The Future of External Development Finance

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What is development finance?

» Intentionality to support the SDGs

**Official**
- Aid *(multilateral and bilateral)*
- Non-concessional loans *(multilateral and bilateral)*
- South-South Cooperation

**Private**
- Sovereign borrowing
- PPPs *(official mobilized capital)*
- Private infrastructure
- Impact Investing
- Philanthropy
External Development Finance (2016)
US $ 576.3 billion
Four issues for development finance

1. The role of bilateral and multilateral agencies
2. Development finance flows from emerging markets (China)
3. Mobilization of private capital (especially in infrastructure)
4. Models for funding global public goods and norms
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Multilaterals

- Multilaterals are trusted, have country presence, deep knowledge pools, scale, and GPGs
- In practice, they are most effective in maximizing efficiency and reducing the burden on recipients (QuODA)
- …and are most suitable for operating in fragile states.
- But, they are at best holding their own in development finance and at worst constrained by risk averse stakeholders.
There is no going back to the old multilateralism.


- Multilaterals are the only institutions that can be rapidly scaled to match the urgency of the situation.
- They can increase impact by developing scalable, system-wide approaches, not just projects.
- Multilateral governance reform is key.

The ambition is in the doing.

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South-South Cooperation

- Evidence on Belt and Road Initiative
  - Mixed views: McKinsey cites concern about import of cheap Chinese labor, Bräutigam writes that ¾ or more of workers are local
  - Chinese development projects may have negative environmental externalities (AidData 2016).
- Debt resolution difficulties
- “Clear choice” isn’t so clear
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Mobilization of Private Capital

- Blended funds and impact investing are “all talk and little action.”
- Private capital does not reach the hardest places.
- **Two** big impediments:
  - Risk mitigation in emerging economies
  - Small project size with high fixed costs in low-income countries
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Global Public Goods (GPGs)

- GPGs are not always counted as development finance (e.g. peacekeeping)
- Core challenges include:
  - Governance (e.g. the Green Climate Fund)
  - Mandate issues (e.g. ocean preservation)
Where does this leave us?

- Challenges of scaling up
- Difficulties around addressing fragile states
- The geopolitics of multilateralism