental ways. Global development cooperation should adapt accordingly.
Quick look back: Our 2017-2025 agenda in hindsight

We concluded our 2017 report with five high-level policy recommendations, summarised in Box 1.

Box 1. 2017 Recommendations: Relevance and progress

1. Governments will need to clarify how and to what extent international funding is undertaken by non-aid national departments, such as health, environment, or immigration. For example, the Department of Health should concern itself with global preparedness for pandemics and the impact this might have on national health. (our italics, with 2020 hindsight).

2. To co-opt middle-income countries to help tackle global and regional challenges, including unsustainable climate change and migration, rigid ‘graduation’ rules linking aid to country income levels must give way to more nuanced ‘gradation’ mechanisms.

3. Aid agencies must focus far more closely on how to achieve progress in tackling the root causes of fragility. One first simple step towards doing so is to ensure legal identity through robust civil registration and vital statistics.

4. Western aid agencies need to forge a ‘competitive engagement strategy’ with China in bilateral development cooperation, and to intensify collaboration with the international institutions that China sponsors.

5. Blended (public–private) finance is only likely to reach its full potential if it is owned and supported by home-grown organisations. National development banks deserve more international attention.

<table>
<thead>
<tr>
<th>Policy Recommendation (Horizon 2017)</th>
<th>Relevance post-2020</th>
<th>Progress since 2017 (0–2 points)</th>
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<tbody>
<tr>
<td>1. Clarify non-aid (e.g., Health) government roles and funding</td>
<td>HIGH</td>
<td>0</td>
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<tr>
<td>2. Gradation not graduation of MICs</td>
<td>HIGH</td>
<td>1</td>
</tr>
<tr>
<td>3. Tackle root causes of fragility</td>
<td>MED</td>
<td>1</td>
</tr>
<tr>
<td>4. Competitive engagement with China</td>
<td>HIGH</td>
<td>0</td>
</tr>
<tr>
<td>5. National development banks</td>
<td>MED</td>
<td>1</td>
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How well has the international aid system—particularly Western-controlled official development agencies—done so far on this agenda? Not well at all, alas, even though at least
three out of the above five points remain highly relevant. Our snap counts add up to a deeply unimpressive 3 out of a possible 10 overall. There is still time to improve of course, and strong political pressures to do so in today’s context, especially on points 2 and 4, to which we will return in this report.

**What changes durably with COVID-19? Uncertainty, layers of change, and hysteresis**

Building scenarios for lives and livelihoods “in the time of” (which tellingly now replaces “after”) this virus has understandably become an industry, which we draw on but do not second-guess.

Two complementary lenses helped us navigate this sea of uncertainty. The first is the idea of “layers of change” (Evans and Stevens, 2020, after Brand, 1994). This applies to crises the metaphor of a building, which simultaneously accommodates, for example: a structure designed to last a century; services which need changing every decade; and more ephemeral stuff or “things that twitch around monthly”. The pandemic analogue is a health crisis that could play out mostly over, say, 2-3 years, concurrently with an economic, employment and financial one which lasts 5-10, and at a third and deeper layer, a set of societal and attitudinal shifts involving, inter alia, insecurity, polarisation, and inequality, over a generation or longer. These change layers are interconnected but unfold at different speeds. The unknowns are also of a quite different nature.

The second lens is the notion of hysteresis, referring to effects that persist after the initial causes are removed (Harford, 2020). In what ways is life with COVID-19 more like a stretched rubber band, which returns to something like its earlier shape when the virus is “managed” successfully (however we define that), as against like a paper-clip, which once bent firmly, will not return to its previous shape or function?

For example, recessions have long been argued to have a permanent impact if they change the characteristics or attitude of those who lose their jobs during them (e.g., Blanchard and Summers, 1986). This is one of several plausible “scarring” effects of the current crisis, of which we are also rapidly discovering major lagged effects on human health, directly and via the diversion of other health resources.

Less well understood so far are the longer-term opportunities arising, for example, from our recently accelerated mass experience of technological innovation, such as remote working and learning. These respond to short-term social distancing necessity but are also arguably transformative in the longer term. So, has the world just crossed a major “paper-clip” threshold on digitalisation? More about that later.
Structure of the rest of the paper

Section 2 examines the contours of a “COVID-19 transitional world” in this key window of 2022-2030, starting with economic disruptors faced by high-income as well as middle-and-low-income countries, then a round-up of our current knowledge of the impacts of the virus and policy responses to it on absolute poverty and development finance.

Section 3 moves on to a fundamental re-assessment of development cooperation objectives in this context, and considers a new narrative for aid, linked to pandemic-era intelligent reconstruction in support of the SDGs, but conscious of broader shifts in the global landscape and the political economy of aid in selected provider countries and regions.

Section 4 looks at a new concept of aid effectiveness based on underlying resilience and absorptive capacity for intelligent reconstruction in the pandemic era. We explore aid allocations through specific blocks of capacity indicators related to environmental sustainability, social inclusion, and governance, and the relative needs gap for achieving the SDGs.

Together, this data can be organized to show that: (i) countries do not fall neatly into a single linear “resilience index” that satisfies all the core tenets of intelligent reconstruction, but that (ii) there are distinctive combinations of need and capacity which call for different types of funding responses, in particular distinguishing more clearly between “extended humanitarianism” and accelerated reconstruction investments. In this context, we also show that providers’ “selfish” national interests and the SDGs can prove surprising bedfellows. Moreover, we argue (iii) that the effectiveness of development finance depends increasingly on thematic allocations within countries, including for managing the global commons.

Section 5 takes these results and combines them with a cross-country perspective on debt sustainability (and distress) to suggest an expanded role for non-concessional and blended finance, in a world of increased scarcity of concessional resources. It considers a long-term, dynamic view of fiscal space supportive of sustainable infrastructure, social assistance, digital transformation, and the broader empowering effects of rapid internet expansion. It also explores the options for much greater use of non-aid and non-financial cooperation, particularly concerning international taxation, domestic resource mobilisation and illicit flows.

Section 6 concludes with a series of recommendations for international action, grouped under 3 rubrics: (1) “what”- targeting across countries; spatial priorities within countries; and needed sectoral shifts; (2) “who”- multilateral agency effectiveness, national development banks and non-aid agencies; and (3) “how”- aid instrument choices; development finance metrics; and global monitoring and accountability.

Note: Our title’s by-line, “End of the Beginning,” refers to Winston Churchill’s Mansion House speech after El Alamein (1942). Its celebrated passage, “This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning,” resonates with the current COVID-19 context. And this moment in the paper.
2. Contours of a “COVID-19 transition world,”
2020-2022

COVID-19's short-to-medium economic disruptors

“The path of the U.S. economy will depend significantly on the course of the virus” (US Federal Reserve Chair statement, 29 July 2020) is both a truism—one universally valid—and a policy conundrum, as huge uncertainties of biomedical origin can drive the behaviours of households, firms, investors, and governments in conflicting directions.

In high-income countries, the current synchronised recession is already likely to be the deepest on record (IMF October forecast for 2020 (IMF, 2020), is for a 5.8% GDP fall year-on-year for this group, significantly higher for the UK and much of the Eurozone except for Germany). Its overall severity depends on the pace and strength of recovery, with a full return to 2019 output levels not forecast until 2022 or 2023, subject to the “Powell caveat” as above. This baseline combination of depth and duration would amount to the most severe global depression ever recorded.

Mass unemployment is the first inevitable consequence, disproportionately in “stranded” sectors like tourism, transport and hospitality and their supply chains. The OECD economic outlook for June (OECD, 2020) forecast specifically the scenario of a major second wave before the year-end (such as we are currently experiencing in Europe). In it, the OECD unemployment rate would nearly double, from 5.4% to 10%. The most vulnerable workers are the young (18-25 especially), the old and the low-skilled, especially in the service sector (Kelly and Tomlison, 2020). Some of these job losses were temporarily masked by job retention subsidies which will soon be phased out. Active job conversion support, for example into promising green-infrastructure areas, is certainly desirable but no panacea, given major differences in minimum underlying skill requirements between the likely sunset and sunrise sectors.

Formal education at all levels has been disrupted, with potentially long lasting, “bent-paper-clip” consequences—although for now we can only suppose this, from smaller context-specific episodes of interruption and dropout due to other shocks like teacher strikes. Further knock-on effects are predictable in terms of company insolvencies and the related impairment of bank portfolios, at least transitionally and, depending on the adequacy of policy responses, property market values, especially for commercial real estate.

We have also seen unprecedented peacetime surges in public debt, to fund emergency response packages of the order of $11 trillion in G20 countries alone. “Whatever-it-takes” blends of fiscal and monetary responses broke with orthodoxy, up to and including “helicopter money drops” effectively enabled by central banks. The resulting added debt burden—of potentially 30% of GDP—ultimately needs to be managed through some mix of new taxes, austerity (less palatable given its toxic deployment after the 2008 crisis), inflation and/or financial repression, along with, hopefully, years of sustained growth above interest rates. A likely
consequence of such policies and price changes will be many more years of large wealth transfers within societies and across generations, some of which are inherently regressive.

This could add to existing social fractures around the unequal sharing of crisis-enhanced burdens, by income group, occupation, region, age, gender, and ethnicity. Exposure to work-related health risks, and conversely opportunities for distance-work and distance-learning, are heavily skewed in favour of older, better paid, better educated and wealthier groups, and vice versa (Kelly and Tomlison, 2020). Precarious workers in denser housing, often with greater underlying health risks, are also more financially exposed to layoffs and less easily reached by formal safety-nets. This is especially true for migrants, who can be victims of xenophobia and find no safe routes home. Social grievances and tensions, open to political manipulation, may also spill over into overt unrest and violence, including domestic abuse.

At country level there has been a revaluation of public health and economic security, and related supply logistics. The creation of sufficient capacity buffers to withstand a broader range of unknowable threats, albeit at considerable cost in more settled times, is applauded. Unpreparedness is more likely to be punished politically. This reduced risk appetite also leads to stronger pressures for on-shoring of supply chains (or “near-shoring” or “allied-shoring”) to increase safety margins, at the expense of less optimization and slower growth, and even (as with medical supplies in the early weeks of the pandemic) aggressive export restrictions, including on allies. Some of these go-it-alone behaviours may not be easily unlearned. However, the history of earlier pandemics (e.g., SARS) also cautions that high preparedness levels are harder to sustain in the longer term, against relentless cost and budgetary pressures.

The final and perhaps most concerning development has been the cross-border paradox, in which a pandemic, the quintessential threat that knows no borders and calls for global solutions, appears, so far, to have if anything hardened nationalism and damaged multilateral collaboration. COVID-19 did not by itself trigger economic, technological and political competition between countries, egregiously the US and China, but this set of rivalries, sharpened by COVID-19, now deeply affects the development narrative, as we discuss below.

In emerging and developing economies (EMDEs), conversely, the balance between the direct impacts of the pandemic, secondary impacts via domestic policy responses such as lockdowns and border closures, and trade, tourism, remittance, and financial shocks imported from advanced countries, varies so much as to defy generalisation. Asia and Latin America are (or were as of August 2020) clearly further along the pandemic curve than Africa, where alternative models of potential incidence and fatality (Sisay et al. 2020) still show huge variations (between 100,000 and 1 million deaths just for 18 significant countries).

GDP falls are on the surface less pronounced on aggregate than in advanced economies, indeed overall 2020 EMDE GDP growth could remain fractionally (0.4%) positive (World Bank, 2020) thanks to the huge weight of China in this group, but this includes sharp slowdowns in many large, previously fast-growing economies. Most countries will record
substantial output falls, some small countries/islands could face economic disaster, and all
developing regions (World Bank, 2020a) will experience falling per capita incomes. We look
at poverty consequences in the next section.

This crisis therefore differs markedly from the 2008 global financial crisis (GFC) where the
main exposure route was through foreign trade and capital markets, from which many
EMDEs were then still partially decoupled, and several recovered quickly. Paradoxically, the
huge recent liquidity surge by G7 central banks has had at least a temporary positive spill-
over effect for the upper tier of developing economies, as investors chased yield. This
process could however go into reverse when liquidity support tapers off.

Falls in trade, including oil and commodities, tourism, foreign direct investment (FDI) and remittances are
particularly serious for some countries, in the remittances category notably Bangladesh,
Nigeria, Philippines and Mexico. The World Bank (World Bank, 2020c) estimates
remittances will fall by some 7%, or $35 billion, in 2020 alone. Estimates for foreign direct
investment and tourism revenue falls are even steeper, of about 30 to 40% respectively.
Foregone domestic revenues in EMDEs, assuming lower 2020 and 2021 GDP and constant
tax ratios, could amount to $1.5 trillion in each year, concentrated in the upper middle-
icome group, but falling steeply also in low-income countries (Dodd et al. 2020). These
numbers help put the role of development aid, which is also falling as we will discuss below,
into perspective.

Debt. The most obvious added channel of exposure, and missing response tool, for EMDEs
is their limited ability to issue debt in their own currency, and conversely, their growing
exposure to international bond markets as well as official lenders. Among the latter China is
now estimated (Reinhardt et al 2019, WB 2020) to be as large a creditor, mostly on secured
terms, as all other official lenders combined, if indeed loans from Chinese banks are counted
as official rather than commercial. These two now-prevalent factors, market and Chinese
exposure, also complicate collective action problems for any new systemic debt relief
initiative. Moreover, hitherto creditworthy countries, and even multilateral banks, must
rationally hesitate about the effect of participation on their credit ratings, hence future
market access and costs (Humphreys and Mustapha 2020, forthcoming, Lee 2020). We
discuss options for systemic debt and liquidity responses, including the G20-sponsored Debt
Service Suspension Initiative (DSSI) in section C below.

Structural factors. In the background, multiple other demographic and structural features
operate, for good and ill. Younger age profiles, especially in Africa where the median age is
under 20 (Ausubel, 2020), reduce immediate health vulnerabilities relative to other regions,
but also increase pressure on job creation and migration. The absence, or inadequacy, of
formal safety-nets means that coping with lost urban livelihoods involves more pressure on
available, increasingly fragile rural land - there has already been an estimated 77 % increase in
forest loss alerts in 2020 compared to the average in 2017-2019 (Findlay et al. 2020). This
could aggravate the livelihoods-environment-migration negative spiral (below, Section 6).

In Section 4 we investigate the medium term and what intelligent reconstruction and “global
resilience” requirements for it mean for EMDEs. In the shorter term, it seems clear that
inherent vulnerabilities to, for example, fragile health systems, not just per capita income levels, should become a major trigger for development cooperation, especially for extended humanitarian assistance. Further out, what practical growth strategies are still available for open, small developing economies in a new global “walled in” competitive environment? How might they leapfrog the cheap-labour-manufactures export strategy used with success by China in past decades but clearly not workable for most others even before COVID-19 (Rodrik, 2008), even less so with shorter supply chains and globally reduced trade? Part of the answer lies in the potential for accelerated digitalisation and green transformations as new growth drivers, both domestically and as a foundation for exports, to which we return in Section 6 below.

COVID-19 and impact on extreme poverty

Around 2010, the world was getting used to the idea of a hundred million people lifting themselves out of extreme poverty every year. In a stretch of four years spanning 2010 to 2013, the global poverty number fell by almost 400 million people. Through 2019, major anti-poverty champions, notably Bill Gates, celebrated the fact that the world had become richer, more literate, healthier, and more democratic.

Since 2013, however, the news has been less upbeat than the rhetoric. For a while, global aggregate figures on poverty reduction continued to fall, but this progress was concentrated in East and South Asia. Disaggregated data show that poverty has become entrenched in Latin America, Central Asia, the Middle East, and sub-Saharan Africa. COVID-19 has now firmly dispelled the mirage that economic growth would inevitably lift all boats.

The most immediate effect of COVID-19 has been to turn back the clock on poverty reduction. The depth of the COVID-19 recession (a fall of 5.8 percent in per capita incomes across the world in 2020), coupled with the breadth, (93 percent of all countries are likely to fall into recession in 2020) are unprecedented. Preliminary calculations suggest that global poverty could rise by 120 million people in 2020 compared to 2019, and by over 140 million compared to what forecasters at the end of 2019 had expected to happen (Kharas, 2020). Worse, what was first thought of as a temporary shock now seems likely to have a longer-lasting impact. While forecasting in the current environment is fraught with more-than-usual uncertainties, a reasonable scenario is that by the end of 2030, the global extreme poverty headcount might still be about 600 million people, i.e., 7 percent of the world’s population, a far cry from the aim of eliminating poverty by 2030.

In sub-Saharan Africa, poverty numbers are forecast to rise from 420 million people in 2015 to 490 million (34% of the population) by 2030. By then, fully 80 percent of the world’s poor could be in Africa. This concentration of poverty stems from three causes. Africa has the highest rate of population growth of any region in the world, the highest current poverty rate and its regional GDP growth is amongst the lowest in the world. For a brief period at the start of this decade there had been hope that Africa might be entering a period of sustained growth, but in a with-COVID-19 world these hopes are fading. The two largest African economies, Nigeria and South Africa, remain weighed down by policy and governance constraints; commodity prices and tourism, on which many African countries
depend, are facing long-term declines. Debt sustainability issues and a falling revenue base will hamper efforts to expand public services.

COVID-19 has changed the strategy for poverty reduction. Although the virus has infected urban residents in the first instance, economic and social vulnerabilities are greatest in rural areas. A renewed place-based focus on agricultural productivity and small-scale fisheries, along with social investments in health, education, and livelihood assistance, will need to compensate for the reduced remittances from urban areas that are likely to be seen. (See Section 6).

Even prior to COVID-19, the efforts of the development community had lagged the shifting global pattern of extreme poverty. The share of sub-Saharan Africa in total country programmable aid in 2019 was 36%, compared to its poverty share of 76%. In the immediate aftermath of COVID-19, Africa’s share of poverty will decline, because of the sharp increase in poverty in India and other countries on the sub-continent. This could reinforce the tendency of donors to continue their support in non-African countries. The issue, however, is that COVID-19 may not change the poverty trajectory of countries; donors should focus on where poverty is likely to be concentrated in the longer term, as well as on where it is today or may alas spike tomorrow. (Action Point 2, Executive Summary)

For the many donors who focus on poverty reduction as a core part of their aid mission, COVID-19 presents a challenge. It has also underscored the need to address inequities, vulnerabilities, and resilience as well as poverty itself in its various dimensions. These concepts, and their broader links to democratic values, trust in government and institutions, and pursuit of human rights, are, however, harder to measure than poverty headcount rates. From an operational perspective they fit awkwardly with value for money, effectiveness principles and impact metrics over a medium-term time frame. (Action Point 3, Executive Summary)

COVID-19 will undoubtedly shift policy attention from the current locus of poverty, in rural areas and in lagging regions within countries (such as Nigeria’s Northern States), towards the current locus of vulnerability, in cities and among informal workers in dense areas. Some of this may be an appropriate response to shore up past gains in poverty reduction. But for the international aid community, the risk is that this dilutes and defers the necessary long-term focus on reducing extreme poverty in fragile states and economically lagging regions. The trick will be to find ways of integrating these short and long-term agendas—perhaps through systems strengthening and greater local empowerment, as well as by using better-targeted mixes of more and less concessional finance.

COVID-19 and stresses on development finance

Pressures on aid
COVID-19 raises important questions on the size of aid and the contours of development finance. On the one hand, despite the increase in poverty, the global poverty gap (the hypothetical sum needed to bring all those below the absolute poverty line just above it) is
still hovering around $100 billion. In the past, this figure was compared unfavourably to the $100 billion of total country programmable aid; after all, aid has many purposes other than poverty reduction, and it would be unlikely to be 100% effective at reaching that target, so the idea of allocating all aid just to specific anti-poverty and social assistance programs was far-fetched. Today, there are mounting pressures for aid to fill other gaps: in health financing (not just for vaccines and personal protective equipment (PPE), but the wider commitments made by countries in the context of the 2005 International Health Regulations); in the management of the global commons (oceans, biodiversity); in peacekeeping and the stabilization and reconstruction of fragile states; in climate finance; and in humanitarian response and preparedness, as crises create crises.

Meanwhile, the steady progress of countries in graduating from low-income to middle-income status, thereby relieving pressures on aid, has reversed. Instead, more countries, including small islands, have been shown by COVID-19 to be highly vulnerable and are pressing their own case for aid in strong terms. Flash estimates by the IMF of the needs of emerging and developing countries to respond to COVID-19 are around $2.5 trillion. African countries have requested $100 billion in aid per year for three years to offset the impact of COVID-19.

These numbers put aid efforts in context. Aid is unlikely to fill the shortfall in sustainable development financing, and so must be complemented by other efforts. It, nevertheless, remains critical, especially for the prospects of the poorest countries and as an element of a political pact between developed and developing countries for urgent global efforts, including more ambitious climate commitments and biodiversity conservation. In the context of growing pressures on their own budgets, however, the short to medium term prospects for the volume of aid have deteriorated: the US administration routinely recommends budget cuts, the UK has announced aid cuts in 2020 and the EU’s multi-year 2021-2027 budget shows no significant improvement in real-terms compared to the past (Section 3 and Annex 2). For those countries that set aid budgets as a share of their economy, the COVID-19 induced recession offers an opportunity to cut volume but maintain the headline effort ratio, a temptation which may prove hard to resist.

In the new era of COVID-19, where large countries have already allocated $11 trillion to mitigating the impact of the crisis in their own countries, $100 billion more for global solidarity seems like a modest amount of money—just 1% of domestic COVID-19 allocations. COVID-19 has demonstrated the potential for mobilizing money if the political will exists. It has also shown that rich countries can easily expand their fiscal deficit by very large amounts and finance it at almost zero real interest rates (negative in the case of Europe). If some of this money is transferred to developing countries there is almost no additional budgetary cost, and if it is done using international financial institutions, there is almost no risk either.

The with-COVID-19 financial world is one of ample liquidity in search of safe assets. There are new ways for rich countries to make good on commitments to help those being left behind at truly little cost or risk. (Action point 1, Executive Summary)
Mobilization of private capital

Another likely legacy of COVID-19 will be a far more nuanced narrative of using aid to mobilize and catalyse private sector financing. The numbers on aid’s mobilization role have historically been quite modest, but with a pronounced upward trend: the latest DAC survey shows less than $50 billion in mobilized private money in 2018, mostly in energy and banking, double the amount registered in 2014 (OECD, 2019). Grander claims have been made about aid’s catalytic role. Donors have placed considerable emphasis on promoting sensible macroeconomic and sectoral policies in developing countries (at least in theory; in practice, aid for trade and aid for tax capacity programs have disappointed) and, in return, developing countries have seen significant inflows of foreign direct investments and sovereign access to international credit and bond markets.

COVID-19 is likely, however, to worsen the outlook for mobilizing finance directly from private sources. It has already proven difficult to attract private finance into fragile states and low-income countries; looking ahead, the scope may be narrowed further to a few sectors like energy, telecoms, digital infrastructure, banking, and agriculture.

On the demand side, too, there could be more scepticism about private capital’s role in sustainable development. Private capital flows have always been criticized for their volatility, and the experience under COVID-19 showed why. Although now stabilized, the sharp outflows of private capital in March and April of 2020 were on an unprecedented scale—the volume of outflows in those two months was the same size as the outflow over a year during the Asian financial crisis in 1998.

COVID-19 has revealed another unanticipated consequence of countries’ access to private capital markets—the need to maintain access to these markets at all costs. As of September 2020, only 43 of 73 eligible countries had applied for the G20-supported program offering a standstill on official debt service to the poorest countries. The main reason: private creditors have indicated that even if they are not involved in any discussions about debt rescheduling, the very presence of discussions between a country and its official creditors could trigger a credit rating downgrade and/or a default event on a private loan. Many countries are therefore opting to try and maintain their credit rating and access to international markets rather than taking advantage of the debt rescheduling implicit in the standstill agreement.

Private creditors have traditionally been gun-shy about taking on risk in low-income developing countries. A major effort to offset this risk through the IDA-18 private sector window showed considerable appetite for local currency financing and blended finance, but far less appetite for guarantees or infrastructure risk mitigation facilities. The Multilateral Investment Guarantee Agency (MIGA), the world’s largest stand-alone guarantor, has taken a policy stand to restrict its activities to countries with a credit rating of BB- or better, reinforcing the trend for private sector credits to be allocated towards middle income countries rather than low-income countries, and creating disincentives for aid agencies trying to orient private finance towards the hardest places.

Social impact investing, which we have applauded since our 2012 report, and has now been boosted by, for example, development impact bonds (DIB) whose returns are keyed to
better outcomes, has been hailed as a major growth industry for some time. There are some promising early cases of DIB, especially in India, in the field of privately delivered education but the volumes so far are tiny. The challenge remains how to scale them up, via integration into wider national public policy (Jack, 2020).

Taxes
The final change in the development finance narrative surrounds domestic resource mobilization. Despite research suggesting that the net tax/spend incidence of most developing countries is regressive (Lustig, 2017) (tax revenues are heavily dependent on value added or sales taxes, while expenditures get captured by political elites for items like subsidized universities or civil servant pensions), there has been a strong emphasis on tax effort as a centrepiece of development financing. At one level this is appropriate; on average, developing countries do have a tax buoyancy greater than one, and taxes pay for most sustainable public investments in all but the poorest countries. However, tax revenues are not easy to raise at the best of times. In the aftermath of the COVID-19 downturn, tax revenues in developing countries have suffered a major blow. In many countries, revenues depend heavily on one or two sectors; but as commodity prices, tourism and manufactured exports from multinational companies have collapsed, so has the domestic tax base. Prospects for rapid recovery are dim.

China
Overlaid on the rather bleak outlook for development finance from official DAC sources and from the private sector is a decline in financing from other official sources, principally China. Data on Chinese grants and lending to developing countries is notoriously problematic, but China has clearly emerged as a mid-sized bilateral donor (ranked fifth between Sweden and France in terms of total aid by some measures) as well as a large-sized lender, mostly to projects under the umbrella of its Belt and Road Initiative (BRI). Well before COVID-19, Chinese lending seems to have started to decline and COVID-19 has sharply accelerated this trend; by some reports, loans to BRI countries fell by 50% in the first half of 2020 compared to 2019, and almost totally collapsed in non-BRI countries (Wang, 2020). With more countries facing debt service difficulties, the prospects for new Chinese lending at comparable scale seem slim.

Can new development finance taps be turned on?
Where does this leave development finance? If aid, private capital flows and non-DAC assistance are all facing headwinds, where will the money come from? There are several options.

The easiest, from a technical point of view, is to support a new issuance of SDRs, coupled with a program to pool and reallocate existing, unused SDRs. There is a precedent of using SDRs for a crisis response, during the Great Financial Crisis of 2009. However, the proposal this time round does not have support from at least one major shareholder who seems to prefer to target their support at geopolitically allied countries rather than relying on multilateral rules.
In a similar vein, the multilateral banks have the ability and financial firepower to be far more ambitious. But they need shareholder approval to take more risk, and perhaps small amounts of additional capital that can be leveraged many times over. Again, political support is not yet in place.

A third option is to extend the debt service standstill initiative and even ultimately convert this into a debt relief mechanism. But the absence of participation by important players (private sector, international financial institutions, Chinese commercial loans) limits the attractiveness of this option to a few countries. Many countries that would like to take part are not eligible (small islands), while many who are eligible do not want to take part (those with plans to tap markets in future). Meanwhile, bolder proposals for debt restructuring abound (debt-for-health/SDGs/climate/nature swaps) that may be beneficial in specific cases, but that confuses debt solvency and debt service liquidity issues. The two are conceptually and operationally distinct (see Section 5).

Longer-term solutions are possible. An international agreement on taxation of multinational corporations could ultimately yield $200 billion per year for Africa (OECD/G20 Inclusive Framework on BEPS, 2019). A determined push to tackle illicit financial flows could also yield significant amounts. Removal of explicit and implicit fossil fuel subsidies globally could yield over $5 trillion (Coady et al, 2019), part of which could be distributed to developing countries through mechanisms like the proposed Climate Damages Tax (Richards, 2018). All these are sound long-term proposals but have been resisted because of non-development related vested interests. For example, transparency on beneficial ownership, removal of the defence of ignorance as to the source of illicit flows, and minimum taxes paid in countries of operation have not advanced because of obstacles in rich countries.

Development finance in the post-COVID-19 world must take the idea of system coherence to heart. Without progress on these structural issues in the global economy, the burden of financing will fall on aid, and aid will be unable to meet expectations or needs. (Action Point 5, Executive Summary)

3. The intelligent reconstruction phase, 2022-2030:
What is “aid” really for in future, and what makes it “effective”? A new narrative

Shifting motives
As the world approaches intelligent reconstruction from 2022 onward, it must factor in a radically changing mix of international assistance motives in a newly nation-competitive global environment.

COVID-19 has melded the traditional solidarity motive for aid, and more recently “naked” direct commercial and foreign policy interests, with a reinforced common-survival, or global-commons one. (Executive Summary, Action Point 6) The latter motivation is not limited to the threat posed by COVID-19 itself. Were it to be so, deployment of a vaccine or treatment which plausibly shields aid provider countries would fatally undermine it. This will not be the
last pandemic, let alone existential global threat, egregiously including global warming. The “pandemic era” is here to stay even if COVID is not.

This combination of solidarity and enlightened self-interest, in contrast to increasingly outspoken direct national interest, forms the basis for what Gulrajani and Calleja term “principled national interest”, for which there is evidence of a significant recent rise, as measured by a battery of proxy indicators (Gulrajani and Calleja, 2019).

Oversimplifying, (Figure 1 below, adapted from Kharas and Rogerson, 2017, Figure 4) the aid industry’s centre of gravity has first migrated downward and right-ish from its earlier position in the top Venn circle, and is now shifting leftward. Obviously, different providers will find themselves at different points of such trajectories. We invite readers to place their best-known development agency today in one of the 7 segments, or better still, any of the six, excluding the too-facile bullseye. Moving beneath this surface, we can also detect major internal shifts of balance or emphasis, for example as between security and health priorities within the global commons rubric.

![Venn Diagram](image)

**Figure 1. Motivations for aid**

There are also growing overlaps between these broadly distinctive motives, visually making the Venn circles increasingly concentric. Annex 1 reviews recent major developments in the political economy of development assistance in 3 major provider countries and regions, the US, the EU, and the UK (we alluded to some changing features of Chinese cooperation earlier). In both the US and the UK, current administrations have proposed retrenchment of development aid (repeatedly reversed by the legislature, in the US case). The EU’s longer-horizon pooled aid budgets are a bulwark of stability in this fragile time, though its recent
multi-year financial settlement has also been criticised as not progressive enough, in terms of external action in general and support to Africa in particular.

More substantially, for present purposes, both major donor countries have moved, in the wake of similarly inspired shifts by Canada, Australia and others, toward closer integration of foreign and development policies and their institutional oversight. This was typified by UK Prime Minister Johnson’s statement, in announcing the recent merger of the development and foreign policy departments, that “one cardinal lesson of the pandemic is that distinctions between diplomacy and overseas development are artificial and outdated” (statement to the House of Commons, 16 June 2020). He illustrated the point by comparing UK aid to selected African countries on the one hand and to Ukraine and the Western Balkans on the other, suggesting it was excessively skewed in favour of the former. We examine these comparisons in Section 4, with counter-intuitive results.

The case of the EU also exemplifies how these 3 broad aims can also be pursued simultaneously, by deploying not just development finance but also a wider array of policies, notably in the trade and climate change arenas, where national policy responsibilities are pooled under the European Commission’s lead.

**Implications for development cooperation**

A frank recognition of these mixed and changing motives for cooperation necessarily shapes what we now mean by “development effectiveness”. We showed for example in our 2017 report how addressing global and regional threats, such as climate change and unsustainable migration, needed both the active engagement of middle-income countries and different cross-country aid allocation principles, moving from “graduation” to “gradation”.

This framework also has clear messages for global and regional development cooperation. The top and left-hand circles are areas where all donors—indeed all countries—can legitimately collaborate, and it would be useful to define their boundaries more sharply to encourage them. For example, China has been presenting itself as a staunch supporter of multilateralism, so its government might be prepared to work with others, the EU for example, on global programs for food, fisheries, and water management, as well as on climate, biodiversity, and health. (*Executive Summary Action Point 15*, see also section 6 below)

The challenge for development cooperation really comes in the right-hand circle, where national interests, which are not even fully consistent within nations or blocs, let alone across them, may well collide, revealing or aggravating fractures which cannot be repaired by well-intentioned memes such as “harmonization”. In this area, a pragmatic approach would be to agree on the SDGs as the overarching goals for development cooperation, while leaving the means of implementation to each country partnership pairing. In this framing, pragmatic coordination, meaning the exchange of information whose absence could inadvertently damage others’ efforts (such as debt service obligations) is useful, but collaboration, meaning joint programming or pooled financing, is not likely to be successful.
In an increasingly nation-competitive world, balancing these multiple motives without hypocrisy or naivety will become much harder. For example, implicitly subsidizing the provider country’s national contractors and investors through e.g., formally or de facto tied procurement, blended parastatal finance and generous loss guarantees, shifts and blurs the incidence of expected costs and benefits. It makes the financial, let alone development, “additionality” of both the operation and the public stake in it hard to gauge (Carter et al, 2018). Capturing strategic footholds in foreign commodity flows, or utility and infrastructure markets, is also, however, a valid public policy outcome, though not one yet discussed frankly by many development agencies, let alone given any explicit weight in aid allocation decisions.

**Intelligent reconstruction**

Our approach nonetheless sees the intelligent-reconstruction window, 2022-2030, as primarily an opportunity to turbo-charge the SDGs, using at least a majority of available concessional development finance, despite cross-cutting pressures of the above kinds which must be accommodated. Every country, including all EMDEs, could therefore choose to prioritise resilience-driven reconstruction investments, though not all will have the requisite ability, other than raw funding, to carry them through to completion, as we discuss below.

By resilience, we mean a strong programmatic emphasis on socially inclusive and environmentally sustainable investments underpinned by good governance, set in a robust context of supportive policies (e.g., sustainable carbon pricing and broadly redistributive tax and benefit profiles). *(Action Point 3, Executive Summary).*

When we started defining these criteria for pandemic-era intelligent/resilient reconstruction at national level we did not have in mind “ESG” as such, the emerging private-finance standard (see, e.g., CFA Institute, 2020) for investing into robust environmental, social and governance companies and instruments. It is not a perfect analogy: retail stock market investors can only choose to buy the stock or not, while aid “investors” also choose which part of the company to invest in and how. It might nonetheless be helpful for readers to think of our global resilience framework, explained below, as something like a public-sector equivalent of ESG.

We would include in this basket traditional public investments such as large-scale transport, energy and water infrastructure, providing these are properly and transparently scrutinised, based on long-term (shadow) pricing and impact assumptions, so they do not rapidly become tomorrow’s “stranded assets”. Many aid programmes planned pre-2020 will however need substantial re-configuring for adequate resilience in the pandemic era or may simply fall by the wayside. There is still a little time to “think it through better” in the next year or so, whilst most of the development community necessarily focuses on humanitarian action and macro-stabilisation in the short term.

We would also include investments in health and education, noting that these have historically been squeezed at times of fiscal stress in developing countries. Other public
investments, like digitization and rural development, also can be drivers of the new long-term growth structures that are desired.

*The key point is that donors must support investments for long-term sustainable and inclusive growth. These cannot be sacrificed, even as they rush to cover the immediate humanitarian costs of the pandemic.* *(Executive Summary, Action Point 7)*

What also emerges from our analysis below is that the effectiveness of aid in the COVID-19 era depends more on what kinds of programmes are supported within a country and less on the cross-country pattern of allocation of resources than many aid agencies hitherto believed. This follows from the fact that the multiple dimensions of resilience do not neatly overlap within a country (see Section 4), and that in most developing countries, including middle-income countries, there are legitimate ways of making high impact contributions to the SDGs both within and beyond their borders. If the overall scale of resource transfers is not lifted, however, no cross-country allocation mechanism can compensate for the negative spill-overs that will occur.

In this resilient reconstruction window, every country - regardless of income - can potentially be at the same time a “transmitter” and “user” of valuable financial and intellectual contributions, particularly the latter (as many African states, for example, pooled knowledge acquired in recent epidemics applicable to interventions against COVID-19, while others have shared experience with cash transfers, national employment guarantee schemes and small and medium enterprise support). *(Executive Summary, Action Point 4)*

Obviously, capacity for and intensity of engagement will vary widely at both transmitter and user ends, especially on the finance side. But as a by-product of the crisis, the long-obsolete notion of a division between “donor” and “recipient” countries, or opaque equivalent euphemisms such as “development partner” and “partner country,” may finally fade away into obscurity. *(This does not necessarily mean that “North-South” intergovernmental polarisation at the UN and related memes will immediately vanish).*

The next section sets up a series of criteria and indicators to assess both country-level needs and country readiness or absorption capacity, in a composite framework we call the Global Resilience Framework.

### 4. Core development effectiveness metrics: The Global Resilience Framework

*(For a full description of our methods, primary sources, as well as detailed tables of country classifications, see Annex 2)*

The following section explores countries’ different patterns of countries’ SDG-related needs and their readiness for intelligent reconstruction.

We combine a needs-gap-based approach with three complementary blocks of absorptive capacity-based indicators, to form a composite framework for aid allocation, styled a Global...
Resilience Framework (GRF). The three dimensions of absorptive capacity are (i) sustainable environmental policies; (ii) social inclusion policies and finance (i.e., to fulfil the promise of “leave no one behind”); and (iii) good governance.

**Projecting country SDG needs gaps in 2025**

Following Kharas and McArthur (2019), we can broadly specify the spending needs by 2025 that a big SDG-focused push entails for each developing country. Estimates for minimum SDG needs are built up from sectoral studies and include 10 key sectors.

These key SDG-related categories are:

- social protection;
- agriculture and rural development
- health;
- education;
- water and sanitation
- energy;
- transportation;
- flood protection;
- biodiversity; and
- justice.

The next step is to compare SDG-related needs to projected spending on the SDGs. Likewise, several sources are used and aggregated at the country-level, a full list of which are included in Annex 2. GDP in 2025 is based on IMF projections. Finally, the total “SDG needs gap” for each country is derived as the difference between total SDG spending needs and projected spending, as a percentage of a country’s projected GDP in 2025.

**Defining criteria for absorptive capacity**

We define three blocks of indicators of absorptive capacity and resilience in the pandemic era, as a country-specific measure of the likelihood of major public “intelligent reconstruction” investments being sustainable, inclusive, and effective. These correspond to the three core resilience dimensions introduced earlier of 1) environmental sustainability, 2) social inclusion, and 3) governance. Absorptive Capacity is the mean of these three blocks of indicators, with each given equal weight.

**Environmental sustainability** is proxied by the 2020 Environmental Performance Index (EPI) published by Yale University. It looks broadly at 32 sub-indicators in areas such as biome and habitat protection, biodiversity policies, progress on air, soil, and water pollution, and climate change.

The second block relates to social inclusion, both in terms of laws as well as spending. It is heavily inspired by the three policy indicators included in the Leave No One Behind Index.
(Chattopadhyay and Manea, 2019), but adds a further three indicators on socially inclusive finance and outcomes. The three social inclusion policy indicators, taken from the LNOB Index, ask whether countries have key regulations in place that address the needs of those at risk of being left behind – namely, women’s access to land, anti-discrimination labour-laws and universal access to health. The further three indicators on socially inclusive finance look at: the effectiveness of social assistance in reaching the poorest quintile, the share of a country’s GDP being spent on social assistance programmes (World Bank ASPIRE Indicators, 2020), and lastly, as a basic inequality outcome benchmark, the share of income obtained by the poorest quintile (Poverty and Equity Database, World Bank, 2020).

The third block of Absorptive Capacity relates to Governance. Deep structural change of the kind now needed cannot occur without disadvantaged groups getting adequate voice and recognition, to which authorities are sufficiently responsive, nor without other basic tenets of good governance, such as enforcing the rule of law and the robustness of anti-corruption policies. As a proxy for the quality of governance, we use the World Bank’s World Governance Index, WGI (Kraay et al, 2010), which includes 6 indicators: voice and accountability, government effectiveness, rule of law, control of corruption, political stability and absence of violence, and regulatory quality.

A Global Resilience Framework: Results

We can now plot countries according to their Absorptive Capacity against their SDG Needs Gaps.2

The general pattern that emerges (Figure 2) may surprise some readers more used to classic aid-allocation formulas. These are typically built around per capita income, as a crude proxy for need, and a battery of policy and institutional indicators related to the quality of economic management, as a proxy for absorption capacity, without direct reference to social inclusion or environmental sustainability, or wider governance considerations.

We highlight in the above figure three broadly representative country quadrants. The first (bottom right, red quadrant, which we label “High Need”) shows structurally high need, but also very low absorptive capacity. The second, (top two quadrants, blue, labelled High Capacity), experience various levels of needs, but also exhibit much higher absorptive capacity. The third, and least intuitive, (bottom left quadrant, yellow, labelled High Vulnerability) typically shows lower projected needs, but also lower capacity, putting it at risk of not meeting the SDG as projected in the base case.

2 Figures 2 and 3 both rely on the Needs Gap and Absorptive Capacity axes being reported on a scale of 0-100% (based on a distance-to-frontier method, detailed in Annex 2). Supplementary and alternative plots based on raw scores on Needs and Capacity are available in the annex as well under Figure 16 and 17.
Figure 2. Global Resilience Framework of countries by needs gap and absorptive capacity

Surprisingly, several countries within this quadrant continue to receive high levels of ODA per capita, as shown in Figure 3 below. More predictably, some of those in the highest need categories receive proportionately less aid, granted that they also, save for Malawi, score poorly on absorptive capacity.
Figure 3. Global Resilience Framework, countries by ODA per capita

We can unpack this picture further.\(^3\)

Below (figure 4) are three illustrative spider-grams (“radar charts”) charting these four elements for the three main groups of representative countries, taking one from each group for each radar chart. Those from the two high-capacity quadrants are again in blue, the high vulnerability quadrant in yellow, and the high need quadrant in red.\(^4\)

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\(^3\) Table 2 in Annex 2 provides more details of the classification (low to high) of each country’s SDG needs gaps relative to projected GDP size and for the three components of the absorptive capacity dimension.

\(^4\) Only one country exists in, albeit at the very edge of, the high capacity, high need quadrant -Timor Leste-highlighting the difficult trade-offs donor agencies will face.
Figure 4. Radar charts for selected representative countries

- Namibia
- Burundi
- Angola

Need: SDG Gap relative to GDP

Social Inclusion

Environmental Sustainability

Governance

- Ukraine
- Democratic Republic of the Congo
- Laos

Need: SDG Gap relative to GDP

Social Inclusion

Environmental Sustainability

Governance
By ironic coincidence, this comparison is favourable to Ukraine, but uses entirely SDG-related needs and resilience arguments, not as we believe UK Prime Minister Johnson intended in his recent announcement (Section 3 above), mainly national security ones.

Johnson’s inference that it is wrong to prioritise aid so heavily for countries such as Tanzania and Zambia (yellow) at the expense of the likes of Ukraine and the Western Balkans (blue) can also be assessed through the lens of our Global Resilience Framework (see Figure 5). It is a striking illustration of how aid providers’ national interests, directly and via global commons threats, can and do at times overlap with SDG-related opportunities - depending on how much one values the proportional SDG needs gap compared to all else. Only in that dimension does Zambia in fact come out clearly ahead of Ukraine, and Tanzania (slightly) ahead of Bosnia. (Notice also that governance scores are clustered much closer across the obvious income blue-yellow income divide than are social inclusion and environmental performance).
Similarly, the Figure 4 spider grams show that the (yellow) high-vulnerability outliers are usually well inside all four of their (blue) higher-capacity comparators’ frontiers. And the red category (high need), though on average also low-capacity, can sometimes show better relative capacity performance in individual dimensions as well (Burundi over Angola for social inclusion, Madagascar over Djibouti for governance, for example).

Figure 5. An illustration of trade-offs facing development agencies in aid allocation

Factoring in such nuances is in our view more important than trying to force all dimensions into a single neat composite index, which we must admit was part of our original plan but we later found to be less meaningful, if relevant at all. We are therefore not presenting any such ordinal ranking here (Annex 2 supplies links to the full set of country scores, raw and normalised, which would allow readers to set their own weights and readily derive a composite index and ranking, if they so wish).

Inter-relationships among the four components and with current aid levels

For this framework to be a useful tool for decision making, the four indicator blocks should not be closely correlated among themselves. We checked for this, as summarised in the correlation matrix below (Figure 6). Annex 2 supplies more information as well as sensitivity tests using alternative formulations of the indicators (correcting the environmental scores for per capita income, for example). We also checked for correlations with aid (ODA) levels, using an adjusted version of the needs gap, net of aid flows.
The first and welcome result is that there are only two, both weak and positive (0.5 and 0.51) significant correlations involved across our four basic GRF building blocks. The more intuitive one is between social inclusion (which includes legal protections against discrimination as well as favourable equity outcomes) and good governance writ large. The other one is between social inclusion and environmental sustainability. This suggests that better environmental stewardship is more likely to occur in more equal societies, and/or that countries with better environmental records tend also to do better in terms of leaving no one behind - but again, these are not strong associations, let alone proven causal relationships.

The second and larger surprise is that none of the four components, including the proportional SDG needs gap, have any significant association with recent per capita ODA allocations (though we excluded micro-states and data-poor fragile countries from the analysis). Only governance has a non-negligible positive relationship with ODA, and even that is quite small.

At the very least, this pattern argues for a pause for reflection on what has been happening recently to aid priorities. Our methods may be partly at fault, as any large array of indicators inevitably involves approximations and short cuts, but we lay the framework out transparently and invite suggestions for improvement.

ODA per capita levels, we know, also do not tell the full story. It may be more informative to relate, instead, country programmable aid to the number of people living in extreme poverty (after Manuel et al. 2018). We find this does not by itself radically change this picture, as per the alternative matrix in Figure 18 in Annex 2. Excluding populous middle-income India and China, egregiously low-aided in per capita terms, likewise does not help resolve the conundrum, as by our metrics they also score as relatively lower-need and lower-capacity.

We hope this disconnect does not mean that social inclusion, environmental sustainability, good governance and the relative size of unfunded SDG needs are being systematically ignored in aid agencies’ allocation decisions. However, if they are indeed neglected to a major extent, this report provides agencies with a wake-up call to reverse that trend.
Implications for “intelligent reconstruction” for the SDGs

The above patterns of country-level needs and resilience ratings strongly suggest that there are some combinations of low need, and crucially, low absorptive capacity, below which it will be neither desirable nor feasible to supply major external support for intelligent reconstruction investments. This is, of course, abstracting from “raw” national interest considerations, as discussed above—but if those trump all other priorities, we can now at least quantitatively attach an SDG “cost” to them. *But the bigger point is that these conditions vary within countries as much as if not more than across them. They can provide key pointers to where structural progress, some of which may be accelerated by external assistance, is most needed, rather than any hard-and-fast threshold for country aid allocations.*

Indeed, we have no scientific basis for setting minimum thresholds for one or all the dimensions of absorptive capacity. Going back to the scatter-plot of Figure 2, we can at least question seriously the wisdom of giving major environmentally and socially sustainable reconstruction support to the bottom half of the high fragility (yellow) quadrant—some of which are very substantial aid recipients now (see in Figure 3, the examples of Djibouti, the Maldives, or Eswatini). A plausible exception to this restriction is when a low-capacity country embarks on a long-term program of sustained policy reform in some important area—but then the period for real reform must be considered and a multi-year program of support designed to go with it. Also included in this outer limit are a handful of fragile
countries, mostly still in active conflict, like Libya, Yemen, Syria, South Sudan, Venezuela, and Somalia. These countries lack data on so many of our absorptive capacity indicators, that no meaningful new empirical assessment of them is possible. They would probably also be placed on the far bottom-right-hand corner, very low capacity, precluding any intelligent reconstruction strategy for the time being. But we cannot be sure.

The needs-gap dimension presents a more nuanced picture. First, its distribution is more skewed. Several countries have an estimated (2025) SDG needs gaps close to or higher than their entire GDP, which means that even with heroic assumptions of future tax efforts in the 20-25% range or higher, their economies would have to grow four- or five-fold to close the gap entirely from domestic revenue. They are likely to remain dependent on external support, in some form, for at least one generation. Second, there are some cases where the proportional gap is very low, not because SDG needs are not large in absolute terms, nor yet because the country is able generate vast domestic resources, but because its governments have long prioritised public spending for the SDGs—Ethiopia being a case in point. Many might view this as a moral justification for more, rather than less, further assistance.

We suggest that even in extreme High-Need (red) quadrant cases, where countries are clearly unable to show minimum readiness for resilient reconstruction, the default choice should be extended medium-term access to a “basic humanitarian tier” of assistance. This support should be grounded primarily based on vulnerability criteria, not structural SDG need- and capacity-based ones (a case in point would be some small island economies, particularly those most vulnerable to climate change). Obviously, this extended humanitarianism amounts, more explicitly than aid agencies perhaps like to acknowledge publicly, to a protracted “holding operation”, preserving minimum social outcomes while hoping that the necessary fundamental development underpinnings will eventually appear through processes largely independent of external assistance. But that is itself a valid goal for aid (see for example, Barder, 2009). (Executive Summary, Action Point 8)

Conversely, for those who are unambiguously ready in all 3 resilience dimensions for intelligent reconstruction at scale (mainly in the blue high-capacity zone in Figure 2), there should instead be an elastic “upper tier” of aid, shaped of course also by providers’ national interests and the country’s ability to leverage other sources of finance (see section 5).

A final requirement should apply. There should be graduated “global commons” responsibilities for all countries, giving added access where relevant, over and above what their GRF qualifies them for, to some country-based, but ring-fenced, GPG-related aid (for hosting forced migrants or major in-country climate mitigation investments which may not

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5 Our charts in figures 2 and 3 show the needs gaps based on a distance-to-frontier method, not as a raw score (which can be seen in supplementary figures 17 and 18 in Annex). As a useful heuristic, it can be assumed that countries at or below 15% on the Needs Gap axis have sufficient SDG spending. Countries at 100% of the Needs Gap scale on the distance-to-frontier method will be at the 95th percentile or above on the needs gap distribution, and will have actual needs gaps ranging from 61% to 128% of their GDP in 2025. For a fuller picture of country needs gaps as a % of their projected 2025 GDP, a methodological discussion on handling outliers, and a description of the distance-to frontier method, see Annex 2.
be justified on country economic benefits alone), along the lines we also recommended in the 2017 report.

Later in this paper, we also now propose that such global-commons assistance be scored under a separate, upper “tier” of development finance, subject to a distinct but complementary target as a share of GNI (see also Kenny, 2020, forthcoming; and Ritchie and Rogerson, 2020, forthcoming).

5. Between a rock and a hard place: Navigating between debt distress and development potential

When development assistance was presented as purely altruistic, it made sense to develop norms and standards for development effectiveness in a technical and apolitical fashion, along with rules for burden sharing as a percent of gross national income—hence the famous 0.7% target adopted by many countries. The two aspects of knowledge sharing on development effectiveness and financial burden sharing form the centrepiece of the collective work of the Development Assistance Committee of the OECD. But as development assistance shifts to “principled national interest” or indeed to other forms of self-interest, new norms and standards are needed.

Aid and beyond

As has been true for some time, few countries have achieved the 0.7% target in practice (5 currently) and some major donors have resisted formal commitment to it altogether. The consensus, if ever there was one, is now breaking down logically as well; if there are measurable co-benefits to the protection of the global commons or foreign policy influence and trade, the net cost to a donor is no longer reflected in the financial burden of providing resources. Several donors have even been making net financial profits out of aid loans, even when on concessional terms (for a detailed critique of ODA targets and definitions, especially on debt and GPGs, see Ritchie and Rogerson, 2020, forthcoming).

It is also worth remembering that the calculations that led to 0.7%, crude as they were, never included the management of the global commons. Higher ambitions are now needed.

Similarly, the narrative on aid effectiveness has been turned upside down in the interdependent world of the SDGs and the response to COVID-19. This new world places a premium on expanding the fiscal space for developing countries, but as we showed above, there are few if any countries in the sweet-spot for effective allocation, namely proportionately high needs, sound environmental policies, social inclusion, and governance.

Yet every country must be encouraged, as far as possible, to engage in intelligent reconstruction towards the SDGs. How this happens, as COVID-19 retreats in the face of vaccines and improved treatment but leaves as a legacy higher debts and lower public revenues, is a core issue. In the with-COVID-19 world, as has already been true since 2014 when the OECD determined it needed to modernize the measure of development assistance, the impact of ODA will be assessed as much by its ability to mobilize and catalyse
The potential for using non-concessional finance to support a big investment and spending push towards the SDGs grows out of the changing global context. With clear SDG targets set for 2030, the need for financing a big push in public spending has been shown to be far more than aid’s potential, and this has only been worsened by the setbacks to global growth linked to COVID-19 (UN, 2019). At the same time, very low real interest rates in major capital markets (13 bp on US 1-year T-bills; -49 bp for Euros; 10 bp for Japanese Yen in nominal terms, and very flat yield curves going out 10 years) make spending based on borrowed funds affordable.

The key question becomes the effectiveness of public spending, and the burden sharing between different sources of finance—concessional and non-concessional on the external side and tax revenues and domestic borrowing, including from national development banks, on the internal side. From this perspective, looking at the varied dimensions of country absorptive capacity can guide donor programming within a country. The large money flows should go to areas of relative strength, where impact is likely to be largest. The large technical capacity and knowledge sharing efforts should go to areas of relative weakness.

With real interest rates even on non-concessional funds being relatively low, and fiscal multipliers relatively high in the with-COVID-19 world, there is a strong rationale for a big push on public spending to transform economies, create sustainable and inclusive growth, and, in so doing, improve creditworthiness. This has long been the core rationale behind MDB lending and even the Chinese model of accelerated financing for infrastructure, economic zones, and natural resource extraction. It is more pertinent today than ever.

The drawback to this argument is the growing concern that this path risks the recurrence of debt servicing problems and the long setbacks to development that this may entail. Many low-income countries entered 2020 with an IMF classification of being in debt distress or of high risk of falling into distress, and it is almost certain that far more countries will be in danger of debt distress in 2021 and 2022. In fact, the historical pattern is for countries in distress to borrow ever larger amounts, at increasingly high rates, to grow out of the crisis, or at least postpone the inevitable crash for a successor government to deal with (Bulow et al. 2020). Lenders will accommodate this if they believe they will have an exit option once default is declared—and private lenders have successfully used official support for debt-risk countries as an avenue for getting repaid with limited loss.

But in truth, the trade-offs are less stark than might be believed. Most countries have both the demonstrated capacity to undertake socially inclusive and sustainable investments, and have a demonstrable need to augment public spending if they are to make significant progress towards the SDGs. This is true for IDA-only countries (those thought to be too poor to afford non-concessional debt), as well as for developing countries as a whole. The risks of illiquidity at present are larger than the risks of insolvency, but for providers of long-term development support it is the latter risk that is more relevant for deciding on the level of appropriate support.
Twin risks of debt distress and development distress

Figure 7 shows a crude classification of lower-income countries in terms of development distress and debt distress. The columns show the bond market (Trading Economics - TE scores) and/or IMF classifications for countries’ creditworthiness, while the rows show their positioning on the quadrants of the global resilience framework constructed in Section 4 above. The Table shows many countries with moderate to low risk of debt distress, along with medium to high resilience framework scores. For these countries, there appears to be significant room for expansion. The question is why existing mechanisms for resource transfer, both aid as well as other sources of mobilized, catalysed or autonomous financing, are not working well for them?

The Table also shows the limitations of the current fixation on debt service standstills. Fewer than half of IDA countries have high or distress levels of external debt, and of these several, such as Senegal, have expressed a reluctance to take part in the debt standstill scheme for fear of losing access to private capital markets.

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6 Figure 8 visually identifies the IMF debt sustainability assessments, which apply to low-income countries.
An alternative view highlights the limited correlation between the socially inclusive and sustainable policies that make up two-thirds of our framework of country capacity to implement sound and transformative public spending, and formal creditworthiness ratings such as in the scatter plot in Figure 8, below. In fact, the relationship between the two blocks of indicators is itself very weak (Annex 2).

At least two inferences can be drawn. First, arguments about spending and creditworthiness cannot be generalized. They are highly context specific. There are poor countries like Malawi that could spend effectively, but that do not have the creditworthiness to raise money. There are rich countries like China and Kazakhstan that are creditworthy but that do not...
necessarily have in place environmental and social inclusion policies that are thought to generate sustainability (China in particular scoring low on environmental and voice issues). There are several countries in Latin America, notably Costa Rica and Jamaica and to a lesser degree Brazil, that have sound structures but lack the creditworthiness to attract private capital at affordable rates. Other countries in Latin America like Colombia could also expand spending and have the market access to allow them to do so at will. Ukraine is a clear outlier as a country that has an ability to spend in a sustainable and socially inclusive way but lacks the creditworthiness to raise the resources to do so. There is a legitimate case for development cooperation resources to help overcome this distortion.

**Figure 8. Country creditworthiness by absorptive capacity**

![Graph showing creditworthiness by absorptive capacity](image-url)
The second inference is that interventions to solve debt distress will not necessarily free up resources that will be used in a socially optimal way. Many countries in the lower left-hand quadrant of the chart above (those with poor creditworthiness and low absorptive capacity scores) would benefit from debt relief in the sense that they would have additional fiscal space, but have not yet shown the willingness or capacity to put in place sound structures to ensure that public spending benefits society as a whole. And it would be disingenuous to try to tie debt relief with policy reform. The time scale for reform far exceeds the time scale needed for effective debt relief.

In this world, most developing countries need assistance in moving into the upper right-hand quadrant of the chart. It is reasonable to imagine that countries that have reached investment grade (a score of 55 or above in the scale used, see Annex 2 for a further description of the methodology on credit scores), may no longer need official support to encourage sustainable development but, as the chart shows, fewer than a dozen developing countries are in this category.

**Balancing risks of inaction and risks of bad action by governments**

Development assistance providers must strive to ensure that progress is made to reduce each of the two distress factors faced by developing countries—the development distress that comes about from not accessing non-concessional financing and foregoing large public spending, and the debt distress that could accompany large-scale public investment if spending turns out to be unproductive.

Both types of distress will rise sharply in the with-COVID-19 world. If there were larger amounts of concessional assistance, the two could be addressed simultaneously. But this prospect seems dim. Ironically, under the new DAC accounting rules for ODA, ODA will rise substantially because of the simple fact that repayments on older loans no longer score as negative ODA even though cash flows may not change, because the new debt relief rules imply some double counting, and finally because relief on commercial loans never originally eligible for ODA will be included (Ritchie and Rogerson, 2020, forthcoming; Pipa, 2019). Policymakers in donor countries must not be taken in by the oddities of the measurement systems for aid that have been devised.

Nevertheless, ODA’s contribution to managing the twin urgencies of getting economies functioning again and kick-starting the transformation of economic structures that is required will be critical in low income and middle-income countries, but only if it is complemented by greater non-concessional flows. Traditionally, Western official donors have taken a conservative view on non-concessional lending to help countries grow out of debt distress, but have seen the resulting space eroded by private lenders, including from their own countries, and non-DAC official lenders. Over time, even if the analytics point to staying on the side-lines, domestic politics have pressured donors to intervene when a messy default looms—Greece being the largest most recent example. In a similar vein, countries like Kenya and Ghana, shunned by multilateral non-concessional lenders as being high risk, turned to private markets, are now classified as being in high risk of default, and so are regaining access to official financing, but only after damage has been done.
In the post-COVID-19 world, the institutional arrangements, and indeed mindsets, about how to tackle debt distress should change from a simple focus on hard-to-enforce debt limits towards a combination of debt management and sustainable development growth. (Action point 9, Executive Summary)

This is where the role of multilateral lenders should be enhanced. They can worry more about solvency risk than liquidity risk as they can manage their own liabilities. They should not display the same degree of aversion to lending into “debt overhang” situations as private lenders, especially if they can maintain their preferred creditor treatment. In a world awash in liquidity and with good opportunities for sustainable development in many countries, the economically efficient solution is to push forward where capacity is high, regardless of the level of indebtedness inherited from the crisis and before.

Unfortunately, current institutional arrangements among donors reinforce a tendency towards austerity-cum-development-distress. For example, a condition for participation in the G20 debt service suspension initiative is an undertaking by countries not toborrow on non-concessional terms. This pre-judges the trade-off between debt distress and development distress, with the possibility that both will worsen.

There will of course be circumstances when more international support does not lead to accelerated development—the example of heavily-distorted Myanmar pre-election spending comes to mind—but those situations are ones where all financing, except direct humanitarian transfers to poor households, should be halted.

The focus should now shift to identifying transformative investment opportunities, and to channelling long-term affordable capital to finance these.

As an example of this proposition, consider the case of the effort to promote a complete digital transformation for Africa. In the post-COVID-19 world, digitalization will be a popular and obvious theme. Not only can it create platforms for growth and jobs, but it can be the basis for transforming government systems, including for social assistance, energy systems (smart grids for Africa that balance on-grid and off-grid solutions to optimize costs), food systems, and the like. The costs appear modest—perhaps $8 billion per year over ten years, of which only half would be public money (Ghanem, 2020; Calderon et al. 2019). These kinds of long time-frame, lumpy investments with large spill-over effects do not lend themselves to standard cost-benefit calculus—in technical terms, the cost-benefit calculations can be usefully complemented by computable general equilibrium models, but the empirical basis for constructing these does not exist in many developing countries (Vickermann, 2007).

The point being made is simply that if a country can indeed provide internet access to its citizens, its current debt situation should not matter. In fact, all creditors benefit from investments in sustainable development. Usually, the problem is that new private creditors hold back due to “debt overhang” issues. But official creditors, especially multilateral institutions, with preferred creditor treatment, have a responsibility to ensure that growth-enhancing investment opportunities are fully exploited.
System change to improve creditworthiness

Instead of a narrow focus on controlling non-concessional resource inflows as an instrument to reduce debt distress, development cooperation providers should concentrate on system change, both internationally and domestically. Internationally, more needs to be done to enhance the institutional architecture. Enhanced use of collective action clauses has helped but faces limits with some types of collateralized debt. Anti-vulture fund legislation could be pursued. Debt transparency and comprehensive reporting is needed (IMF, October 2020).

Beyond immediate debt management measures, other international rules could be reformed to strengthen the system. Comparatively little work has been done at the global level to align international taxation with the goals of fair and sustainable development. This is starting to change, spearheaded by OECD work on base erosion and profit shifting, sharing of tax information, and new formulae for taxation of multinational companies. There is also a more active agenda on tackling illicit financial flows through disclosure of beneficial ownership and strengthening of regulations that allow “facilitators” in advanced countries to hide behind a legal “ignorance” defence. The leaks of data from the Financial Crimes Enforcement Network pointing to widespread misbehaviour of banks in Western countries shows how pervasive corrupt money practices still are (Collin, 2020). These examples suggest much can be done to improve creditworthiness at the country level by tackling systemic international issues that undermine financial prudence. A coherent set of global policies should accompany development assistance in a far more structured way. (Action Point 5, Executive Summary)

Domestically, comparatively little ODA has been given to strengthening tax capacity. A sound tax structure is the foundation on which public borrowing is based. But tax reform is a medium-term proposition. It must be complementary to, rather than a substitute for, ODA in the short to medium term. Tax increases, especially if they need changes in structure to enhance progressivity, may not generate larger resources in the short term. They should be actively pursued, but with an eye to structural efficiency rather than short-term revenue raising. If this foundation is weak, borrowing and indebtedness will inevitably be restricted. Therefore, conditionality within large macro-economic support packages needs to avoid tight benchmarking of revenue targets, while encouraging longer-term institutional and policy reform.

Donors can also do more to use their financial instruments to manage risk better. The technical solutions are well known—partial credit and first-loss guarantees, foreign exchange and political risk guarantees and the like. Yet despite significant efforts stretching back to 2012, donors have been unable to agree on how to measure the implicit subsidy associated with guarantees. Therefore, guarantees are still not counted as part of ODA unless payments must be made—rewarding failure rather than success—and their use is small compared to the potential.

To recap: The with-COVID-19 world will require economic transformation on a scale that cannot be handled by current mechanisms of development cooperation (Action Point 1, Executive Summary). The new modalities, of moving towards using aid to mobilize and
catalyse private capital, are moving in the right direction, but are too slow to be fit-for-purpose. The opportunity presented by ample low-interest non-concessional finance must be seized, more so if efficient channels, like MDBs, are used. Old mindsets that place avoiding debt distress above avoiding development distress should change. Old models, that reinforce these mindsets and that provide institutional justifications for the old ways of doing business, must be updated.

A tall order, and an ambitious agenda, but one that warrants fresh thinking.

6. Implications and recommendations for development agencies

In this section we summarise some of the main implications we see for development agencies in the pandemic era context, particularly in the 2022-2030 reconstruction period. We group them for convenience under 3 broad rubrics: (1) “what”- targeting across countries, as well as spatially and sectorally within them; (2) “who”-the role of specific actors-multilateral agencies, national non-aid departments and national development banks in developing countries; and (3) “how”, covering instruments, new finance metrics and international monitoring and accountability arrangements. We end with a handful of headline policy recommendations.

“What”: Targeting across and within countries, spatially and sectorally

Shifting spatial priorities

Targeting across countries

Although low-income countries have the largest gap to fill in their socially inclusive and environmentally sustainable reconstruction strategies, when expressed as a percent of their GDP, because their economies are so small the absolute sums involved are also comparatively small. It is middle income countries where the size of the gap is largest. Middle-income economies have more urbanized populations and higher energy transformation needs. Middle-income economies in Latin America have been among the most seriously affected by COVID-19 so far, along with India, and projections for growth in Latin America are among the worst in the developing world.

At the same time, according to the indices we have tracked, several middle-income countries have also put in place the institutional and policy structures for social inclusion and sustainability that makes them well-suited to be candidates for development cooperation. We use this term here deliberately, eschewing the concept of “aid” or “assistance” with its unclear meaning of concessionality in a world of almost zero real interest rates. Latin American middle-income countries are promising candidates for the new green and inclusive growth strategies of the with-COVID-19 world post-2022. The mix of financing they will need to implement these strategies will cover all instruments--blended finance for infrastructure, guarantees for specific kinds of risks, but importantly it will also include grant
aid. This will often be for capacity building and policy reform on regulatory fronts, as well as part of the Grand Bargain we see as inevitable in a world that will seek to ramp up its efforts to address climate change and biodiversity. We would applaud those donors who are already starting to provide more support to Latin America and other middle-income countries on these grounds.

Simultaneously, COVID-19 is revealing the inefficiencies of providing aid to vulnerable countries only after crisis hits, rather than the far more efficient tactic of mitigation to minimize the likelihood and impact of a crisis. The special case of small island economies is closely tied to their vulnerability to natural disasters and global economic shocks (although they have in-built advantages in managing a health pandemic). These countries will need significant aid, including debt write-downs, to restore public finances onto a sustainable footing.

It is important that aid to middle-income countries not reduce larger development cooperation for low-income countries. Here, too, the old shibboleths that these countries are too poor to borrow at non-concessional rates must be discarded. It is true that many face liquidity risks because exports are not diversified and shocks can have a disproportionate impact on their economies. But they are unlikely to face solvency shocks if public investments are intermediated through multilateral development banks who can provide input into project design and implementation. MDBs and other DFIs, including bilateral lenders, can provide the needed financing from their non-concessional (but very affordable at today’s rates) windows to more than compensate low-income, high debt and vulnerable countries with limited market access for any aid diverted towards middle-income countries.

Traditional country-based aid allocation models, with emphasis on recipient per capita income levels and governance, are increasingly outdated. Aid is just one component of a far larger development finance architecture, and it should be used to expand access to affordable financial resources for all countries. What matters for aid effectiveness is how it is used within a country (see below), as much as how it is allocated between countries.

**Targeting within countries**

New methods of spatial imaging and better household survey data are opening up understanding of where poverty is most acute and of places being left behind (Cohen et al. 2019). There are 3,600 localities in the world that are one administrative level below the nation-state; of these, one-quarter are likely to be poverty “hotspots” in 2030. Over 1 billion people will live in these places, with little prospect for advancement. Emigration is not working; the rate of population growth in hotspot locales is too high and, empirically, the population in these places has been growing rather than shrinking. Market forces, likewise, will not take care of the problem. Intentional public programs to provide better human capital, lower cost physical and digital connectivity to major markets, and a better ability to manage natural disasters are needed.

Donors collect little data on the exact location of the projects they support; those that have tried to geo-code activities have found they support better off areas to the same degree as “hotspot” areas. Indeed, they do not even have norms about which sub-national districts to
target--should the same per capita income thresholds apply sub-nationally as for nation-states?

There are, of course, political considerations of direct sub-national targeting. Some countries actively encourage donors to operate in lagging regions, others are more circumspect. The point is simply that if development cooperation is indeed aimed at promoting sustainable and socially inclusive growth, it will have to do better at understanding how public spending is affecting different geographies and intentional strategies for accelerating convergence of lagging regions will be needed--market forces and current policies and plans are not working fast enough. (*Executive Summary, Action Point 2*)

**Shifting sectoral priorities**

(1) **Unlocking education and digitalisation.** Even before COVID-19 threatened the lifelong opportunities of vast cohorts of children and youth worldwide, forced to forgo months or even years of schooling, the “aid industry” was massively under-investing in education, relative for example to the hitherto stronger appeal of transport and energy infrastructure, as well as health (International Commission on Financing Global Education Opportunity, 2016). There were, and still are, political visibility reasons for this low priority, partly linked to the lack of obvious magic-bullet, imported technology interventions of the kind familiar in health, partly to education’s intrinsically salary-heavy structure, which also discourages public borrowing for it (Rogerson and Jalles D’Orey, 2016). There are also major perceived weaknesses in the international funding “architecture” of education, and entrenched inertia to reforming it, that add to such hesitations.

This priority and obstacles in its way must now be thoroughly re-evaluated, in a dynamic global context of changing skills for, in many cases, permanently changed workplaces*. Digitalisation opportunities and competitive pressures in a pandemic world will raise the education bar higher, but also offer new distance-learning and distance-working tools. We asked in the introduction of this paper whether this is a “paperclip moment” for durable change. On the wider issue of the speed of adoption of transformative technologies, we remain agnostic, much though we might like to see parts of that agenda happen.8

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7 When the Iron Curtain fell 30 years ago (Barr, 1996), aid agencies initially thought that obsolete industrial “hardware” of the planned-economy era should be replaced, but that the education “software” designed for it was sufficiently elastic and adaptable, i.e., rubber band not bent paperclip, in our earlier metaphor. It turned out that entire higher education and vocational skills systems were also in need of re-configuring, with a lead time of a generation or longer.

8 It is clear, for example, (after Baldwin, 2020) both that employers have already invested massively into remote working and that large office-based configurations now look far less attractive on cost and regulatory grounds. This re-balancing could lead to permanently greater use of “remote intelligence” (RI) and “telemigration” both within advanced economies and potentially also from lower-cost, developing ones. But several caveats apply: the cost advantage of RI may prove transitory, as property markets and office and transport technology (e.g. safer UV lighting) adapt; the underlying range of jobs not requiring physical proximity may not have expanded very much; artificial intelligence (AI) may substitute for RI to some extent; and the human and social capital, as well as intellectual property, barriers to greater remote penetration of services markets could prove formidable, especially for poorer countries.
There will be opportunities to “throw technology at the problem” by investing massively in rapidly expanded broadband infrastructure and next-generation telecoms systems, leapfrogging earlier advanced-country experience. As a national public-good investment, or mixed-good if it is partly excludable by paywalls, a surge of this kind is eminently justified. It is surprisingly cheap; a program to deliver universal internet access to Africa would cost just $8 billion per year for ten years, of which only half would be public funding, as discussed in the previous section. (*Action Point 10, Executive Summary*)

But overcoming serious barriers to entry to, for example, remote-service provision (including second-language proficiency and other distance-connecting cultural capital) will also invoke a quite different level of national educational effort, including for mass general secondary, not just tertiary and technical education. This calls for a sustained (generational or longer) publicly funded education investment surge, even if partly privately delivered. That in turn calls for a different international approach to help debt-stressed countries find adequate fiscal space during this protracted transition, as discussed in Section 5. There are no quick fixes. (*Action Point 11, Executive Summary*)

An enormous potential side-benefit of such a mass digitalisation and associated education surge is in promoting voice and accountability, and universal “civic literacy” --with their wider development benefits, many of which could prove unstoppable, despite multiple intervening setbacks and partial failures.

(2) **Bridging green and social.** Green, social and resilience efforts often run along parallel tracks, rather than being integrated into national strategies. Various green commitments will be made in Nationally Determined Contributions; promises will be made to implement Universal Health Coverage; Agenda 2030 and Addis plans are made and reviewed. There is an urgency to align these, one with the other.

People already living at the margins of poverty have fewer robust coping options against sudden livelihood losses on the scale and scope COVID-19 and lockdowns have brought about. Formal social protection systems are mostly inadequate to the task even where their coverage is significant, which is rarely the case in EMDEs, as we saw in our social inclusion component of the resilience framework in Section 3. Nonetheless, there are already some positive examples of where the bottom 20% are effectively being reached (e.g., Aadhar in India⁹) by innovative social assistance schemes, increasingly helped by digital ID and mobile payment systems.

This desperate need to compensate for lost livelihoods matters not only immediately in its own right, but also, if left unchecked, because of its longer-term knock-on effects via the chaotic expansion of cultivated areas to try to adjust to rural food shortages and price shocks, and added pressure on land from reverse internal migration, as precarious city employment collapses. There is some evidence (Section 2) that this is already starting to

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happen at scale. These disruptive forces, and eventual mass population displacement out of the worst-affected regions altogether, could create a vicious cycle of unsustainable land and forest management and forced migration, with wider international and climate ramifications.

A head-on approach to this threat should likewise include funding rapid expansion of rural safety-nets, involving multi-year social assistance linked to large-scale anti-erosion and land improvement work and rural services, as in the broadly successful Ethiopia (Ralston et al. 2017) experience, the largest of its kind worldwide. (Executive Summary Action Point 10)

“Who”: Which actors will emerge as most relevant for reconstruction?

Where is multilateralism heading?

It is becoming increasingly hard to separate objective attitudes to major multilateral agencies, and their relative costs and benefits in a global crisis and recovery context, from a general discourse about an international leadership vacuum, major power rivalries, and nation-first populist stances. We will spare readers a rehearsal of that debate here. These three factors obviously matter, but in unpredictable combinations alongside specific multilateral attributes, which does not take us far.

We are on slightly firmer ground in assessing the most potentially useful development-focused multilaterals directly in terms of the flows of funds and ideas they can mobilise under time and uncertainty pressure, whether politicians are proportionately impressed or not.

The first attribute, funding firepower at affordable rates, puts leveraged institutions (able to tap markets and central banks) like the IMF and World Bank, and more generally the multilateral development banks, at a clear initial advantage, even if they prove not able to “create money” in the strict sense of issuing massive new liquidity such as SDRs (section 2 above). MDB finance is often improperly compared to sovereign borrowing from private capital markets—both channel private funds to developing countries, but the mechanisms are different. The former is more affordable and stable, but more bureaucratic and limited in size. The latter are more flexible and access is faster. MDBs can leverage public shareholder capital to a significant degree, but their preferred creditor treatment and engagement in national policymaking dialogues allow them to be active in situations where a large debt overhang may already exist, a distinct advantage in the expected with-COVID-19 world. (Executive Summary Action Point 12)

Using existing capital, (fortunately increased just pre-crisis in some cases, like World Bank and African Development Bank), as well as adapting fiduciary rules intelligently for the needs of the moment, MDBs will be able to “surge” net loan disbursements for a few years at least. Then they might either hit further prudential buffers (leverage ratios, single borrower limits etc) and/or see their net disbursements start to wane, as borrower repayments inevitably kick in. This risk needs to be mitigated before resilient reconstruction is fully underway, not left to chance or muddling-through.
This scale of financial capacity and flexibility is nonetheless in sharp contrast to that of the UN development “system”, UNDS. The latter is struggling against longstanding internal governance complexities and short-term dependence on \textit{ad hoc} funding appeals to a divided international community. These tend to emphasise, rather than finesse, latent geopolitical burden-sharing concerns.

Behind the headlines, however, there is evidence of significant improvement of the relevance and response capabilities of key UN agencies. Of the much-maligned WHO, for example, an independent assessment by MOPAN (Multilateral Organisations Performance Assessment Network), published less than a year before the pandemic concluded \textit{inter alia} “A reshaped operating model of its emergency preparedness and response programme enables much greater levels of responsiveness and relevance” with detailed examples of robust interventions at pace during recent epidemic outbreaks (MOPAN, 2019).\textsuperscript{10}

The UN OCHA (UN Office for the Coordination of Humanitarian Affairs), not historically a highly-rated agency (MOPAN, 2016), nonetheless developed the Global Humanitarian Response Plan, a fundraising mechanism that is the first of its kind in terms of geographic scope and scale, less than three weeks (March 28) after the pandemic was declared by WHO (March 11). It has been well-received by donors and UN agencies alike, though it is too soon to assess its impact on the ground.

We can also surmise (Steensen, personal communication) that the broad thrust of earlier-launched UNDS reforms would make this whole cluster of organisations better suited to succeed in a crisis, through greater delegation of authority, clearer and more robust coordination mechanisms, more flexible and full-cost financing, etc. That said, many of these changes are quite recent and implementation is still on-going, so the awkward timing of the COVID-19 crisis may undermine the positive effect we would otherwise expect to see here. Systematic monitoring of reforms is at least an encouraging sign that several countries and member institutions are invested in strengthening the UNDS. It is far from a done deal, alas.

Finally, the national owners of the multilateral development system, warts and all, must also start to build new habits themselves (Gnad, 2020). These start from the awareness that there is no “liberal hegemon” presiding benignly over the system, and that we must all step back pragmatically from liberal overstretch. They include: ensuring that various parts of national governments speak with one voice in multilateral fora; building mini-lateral alliances on an issue-specific basis; systematically cooperating with emerging powers in multilaterals, especially newer development banks; and integrating the voices of sub-national and private

\textsuperscript{10} Moreover, “The WHO Health Emergencies Programme [WHE] represents a fundamental development for the organisation. This programme complements WHO’s traditional technical and normative roles with new operational capacities and capabilities for its work in outbreaks and humanitarian emergencies. WHE brings improvements in speed and predictability to WHO’s emergency work. It uses an all-hazards approach, promoting collective action and encompassing preparedness, readiness, response and early recovery activities. The new WHE aligns with the principles of a single programme: one clear line of authority, one workforce, one budget, one set of rules and processes, and one set of standard performance metrics. It has allowed achieving significant improvements to operational agility in emergency response” (Ibid, page 28).
actors more effectively in multilateral strategies (Gnad, op cit., see also our 2017 messages in Box 1 above). (Executive Summary Action Point 15)

A new time for national development banks (NDBs)?
National development banks--financial institutions with a development or public mandate--have had a mixed history in development finance, to be kind. But the better ones among them continue to exist and indeed flourish, suggesting that there is nothing fundamentally flawed about the concept, even while acknowledging the many practical difficulties in successful implementation. France, Germany and Japan among rich countries, and Brazil, China, Russia, South Africa, and other developing countries use NDBs extensively. To give a perspective on scale, the 18 charter members of the Long-Term Investors Club of the G20 (G20-LTIC) have $5.4 trillion in assets. Countries that do not have an NDB, including Ghana, the UK, and the USA, have had active policy discussions as to whether the time is right to establish one.

The advantage of a NDB in the post-COVID-19 world is two-fold: financial leverage and the development of norms and standards for quality infrastructure--an approach that explicitly recognizes that a long-term perspective on sustainable and inclusive growth requires a paradigm shift in thinking.

This new thinking is still being developed but involves, inter alia, a life-cycle analysis with emphasis on maintenance and rehabilitation, a forward-looking scenario analysis of alternative pathways for economic and social transformation (potentially involving, as noted above, use of computable general equilibrium models to complement cost-benefit calculus), platform approaches to coordinate players where network solutions are involved (see below), and a broadening of the investor base, standardization of documentation, transparent provision of information and other requirements for developing infrastructure into an asset class.

In short, a NDB could provide an institutional home with whom a development partner can engage, with professional expertise and financial heft that sets it apart from a Ministry. In the best situations, it can provide a platform for scaling up, despite the risks that scaling up entails if the approach turns out, ex post, to be faulty. (Executive Summary Action Point 12)

“How”: Instruments, relevant finance metrics, and coordinating mechanisms

Instruments: Longer horizons, flexible support, eligibility not conditionality
In recent years, DAC members have shifted away from broad-based collaboration with national governments, and particularly from using budget support as their preferred instrument, even when sufficient mutual trust existed to do so. They have now largely shifted back to project-based interventions. These have obvious provider-side political advantages in terms of the visibility of aid-funded inputs, and the plausible attribution of tangible results to aid - though broader country institutional and policy factors continue to shape outcomes in practice. This direction of travel, however, multiplies transaction costs
and reduces aid providers’ relevance and ability to influence and support change at scale. Moreover, money being fungible, higher-capacity countries can always neutralise attempted external earmarking to specific sectors and areas, by adjusting their own spending choices accordingly. Your new butter fund releases more of my own money for guns, etc.

In a with-COVID-19 world, where scaled-up support is needed on several dimensions, like those in our Global Resilience Framework, finance will need to become much more flexible and dependable, with a much stronger element of mutual accountability, for which some updated version of budget support is likely to be much more relevant. Budget support will also be critical in key planks of social inclusion, such as dynamic support to education and for the re-casting of social assistance systems, where the discussion must be thoroughly anchored in fiscal space. (Outside of humanitarian emergencies, social benefits cannot simply be improvised on a pilot basis here and there, then left to wither when there is no feasible way put them on-budget).

The education case reminds us also that as social inclusion and sustainable investments are for long-term programs, funding instruments should also be for multi-year, sequential phases, wherever possible—which favours stable, longer-horizon sources such as the EU or World Bank, but more bilaterals should also try to emulate (Action Point 11, Executive Summary). Some innovative financial engineering, whereby front-ended bilateral grants are used to soften lending terms or extend maturities for long-term transformation programmes in the social sectors, may also help this stretching process.

Finally, in a context where deeper partnerships are reserved for a subset of countries already meeting robust eligibility tests, as in our model, there should be a commitment to minimise downstream conditionality. This echoes the two-step approach of the GPE (Global Partnership for Education), the Global Fund, and the Global Agriculture and Food Security program, which first vet an overall country framework, then invite projects to be prepared in support of it. In these cases, and doubtless many well-intentioned others, however, the downstream processes have proven arduous and invoked unnecessary requirements which frustrate the original intent of “fast tracking” support to those already judged as having sound frameworks. Letting go of multiple layers of bureaucratic conditions is predictably hard, but simply must be done in a with-COVID-19 world.

Finally, cash transfers should become even more relevant and effective in a pandemic world, in two ways. First and more obviously, ever-improving digital ID and mobile payment systems have increasingly enabled large-scale, robust, low-leakage social assistance even in previously dislocated settings, including humanitarian emergencies, where physical benefit distribution was difficult and corruption-prone long before social distancing intervened (Barder, 2015).

Second and more profoundly, a growing body of empirical research including randomised controlled trials (RCTs) is showing that cash transfers can compare favourably to “traditional” project designs, aimed for example at training entrepreneurial skills, on outcomes such as income and asset formation (McIntosh and Zeitlin, 2020) and family school and health care take-up. Net benefit comparisons become tighter when the full cost
of traditional project delivery is factored in, including scarce staff time within contributing aid agencies. For such reasons proponents of cash transfers have long suggested that they should be considered the “index funds” of international development, meaning a benchmark to which other programs are compared (Blattman and Niehaus, 2014). We endorse this proposal. Cash transfers need to move out from the “back yard” to the very centre of development cooperation. (Executive Summary Action Point 13)

**Development finance metrics—correcting and complementing ODA**

The pandemic-triggered crisis is exposing serious fault lines in both the traditional definition of aid/ODA and the targets linking it to gross national income (the following paragraphs draw heavily on Ritchie and Rogerson, 2020, forthcoming).

One fault line is that ODA loans are already being massively (in aggregate to the tune of some $180 billion) over-counted, principally because repayments on earlier loans, scored gross at entry, no longer count as negative ODA as of 2018. Moreover, skewed new DAC debt relief rules mean that official creditors may soon count unreasonably excessive amounts of additional relief (including on commercial debt) on top of that. Such flawed practices can seriously undermine ODA credibility.

Another fault line is the increasingly blurred boundary between development assistance and spending to tackle global challenges, very much including pandemics as well as unsustainable climate change and migration flows. Their mitigation is of benefit to humanity, thus also to aid provider countries themselves. So, the numerator of the ODA 0.7% target - likely anyway to be smaller and padded with dubious debt-related amounts - also comes under intense pressure to accommodate so-called GPG spends one way or another, further diluting its direct development impact.

The development cooperation community has produced two main ways to deal with the second problem, so far with limited success. The first response is to identify some broader “beyond ODA” spending basket, the most comprehensive such proposal being Total Official Support for Sustainable Development (TOSSD), offered in tacit exchange for sticking to a more rigorously shielded, core ODA definition. We have suggested (Kharas and Rogerson, 2018) that there will be inevitable “leakage” between these two metrics, and a natural drift toward targeting of TOSSD in terms of overall provider effort, even though that is not its stated intent nor where its true benefit lies. For such reasons it is also unlikely to gain international legitimacy soon.

A second approach is to try to show subsets of ODA spent for globally relevant purposes through “markers”, such as the existing DAC climate-change (“Rio”) markers or even, as currently mooted in the DAC, a new COVID-19 marker. Tracking the proportions of aid so marked, and not, could help flag displacement of previous development priorities by new GPG-related ones, though this can never be conclusive when we cannot know the counterfactual. Donors might even commit to raise overall ODA by at least as much as they increase such marked subsets. However, such pledges are unlikely to be robust and enforceable.
A third approach is to accept that there are powerful built-in pressures to progressively corrupt the ODA basket, as has been the case with many other public policy targets. Perhaps introducing, in an UN-brokered context, a more nuanced target, with a separate tier for developmentally relevant global public goods over and above the ODA 0.7% band, would be a step forward. That would help achieve much of the positive intent of TOSSD and weed out some of the more contentious spending items in the “main” ODA tier. An alternative would be to downplay aid targets and definitions altogether but encourage providers to follow Luxemburg’s lead in excluding climate change and in-donor refugee funding, at least, from their reported development assistance. (Action Point 14, Executive Summary)

We acknowledge that similarly inspired efforts at refining development finance metrics have repeatedly been tried within the DAC, and occasionally in a UN context, over extended periods of time, and with little success. The narrow focus on ODA, with its direct fiscal implications, has overly complicated the effort. What is needed is a more comprehensive attempt to set norms for overall financing flows that will jump-start socially inclusive and sustainable growth and provide the needed funding for managing the global commons.

Platform approaches

We may be wrong, but we do not believe this is a promising moment to try to re-jig the “overarching architecture” of so-called coordination of international development efforts. There is no clear pilot in the cockpit (see “who” section above), rather, a shifting kaleidoscope of interests and alliances. Moreover, the very idea of “coordinating” “harmonizing” or “aligning” across development actors rings hollow when they each clearly have multiple, diverse, and often competing agendas. We prefer in this context—as underlined above in the case of multilaterals—to advocate more flexible, adaptable, practical routes on an issue-specific and/or country-specific basis.

In the aftermath of the 2008 financial crisis, large developing countries like Mexico, China and India spent almost half of their demand-stimulus programs on infrastructure. As economies recover and re-set from COVID-19, there is again a strong desire to use green and inclusive infrastructure to drive the transformation. But the nature of infrastructure—its long-term pay-offs, medium-term liquidity risks, major non-financialized co-benefits, network qualities, scale and lumpiness—makes a systematic push hard to plan or even foresee at the project or even sectoral program level.

Development providers need new forms of supportive mechanisms at the country level if they are to support a large push on sustainable and inclusive infrastructure. This is the idea of the country platform approach first put forward by the G20 Eminent Persons Group on global financial governance (G20 Eminent Persons Group, 2018). The idea is being piloted, but as an exercise in “coordinating” donors physically based in countries, and without the local buy-in and leadership that is needed. There are few of the capacity-building, modelling, data collection and analysis and standardization functions that could make for an effective platform approach. And engagement of the private sector, not just in a transactional public-private partnership, but in a programmatic definition of a new public-private ecosystem, as has happened in places with successful NDBs, is still a work in progress.
Platform approaches can also help build the standards and analytical base for furthering socially inclusive and sustainable growth. At present, there is no agreed classification for green projects. Recognizing this, one action pillar of the European Green Deal is to screen and benchmark green budgeting practices of member states. A similar taxonomy is needed for sustainable and socially inclusive investments, which would hopefully end the need for synthetic indices of the kind developed above in this paper. The IMF and World Bank, with their long experience in public expenditure management, would be well-placed to develop these norms.

**Concluding thoughts: A mind map for policymakers**

As we were starting to organise the work around this paper, we found it initially helpful—as students the world over are taught to do—to try to visualise graphically our main storyline and its larger sub-plots in a one-page “mind map”. (Figure 9 below). It is deliberately non-linear and vaguely recalls “sub-atomic” structures, whose major elements interact dynamically and/or are in permanent tension with each other. (We tried hard later to avoid superimposing on it more granular qualifications and “how-to” suggestions, which readers can find in the text).

At its core is the quest for a new development agenda, and new development effectiveness standards. The top half of the map focuses on outside forces influencing it, and the bottom half on the main choices and actions that derive from it, mainly in the development finance space but also in related policy coherence arenas. At the centre of the decision set for public international finance are our Global Resilience Framework criteria. Also relevant is the distinction between public creditor concerns for solvency, and private-sector ones for liquidity.
Figure 9. Mind map summarising development priorities in the pandemic world
Behind the top-level take-aways (see Executive Summary) lies a menu of detailed policy reforms. The UN’s High-Level meetings on financing for development in the era of COVID-19 have listed hundreds of proposals for what needs to be done to support socially inclusive and sustainable investments. That list usefully reminds us that: (1) only a global approach has a chance of success in building resilience in the global economy, but we are not so naive as to believe that everyone will fully collaborate as if there were no differences of views and priorities between countries—there are, and that must be reckoned with; (2) many faults in the structure of development finance have been revealed that could usefully be fixed; but (3) country circumstances are extremely diverse and demand individualized attention. There is a need anyway to agree on a common language of norms and standards that can guide international dialogue onto useful pathways of cooperation both between governments and officialdom as well as with business, academia, and the broader development community, and we have tried here to spark that discussion.

One final thought: there is an urgency for action on this agenda. Failure to act, in our view, could have long-lasting, damaging consequences for many countries. The window of opportunity will not stay open long.
References


Annex 1. COVID-19 and the political economy of aid: Snapshots for three major providers

United States

The Trump administration in the United States has two major thrusts: (i) to reduce the volume of aid; and (ii) to link it more directly to geopolitical considerations.

On the volume of aid, the administration routinely presents a reduced budget, falling by about a third between 2019 and 2020, and Congress dutifully restores it to its previous level. It is unclear if this annual pirouette reflects substantive differences of views, or whether it is a mutually beneficial game designed to provide each side with needed political cover. Foreign assistance is one of the few areas where bipartisan agreements can be reached, and important new legislation like the Build Act of 2018 establishing the US Development Finance Corporation and the Global Fragility Act of 2019 calling for a new 10-year strategy to address fragile states indicate that it is still possible for the United States to innovate in its development strategy.

Part of this innovation is to align development assistance more closely with geopolitical considerations. For example, the Administration cut off aid funding to Central American countries because of a lack of cooperation from those countries on the Administration’s immigration initiatives. Similarly, several multilateral agencies, including notably the WHO, the Green Climate Fund and the Global Agriculture and Food Security program, have seen their US contributions to replenishments zeroed out. Yet the anti-multilateral narrative has not been consistently applied. The US approved large capital increases for the World Bank, IFC and the African Development Bank last year. It has supported the health efforts of the Global Fund and GAVI, and contributed to the World Food Program and UNICEF.

In the area of development cooperation, as in many other areas, there are clear divides that can be expected given the results of the Presidential election in November. The Biden victory will result in a reversal of the pledge for the US to exit from the Paris Agreement, and climate would feature heavily in development cooperation. Biden is likely to take a stronger stance on human rights and be more inclined to work with existing multilateral institutions.

There is anyway a need for a new narrative on aid and greater clarity on responsibilities and accountabilities among the many agencies delivering development assistance. US administrations will increasingly seek out aid alliances and to pay more attention to local conditions and viewpoints. Biden may well, but this is not a given, also support additional aid. In a poll of Republicans and Democrats in October 2019 (Kull et al, 2020), majorities favoured increasing US aid to eliminate hunger and provide universal vaccines and water and sanitation coverage if other countries also did their share. Finally, on the vexed issue of decoupling from China in trade and technology links, with its spill-over into the governance of multilateral institutions, there is also broad bi-partisan support, though the accompanying
“diplomacy” is likely to be less strident in the incoming Biden administration. This underlying trend may be under-appreciated by America’s allies.

**European Union**

The European Union’s (EU) development projection is inevitably also a function of its internal cohesion, which has been sorely tested by COVID-19.

The EU’s development profile has three main facets: as a (partial) integrator of its now-27 member states; a set of pooled budgets and dedicated financial institutions like the European Investment Bank (EIB); and the ability to deploy an array of joint policies, notably in the trade and security arenas, in support of its external aims. Its “neighbourhood and the world” sub-budget, equivalent to some $110 billion over the next 7 years, is not only the world’s second-largest grant aid pool in volume terms, but arguably the most stable, in a volatile world, facing multiple cutbacks at national level.

After marathon negotiations ending in July 2020, the 27 Heads of States of the EU reached an agreement on both a large fund to support the post-COVID-19 recovery across the EU and its new long-term budget and priorities, the Multiannual Financial Framework (MFF) for 2021-2027. The headline result preserved the Union’s internal financial (and political) cohesion, including through a €750 billion jointly guaranteed recourse to market borrowings, to be passed on in roughly equal proportions as loans and grants to the most-affected member states, such as France, Italy, and Spain. This hard-won outcome required pragmatic compromises, including on the scale of the EU’s external cooperation ambitions (Gavas and Kappeli, 2020).

The new development-related commitments for 2021-2027 are therefore something of a glass half-full. Overall, the size of the EU’s external action has very slightly increased in constant prices, and its share of the EU’s overall budget (just under 10%) has also improved, compared to the 2014-2020 period. This is a significant accomplishment, especially considering that the latter included the contributions of the UK, which the remaining 27 states are thus fully covering from 2021.

At the same time, the outcome disappoints many, including the European Commission, who had called for a significantly larger EU global development footprint, including access for external action purposes to the Recovery Fund (officially titled Next Generation Europe, NGEU), which has been denied. The internal composition of EU development spending has also been skewed. Support to “neighbourhood” and pre-accession countries and humanitarian aid is sustained or improving, but aid to Africa, the rising locus of world poverty, is flat-lined, and joint action on migration, though rising, has been cut back by over a third from more ambitious Commission proposals (Gavas and Kappeli, op.cit.).

An opportunity to forge a strong link between the EU’s internal and external solidarity programs has thus been missed, but the EU remains an important stability factor for development cooperation in a nation-competitive COVID-19 world.
United Kingdom

The two headline 2020 decisions to fold the UK’s hitherto independent development department, DFID, into its foreign ministry, and to cut its aid budget significantly are emblematic of the Johnson administration. Nonetheless, public support for aid is less narrowly linked to the national interest than this suggests.

After 23 years with its separate seat around the Cabinet table, DFID has been integrated into a re-named Foreign, Commonwealth and Development Office (FCDO), effective September 2020. This move had already been proposed by Prime Minister Johnson whilst Foreign Secretary and is popular within the Conservative Party. His 2020 announcement, citing also an implied imbalance between the UK’s support to Zambia versus Ukraine (in favour of the former), made it clear that the merger was intended to serve British national interests, including security. “One cardinal lesson of the pandemic is that distinctions between diplomacy and overseas development are artificial and outdated” (Johnson statement to the House of Commons, 16 June 2020).

Many observers (ONE, 2020) are understandably concerned that UK aid’s hitherto consistent focus on poverty reduction might be lost, or at least heavily diluted, in the changeover. This risk is plausible, but hard to assess, given that aid-related accountabilities within FCDO are still being finalised and that wider UK foreign policy post-Brexit, along with defence policy and much else, is itself currently under active review.

On the heels of this announcement came the decision to identify, put on hold, and as necessary cancel, “up to” £2.9 billion of previously scheduled UK aid, equivalent to roughly 18% of previously planned 2020 UK ODA, and shift the savings to other priorities (UK First Secretary of State’s Letter, July 2020). These cuts, if fully realised, would be far steeper than the UK’s predicted 10% year-on-year output drop, taking full advantage of the ODA target’s being framed as a ratio to GNI.

The announcement, the Foreign Secretary’s first in the development domain, indicated that this minimum (0.7% of GNI) statutory aid threshold would continue to be met, so some of these cuts could be reinstated later - but the implied option to overshoot an as-yet-unknown GNI fall does not bode well. It is hard to believe moreover that this switch to aid-austerity (UK aid rose strongly in the face of the 2008 GFC, on its way to achieving the 0.7% target) and the simultaneous absorption of DFID into the foreign policy complex are two unrelated events.

In wider public opinion surveys, support for UK aid remains strong, though it has declined in recent years compared to that of other European countries (Hudson et al, 2020). More interestingly for our present purposes, the empirical evidence is that it continues to be motivated primarily by solidarity for the poorest abroad, and to a lesser but significant extent, now enhanced by COVID-19, by protection of the global commons, and lastly, far less still by UK commercial or foreign policy interests (Hudson et al, op.cit). This suggests that appealing primarily to the latter could backfire eventually in the wider public arena, though it may well attract significant media and partisan political support in the meantime.
Annex 2. Additional information and methodological notes on the global resilience framework and credit ratings (sections 4 and 5)

Details and sources for estimating country needs gaps

The Needs Gap index relies on data from the October 2019 Brookings paper “Building the SDG Economy” by Kharas and McArthur, where a full discussion of methods can be found.

To summarise, first, needs are estimated through to 2025, based on several sectoral studies. Then, these needs are compared to spending levels, which are known for 2015, but are projected into 2025 from the available current figures and IMF growth forecasts.


In the best cases in these studies, needs are built up by mapping out specific interventions and what has worked best in different environments. In others, they assume that the policy environment is at least as favourable as that prevailing in the good-practice countries from which unit costs are derived. These are important qualifications. Resources alone do not guarantee results. GDP per capita in 2025 is based on IMF forecasts.
Secondly, current levels of spending are estimated using the following primary sources:


- Agriculture spending is drawn from two sources, due to mixed country-level availability in each source: FAOSTAT’s (2019) measure of “General government expenditure on agriculture, forestry, fishing,” and IFPRI’s (2015) measure of “Percentage of agriculture expenditure in total GDP.”

- Health spending is “Domestic general government health expenditure,” taken from WHO (2017).


- Infrastructure spending is from the IMF’s Investment and Capital Stock Dataset (ICSD), 2015. We use “General government investment (gross fixed capital formation),” with defence subtracted where possible using the OECD’s dataset on “General Government Spending: Defence (gross fixed capital formation).”
• Biodiversity conservation spending is taken from Waldron et al. (2013), which provides average annualized spending for 2001-2008. We calculate a corresponding average share of GDP for each country and then apply this to 2015 GDP data from IMF (2019b) to derive updated estimates for conservation spending.

• Justice spending is “General government: Expenditure on public order & safety,” taken from IMF (2019a), and supplemented by the UN Stats (2018) indicator on “Government final consumption expenditure by function: Public order and safety.”

Figure 11. Estimated SDG public spending in 2015, missing interpolated

These are aggregated and then projected into 2025. The projection into 2025 relies on taking the 2015 ratio of spending to GDP and applies a 1.13 multiplier relative to each country’s growth in GDP per capita out to 2025. This carries the implicit assumption that a country continues to increase spending in a manner proportionate to economic growth and that the increment is financed by an increase in domestic resource mobilization.

If a country’s minimum needs are greater than spending, Kharas and MacArthur define this as a positive “gap.” However, if the opposite is true, and spending is greater than needs (i.e., the country is below 0 on the y axis in Figure 12 above), they assign the country gap to be zero when summing across countries. In contrast to this approach, in this paper, we wanted to be able to compare the relative distance each country was from financially covering SDG
needs - therefore, “negative gaps”, i.e., when spending exceeds needs, are \textbf{not} assigned a zero value, and the full distribution from figure 12 is used.

The raw figures on needs gaps (as a percentage of a country’s GDP in 2025, as presented in Figure 12, below) are re-scaled from 0 to 100% before inclusion on the GRF. For further methodological details see section 2.3 of this annex.

Finally, country SDG needs gaps in 2025 can be estimated (Figure 12 below).

\textbf{Figure 12. Estimated SDG needs gap in 2025 versus GDP in 2025}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure12.png}
\caption{Estimated SDG needs gap in 2025 versus GDP in 2025}
\end{figure}

Source: Kharas and MacArthur, 2019

\textbf{Details and sources on absorptive capacity blocks}

Our measure of absorptive capacity is made of three equally weighted blocks: Sustainability, Social Inclusion, and Governance.

\textbf{Sustainability}

The first block uses the well-established \textbf{Environmental Performance Index} (EPI), last published in June 2020 by Yale University, with 32 sub-indicators in two main objective areas: ecosystem vitality, including climate change trends as well as biome and habitat protection; and environmental health, including clean air and water progress. In several components, notably climate change, national performance is tracked through rates of change (of per capita emissions, etc).
Social inclusion

The social inclusion block of the GRF was inspired by the objectives of ODI’s annual Leave No One Behind Index: to measure how well each country does to establish policies and laws which affect the most vulnerable populations. We therefore start by taking three policy-related indicators, as they are presented in the policy component of the LNOB Index (Chattopadhyay and Manea, 2019), and updating with primary source material.

1. Rural Health Access (taking the inverse of the deficit in universal healthcare protection by rural area, primary source: ILO World Social Protection Report)

2. Women’s legal access to land (taking the inverse of the indicator on restricted access to productive and financial resources - legal aspect of secure access to land, primary source: Social Institutions and Gender Index 2019, from the OECD’s Gender Institutions and Development Database)

3. Women’s employment rights (taking the inverse of the indicator on restricted access to productive and financial resources - legal aspect of workplace rights, primary source: Social Institutions and Gender Index 2019, from the OECD’s Gender Institutions and Development Database)

We supplement with another three indicators on social assistance spending and outcomes. The first two, on social assistance, are both drawn from the ASPIRE database (Atlas of Social Protection Indicators of Resilience and Equity, World Bank, 2020):

1. Share of social assistance spending as a proportion of GDP

2. Benefit incidence\(^{11}\) of social assistance spending among the poorest quintile

3. Finally, as a basic measure of income inequality, we look at the share of income to the bottom quintile, from the World Bank’s Poverty and Equity Database:

We use a cut-off of at least three of six social inclusion indicators being available, below which we exclude a country from the GRF analysis (for more details on missing data approaches, see section 2.3 of this annex). If at least 3 of 6 indicators are available, some missing data may be interpolated.

For example, in the case of the sixth social inclusion indicator on the share of income to the bottom quintile, given the strong relationship between income to the poorest quintile and the Gini index, we use interpolations based on the Gini index when data is missing (see figure 13 below).

---

\(^{11}\) Benefit Incidence is defined here as the percentage of benefits going to the poorest quintile of the pre-transfer welfare distribution, relative to the total benefits going to the whole population.
Also, in the case of the two indicators from ASPIRE, a missing score would be assigned a 0 - or the worst score in the distribution. This is motivated by the reasoning that a country that does not collect data by conducting household surveys would have trouble reaching those most at risk of being left behind (more details in section 2.3 of this annex).

A country’s final score on the Social Inclusion block is the mean of all its available indicators, which had first been normalised on a 0 - 100% scale to give each of the six equal weight in the final social inclusion score.

**Governance**

We use the six indicators from the World Bank’s World Governance Indicators to calculate the governance score. Estimates are taken for 2018, the latest available year. The six indicators are:

- Voice and Accountability
- Political Stability and Absence of Violence
- Rule of Law
- Government Effectiveness
- Regulatory Quality
- Control of Corruption

We considered using only various subsections of World Governance Indicators, for instance giving preference to only Voice and Accountability. However, considering that this gave an incomplete picture of country absorptive capacity, and that the WGI indicators are closely
inter-correlated (see Figure 14 below), we used a mean of all six World Governance Indicators.

**Figure 14. Correlation matrix of World Governance Indicators**

As the raw scores for the WGI are all reported on the same scale, to allow inclusion onto the GRF, we first take their average, before applying the standard cut-offs at the 95th and 5th percentiles of the entire distribution, and then normalising the distribution on a distance-to-frontier basis (i.e., on a scale from 0 to 100%).

We also briefly considered using alternative indices, including the Bertelsmann Transformation Index and the IDEA State of Democracy Assessment, but found that the World Bank’s WGI have the most complete dataset for the countries in the GRF. While we found that the WGI and alternative measures were directionally similar (see figure 15 below), they give greater preference to either measures of liberal democratic orders, in the case of IDEA, or greater emphasis on economic transformation and liberalisation, in the case of the BTI - while we wanted to focus more strongly on state capacity and voice and accountability.
Figure 15. Scatter plots comparing country ranks on various indices of governance
General methodological notes on the GRF

Missing data
In some situations, meaningful inclusion of a country on the GRF was impossible due to large data uncertainties or many missing data points.

Given the importance and weight of these indicators within the GRF, countries which were missing data on any these indicators were excluded from further analysis:

- Needs Gap as % of GDP in 2025
- Environmental Performance Index (EPI)
- Any of the World Governance Indicators

Our approach on the block of six Social Inclusion indicators was more nuanced (see section below for more on our method on social inclusion). Countries needed a minimum of 3 out of 6 indicators on social inclusion to be included on the GRF.

If they satisfied this minimum requirement, in some cases, further penalties were made for the remaining, and missing indicators. On the two indicators which are based on household data surveys (World Bank’s ASPIRE database), a missing score would be assigned a 0 - or the worst score in the distribution. This was not the case for the remaining social inclusion indicators, where missing scores were simply not included in the analysis.

This is motivated in part by the reasoning behind the ODI’s Leave No One Behind (LNOB) Index (Chattopadhyay and Manea, 2019), which informed the construction of the Social Inclusion block of indicators. Although we do not explicitly measure countries’ capacity on data collection as a block of indicators, as does the LNOB Index, we do subscribe to the reasoning that countries which do not conduct or publish household data surveys, on which the ASPIRE database draws on, may lack the capacity to measure who is being “left behind” in the first place - lowering their potential for socially inclusive development.

Countries excluded from the GRF
In addition to countries which are excluded from the GRF due to data constraints, on principle, we also excluded all non-states and dependent territories, countries with populations under half a million, and countries which are set to graduate from middle-income status in 2020.
Table 1. List of countries and territories excluded from the GRF

<table>
<thead>
<tr>
<th>Country</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanuatu</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Micronesia, Fed. Sts.</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Tonga</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Suriname</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Palau</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Nauru</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Niue</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Korea, Dem. People’s Rep.</td>
<td>Index on Need and EPI unavailable</td>
</tr>
<tr>
<td>Samoa</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>São Tomé and Príncipe</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Kiribati</td>
<td>Population under 0.5 million</td>
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<tr>
<td>Belize</td>
<td>Population under 0.5 million</td>
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<tr>
<td>Grenada</td>
<td>Population under 0.5 million</td>
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<tr>
<td>St. Lucia</td>
<td>Population under 0.5 million</td>
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<tr>
<td>Dominica</td>
<td>Population under 0.5 million</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>Graduating from OECD DAC list in 2020</td>
</tr>
<tr>
<td>Syrian Arab Republic</td>
<td>Index on Need unavailable, Social Inclusion missing</td>
</tr>
<tr>
<td>Wallis and Futuna</td>
<td>Non-state</td>
</tr>
<tr>
<td>St. Helena</td>
<td>Non-state</td>
</tr>
<tr>
<td>Montserrat</td>
<td>Non-state</td>
</tr>
<tr>
<td>Tokelau</td>
<td>Non-state</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Non-state</td>
</tr>
<tr>
<td>Argentina</td>
<td>Graduating from OECD DAC list in 2020</td>
</tr>
<tr>
<td>Panama</td>
<td>Graduating from OECD DAC list in 2020</td>
</tr>
<tr>
<td>Kosovo</td>
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<tr>
<td>Libya</td>
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<tr>
<td>South Sudan</td>
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<tr>
<td>Yemen, Rep.</td>
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<tr>
<td>Somalia</td>
<td>Social Inclusion, EPI missing</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Data uncertainty</td>
</tr>
</tbody>
</table>
Outliers

To account for the occurrence of outliers throughout the GRF, we used cut-offs at the 95th and 5th percentile of the distribution of raw scores for each individual indicator. This means that raw scores above the 95th percentile were all counted equally, as the maximum, whereas scores below the 5th percentile were all counted equally, as the lowest score.

This applies to each indicator within the Global Resilience Framework:

- Needs Gap (as % GDP in 2025), as detailed in Kharas and McArthur (2019), based on a distribution of all developing countries
- Each of the 6 indicators within the Social Inclusion block, individually, based on a distribution of all developing countries
- The mean of all six indicators on governance from the World Bank’s World Governance Indicators, based on a distribution of all countries, including developed countries, included in the dataset
- The 2020 Environmental Performance Index (EPI) score, based on a distribution of only developing countries

Distance-to-frontier method used throughout the GRF

Re-scaling the raw data based on the distance-to-frontier method was necessary at several steps of constructing the GRF. These transformations were done at the following steps:

a) To allow meaningful comparison between the Needs Gap axis and the Absorptive Capacity axis of the GRF, it was necessary to ensure they were both on the same scale of 0 to 100%.

b) Methodologically, when taking the average of the three blocks of indicators on Absorptive Capacity (social inclusion, sustainability, and governance), to ensure that each group of indicators had effectively an equal weight of $\frac{1}{3}$ towards the final score, it was also necessary that they be on the same scale of 0 to 100%.

c) Likewise, when taking the average of the 6 indicators for the social inclusion block of Absorptive Capacity, to ensure each indicator had equal (of $\frac{1}{6}$) in the final social inclusion score, it was necessary to ensure they were on the same scale of 0 to 100%.

Supplementary details and charts on the Global Resilience Framework

The GRF plots in section 4 use the distance to frontier method on both the Needs Gaps Axis and the Absorptive Capacity axis. Below are alternative plots, showing these axes based on raw scores.

While the largest cluster of countries have a needs gap in the range of 1-50% of projected GDP in 2025, there are also outliers with either extremely high gaps of over 100% of
projected GDP, or which on track to fulfil the minimum spending requirements for the SDGs, and therefore exhibit a zero “Needs Gap” (see Figures 16 and 17).\footnote{While some countries may show no SDG Needs Gap, this does not necessarily mean all spending will be used fully effectively - hence, they may still not meet the SDG targets. Again, resources do not guarantee results.}

Figure 16. Alternative needs vs. absorptive capacity scatterplot
A full classification of countries based on their GRF class, as well as classification on the GRF’s individual components (Needs and blocks of absorptive capacity) is available in Table 2 below.

Table 2, below, shows a full list of country classifications on the GRF, as well as their “score classifications” on Needs and elements of absorptive capacity. A “High” classification on the GRF elements signifies a raw score in the top quartile, a “Medium” classification is a raw score in the middle two quartiles, while a “Low” classification corresponds to a raw score in the bottom quartile of the distribution.
Table 2. Full list of countries on the Global Resilience Framework, by classification and components

<table>
<thead>
<tr>
<th>Country</th>
<th>GRF Priority</th>
<th>Projected Needs Gap</th>
<th>Environmental Sustainability</th>
<th>Governance</th>
<th>Policies and Finance</th>
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<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
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<tr>
<td>Albania</td>
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<td>High</td>
<td>High</td>
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<tr>
<td>Algeria</td>
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<td>Medium</td>
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<td>Fiji</td>
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<td>Gabon</td>
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<td>Gambia, The</td>
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Supplementary information on section 5: Credit ratings and debt

Method for interpolation of credit ratings
Following Kharas and Noe (2019), countries with missing credit ratings had interpolated scores based on a standard unweighted OLS model, where we regress sovereign rating scores on a range of independent variables.

The base data on credit ratings comes from Trading Economics\textsuperscript{13}, which is updated regularly with credit ratings synthesized from four major global credit rating agencies. The method for assigning points, from 0 to 100, based on Trading Economics methodology is detailed in Table 3. Where countries have ratings, which fall in between the different TE rows for the various agencies, the TE score will be an average of the available credit rating agency ratings.

\textsuperscript{13}https://tradingeconomics.com/country-list/rating
Table 3. Methodology for Assigning Credit Scores

<table>
<thead>
<tr>
<th>Credit Ratings</th>
<th>S&amp;P</th>
<th>Moody's</th>
<th>Fitch</th>
<th>DBRS</th>
<th>Description</th>
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<td>100</td>
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<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
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<td>95</td>
<td>AA+</td>
<td>A1</td>
<td>AA+</td>
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<td>90</td>
<td>AA</td>
<td>Aa2</td>
<td>AA</td>
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<tr>
<td>85</td>
<td>AA-</td>
<td>Aa3</td>
<td>AA-</td>
<td>AA (low)</td>
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<td>A+</td>
<td>A1</td>
<td>A+</td>
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<tr>
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<td>A</td>
<td>A2</td>
<td>A</td>
<td>A</td>
<td>Upper medium grade</td>
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<tr>
<td>70</td>
<td>A-</td>
<td>A3</td>
<td>A-</td>
<td>A (low)</td>
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<td>65</td>
<td>BBB+</td>
<td>Baa1</td>
<td>BBB+</td>
<td>BBB (high)</td>
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<tr>
<td>60</td>
<td>BBB</td>
<td>Baa2</td>
<td>BBB</td>
<td>BBB</td>
<td>Lower medium grade</td>
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<td>55</td>
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<td>Baa3</td>
<td>BBB-</td>
<td>BBB (low)</td>
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<td>50</td>
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<td>B1</td>
<td>BB+</td>
<td>BB (high)</td>
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<td>BB</td>
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<td>BB</td>
<td>BB</td>
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<tr>
<td>40</td>
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<td>B3</td>
<td>BB-</td>
<td>BB (low)</td>
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<td>B+</td>
<td>B1</td>
<td>B+</td>
<td>B (high)</td>
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<td>20</td>
<td>CCC+</td>
<td>Caa1</td>
<td>CCC</td>
<td>CCC (high)</td>
<td>Substantial risks</td>
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<tr>
<td>15</td>
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<td>CCC</td>
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<td>10</td>
<td>CCC-</td>
<td>Caa3</td>
<td>CCC</td>
<td>CCC (low)</td>
<td>In default with little prospect for recovery</td>
</tr>
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<td>CC</td>
<td>Ca</td>
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<td>CC</td>
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<td>/</td>
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<td>D</td>
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Meanwhile, the choice of independent variables follows the literature identified previously by Kharas and Noe (op.cit). Briefly put, independent variables reflect 1) potential returns to investment (based on: macro policy (proxied by the rate of inflation and GDP growth), size (proxied by population) and the rule of law), as well as 2) risk of non-repayment (based on variables such as per capita income level and GDP volatility, gross government debt/GDP, the reserves ratio (reserves divided by imports), and the external debt ratio (external debt divided by exports of goods and services), and gross government revenue/GDP). Dummy variables are also added, including status as a small island and geographic region.
To check the robustness of results, the regressions were repeated with developing countries only, and with different variables. In the first column, all countries, including high income countries, are considered. In the second column, high income countries are dropped, and only developing countries are considered. In the third column, the insignificant variables are dropped.

**Table 4. Model used to establish determinants of sovereign credit ratings**

<table>
<thead>
<tr>
<th>Dependent variable: Credit Rating</th>
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<th>(2)</th>
<th>(3)</th>
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<tr>
<td>3-year average GDP growth rate</td>
<td>0.943* (0.526)</td>
<td>0.535 (0.762)</td>
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<td>Log of GDP per capita</td>
<td>9.407*** (1.506)</td>
<td>8.418*** (1.992)</td>
<td>7.339*** (1.471)</td>
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<td>GDP growth volatility</td>
<td>-1.439** (0.695)</td>
<td>-2.921** (1.127)</td>
<td>-3.128*** (0.944)</td>
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<td>Reserve ratio</td>
<td>1.980 (1.993)</td>
<td>6.776* (3.578)</td>
<td>6.568** (3.128)</td>
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<tr>
<td>External Debt Ratio</td>
<td>0.285 (0.334)</td>
<td>1.015 (1.991)</td>
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<tr>
<td>Gross Debt to GDP</td>
<td>-0.183*** (0.025)</td>
<td>-0.220*** (0.059)</td>
<td>-0.230*** (0.041)</td>
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<tr>
<td>Inflation</td>
<td>-0.657** (0.283)</td>
<td>-0.554 (0.346)</td>
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<td>Rule of Law</td>
<td>12.302*** (1.804)</td>
<td>8.316*** (2.793)</td>
<td>10.239*** (2.327)</td>
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<td>Government Revenue to GDP</td>
<td>0.274*** (0.115)</td>
<td>0.192 (0.183)</td>
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<td>Current Account Balance to GDP</td>
<td>0.236* (0.123)</td>
<td>0.101 (0.164)</td>
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<tr>
<td>Population</td>
<td>4.160*** (0.583)</td>
<td>3.623*** (0.889)</td>
<td>3.375*** (0.593)</td>
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<td>East Asia and Pacific dummy</td>
<td>-3.756 (6.831)</td>
<td>-1.728 (4.191)</td>
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<td>Europe and Central Asia dummy</td>
<td>-8.250 (6.587)</td>
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<td>Small Island dummy</td>
<td>0.477 (3.056)</td>
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<td>-93.534*** (19.093)</td>
<td>-75.927 (22.443)</td>
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<td>Residual Std. Error</td>
<td>8.480 (df = 111)</td>
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<td>F Statistic</td>
<td>62.487*** (df = 18; 111)</td>
<td>9.357*** (df = 17; 59)</td>
<td>25.975*** (df = 6; 70)</td>
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</table>

Note: *p < 0.1; **p < 0.05; *** p < 0.01
The credit ratings for a total of 16 countries were interpolated in this way, using the model in the third column. Countries whose predicted scores were below 0 were counted as a score of 0, which is the minimum score in the TE methodology and signifies being in default.

Figure 19. Country credit ratings by GDP per capita