Suggested Proposals for the Third International Conference on Financing for Development
Addis Ababa, Ethiopia July 13–16, 2015

Addis represents one of President Obama's last major opportunities to secure his development legacy. The below offers 14 proposals for commitments the United States Government should consider advancing for the Conference on Financing for Development. Each of the proposals has the opportunity to yield tremendous development impact, some as stand-alone USG commitments, and others as commitments ripe for broader cooperation.

1. A Grand Bargain on Infrastructure: Commit to A Global Partnership on Sustainable Infrastructure Financing

Initial estimates suggest the most expensive SDG requirements will be around infrastructure (estimates are $5-7 trillion per year). Most of the resources to meet that need in developing countries will have to come from domestic sources. But there's a vital part to play for official finance from G-20 countries to help developing countries roll out access to electricity and transport.

The potential for increased non-concessional support combined with worldwide recognition that energy pricing needs reform suggests the basis for a global partnership agreement at Addis. G-20 countries could lead on a commitment to increase financing significantly for infrastructure that is priced to ensure financial sustainability (some possibilities for specific commitments included below). Developing economies keen to access additional international finance could lead on a global commitment on sustainable energy pricing – tariffing electricity at long-run cost and generating sufficient revenues from transport fuels or other use-related charges to cover the costs of investment and maintenance.

References:
http://www.cgdev.org/blog/could-addis-deliver-global-deal-around-sustainable-infrastructure-finance

2. Financing Infrastructure Development: Commit to Increase MDB Infrastructure Financing by 2018

Increased infrastructure financing for developing countries is critical. But the World Bank Group is unable to provide large enough guarantees for major infrastructure projects. The United States should propose (1) an absorption of MIGA into the IBRD, which would allow an increased country cap and (2) changes to the booking rules for investment guarantees with the IBRD towards the type of rules that govern US federal guarantee programs under the Credit Reform Act, rather than the current unattractive booking at face value. This could be completed within two years and a ramping up of investment guarantees (particularly in infrastructure) could flow soon after. Absorbing MIGA into the Bank and rewriting the accounting rules for how guarantees are booked could help the institution play a bigger role in global infrastructure development. Greater investment guarantee revenues would make this a net contributor to IBRD operations. Even a small increase in international private finance for infrastructure could have a significant development impact.

3. **Better Leverage for Concessional Resources, Starting with the World Bank: Commit to a Bank Resource Review**

For over fifty years, donors have provided grant resources to the World Bank through IDA replenishments so that the bank can assist low income countries through concessional loans. As a fundraising and policy model, it proved so successful that it was also adopted by each of the regional development banks. But by relying largely on donor grants, it is becoming an increasingly difficult model to maintain, as those grant resources become increasingly scarce. It also lacks the key virtue of other World Bank financing: leverage. One dollar of IBRD capital can deliver six dollars of assistance, whereas one dollar of IDA resources delivers slightly less than a dollar of assistance. Generating more financial leverage will depend on a different approach to fundraising at the World Bank, one that broadens the scope of the traditional IDA replenishment to encompass all of the bank's activities (IBRD, IFC, MIGA). A universal fundraising model, something we call a Bank Resource Review, will allow for more flexibility in the use of bank resources, greater rationalization of the bank's activities, and greater policy coherence. And by facilitating greater financial leverage, it will deliver far more assistance to developing countries while asking no more (and possible less) of donors.

References:
http://www.cgdev.org/publication/shaking-donor-shakedown-world-bank

4. **Leverage the Investment Community: Commit to Development of an Impact Investing Framework**

The massive demand in emerging countries for infrastructure, health, education, and other social goods and services requires a financing strategy that looks to every source, especially private sector investment. Pension funds, whose long-term investment horizons are a good match for the long term returns of many development projects such as infrastructure, hold an estimated $20.7 trillion worldwide. But so far, this incredible investment potential has remained untapped. Many of the barriers between pension funds and other major private capital sources and investment for development are rooted in a lack of practical, information-driven engagement. A more open and working-level dialogue is needed to help potential investors become familiar with impact opportunities and inform policymakers of the obstacles investors identify for involvement.

The launch of new multilateral hubs, such as the Global Infrastructure Hub coming from the G20 and the Global Infrastructure Facility at the World Bank, offers a potential venue for such needed engagement. These hubs are designed to connect projects and potential investors, share expertise, and create new knowledge. The success of these venues will depend on active leadership from key government partners, particularly the United States. Therefore, the US should commit to initiating a sustained and practical engagement with the investment community, convening discussions with fund managers and stakeholders in partnership with new hubs to inform the development of an impact investing framework.

The discussions and framework should focus on the actual experiences and suggestions of investors related to the regulatory, policy, tax, credit, and capital climate for impact investing, both on the giving and receiving end. The framework will serve as a benchmarked guideline and incentive for both fund-host countries (including the US) and developing nations to improve their respective investment climates, strengthening standards of good governance, accountability, and social benefit.

5. **Trade and FDI: Commit to Bilateral Investment Treaties (BITS) that Promote Development**

US Commitment: The US should issue an open invitation to negotiating an investment promotion treaty with developing countries who are interested in attracting and protecting American development capital.

BITs have long been low-cost policy tools for promoting investment, both among developed and developing countries. They promote and defend investment abroad by providing core protections to foreign investors, such as free movement of capital, access to international arbitration, and transparent restrictions against government expropriation. These protections help to reduce investors' exposure to political risk and uncertain business environments, thereby increasing their willingness to deploy scarce investment capital. For the US, there is no budgetary cost beyond very modest staff time and travel expenses. Despite their potential benefits, BITs have been almost completely missing from US engagement in many developing regions (e.g., Sub-Saharan Africa, South Asia, and SE Asia) over the last twenty years.

The new US model BIT now affords more government discretion than in the past. For example, it exempts governments' actions (except "in rare circumstances") to protect health, labor, and consumer safety from investors' protections against expropriation. These modifications help to address some developing countries' recent concerns that BITs can constrain their policy flexibility. The signatories to the Addis Financing for Development conference could call for multilateral adoption of similar development-friendly provisions within all future investment promotion agreements. In addition to the open invitation to negotiate, the United States itself should consider the opportunities BITS present to encourage greater workforce participation by women. For example, the model BIT language could be revised to assist US companies in hiring women in countries where existing regulations make that difficult by expanding language in Article 9 to state that neither party may require that a covered investment deny employment on the grounds of gender.

References:
http://www.cgdev.org/publication/where-are-bits-how-us-bilateral-investment-treaties-africa-can-promote-development
http://www.cgdev.org/blog/why-can%E2%80%99t-america-do-investment-promotion-africa-china-or-canada

6. Catalysing Private Investment: Commit to Service Performance Guarantees

US Commitment: USAID's Development Credit Authority will explore guaranteeing domestic reserves covering Service Performance Guarantees.

Many developing countries lag in attracting private sector investments, in large part due to high costs that prevent global competitiveness and high actual or perceived risks. A new guarantee instrument is needed to cover a broader range of risks than existing political and credit risk guarantees provide. Service Performance Guarantees (SPGs) would offer foreign or domestic firms the opportunity to purchase a contract guaranteeing the delivery of specified services by the relevant government authority up to a minimum standard and for a prescribed period. These might include, for example, the quality and reliability of power supply, the time needed for customs clearance at ports or airports, the time for port turn-around, and the speed of processing and approvals of duty drawbacks as well as a range of other services and permits. The guarantees would be contractual legal agreements between the service provider and the firm.

The SPG contracts would be covered by a "domestic reserve" funded from premiums paid in by the firms, perhaps as part of their lease agreements. This would be backed up by a further guarantee issued by MIGA and/or USAID's Development Credit Authority which already has authority to issue guarantees to domestic, as well as foreign investors. The backup guarantee could also be issued by IDA or by another donor. These backup guarantees could be components of loans or development credits extended to the country to create or rehabilitate infrastructure, to help streamline business processes, or to establish an economic zone or a "growth pole." An "external reserve" would be set aside out of the loan amounts to cover the backup guarantee.

References:
http://www.cgdev.org/publication/should-countries-be-more-shopping-malls-proposal-service-performance-guarantees-africa
http://www.cgdev.org/blog/should-countries-be-more-shopping-malls-proposal-service-guarantees-africa

7. **Make Private Sector Investment Work for Development: Commit to Publish Government Contracts**
US Commitment: As part of a commitment towards greater transparency and the greater impact of private sector investment for development in particular around infrastructure, the USG will publish the contracts it enters into with private firms as well as supporting other countries to do the same through Open Contracting and the Open Government Partnership.

Under current law, interested citizens in the United States can obtain copies of federal contracts, with confidential information redacted, under a Freedom of Information request. A better solution would be for the government to publish all contracts proactively online, blacking out any specific information that both the contractor and the government's contract manager agree should remain confidential. A number of countries are already proactively publishing government contracts with benefits including greater competition, lower costs and increased civil society scrutiny. There is a particular advantage in publishing large infrastructure agreements signed under public-private partnerships both as a tool to increase public trust and as a source of valuable knowledge for other countries contemplating similar deals. Publication is cheap, would require no legislative action, and would put the United States in a strong position in Addis to ensure that greater transparency and improved governance was at the heart of the global financing for development agenda.

References:
http://www.cgdev.org/publication/publishing-government-contracts-addressing-concerns-and-easing-implementation
http://www.cgdev.org/blog/how-publish-your-government-contracts

8. **Private-Sector Finance of Technical Training for Development: Commit to Global Skills Partnerships**
US Commitment: USAID will support a pilot Global Skills Partnership in Latin America or the Caribbean by 2016. The high-skill NAFTA visa (TN) allows Mexico to be an excellent pilot partner.

International migrants send roughly four times more money home to developing countries (close to $500 billion per year) than all global aid (roughly $130 billion per year). Those who migrate typically earn much more than those who do not because their economic productivity is significantly higher than in their country of origin. At the same time, developed economies face shortages of skilled workers in a number of fields. Global Skills Partnerships (GSPs) would facilitate training of skilled workers in developing countries for employment in both developed and developing countries. Destination-country wages are higher, while origin-country training costs are much lower. Channeling a modest portion of this dual arbitrage opportunity could finance training for migrants *and* non-migrants, without government outlays. For example, take two low-income individuals from a developing country that train as Registered Nurses. One plans to work in his or her home country, the other in America. Nurse training is too expensive for them to afford, but much cheaper than nurse training in the United States. A US hospital group would finance all of the training for the nurse that would migrate and half of the training for the nurse that plans to remain in the host country. In return, the migrant nurse commits to work in the US hospital network for at least four years. With just a small percentage of his or her earnings over that period, the nurse can pay back the entire cost of her training while the training subsidy could also cover half of the cost of training the other nurse.

References:
http://www.cgdev.org/publication/global-skill-partnerships-proposal-technical-training-mobile-world

9. Limiting Illicit Financial Flows: Commit to Eliminating Anonymous Ownership and Ensuring Automatic Tax Information Exchange

US Commitment: Commit to the public registry of beneficial ownership; and to reciprocal and automatic multilateral information exchange between authorities

Illicit financial flows undermine development; draining resources and damaging institutions and governance. Annual illicit flows from developing countries to banking secrecy jurisdictions may easily exceed total aid flows. Creating public registries of beneficial ownership of companies, foundations, and trusts will help prevent both tax evasion and broader corruption. Also needed is a scheme for automatic exchange of tax information. This should be framed explicitly to include well-governed developing countries as recipients of information even before they are able to reciprocate. Without this information, developing countries have difficulty enforcing their own tax laws, undermining both revenues and the state-citizen relationship.

References:
http://www.cgdev.org/topics/illicitfinancialflows

10. Increase Domestic Resource Mobilization: Commit to a Multilateral DRM Fund

US Commitment: $100 million (majority in existing funds)

Domestic public funds will be a critical component in financing development activities over the coming decades. This stream of resources has steadily increased in absolute terms in countries of varying income levels as well as in relative terms in relation to other forms of finance like official development assistance and remittances. The United States should propose a global fund for domestic resource mobilization. With an initial commitment of not less than $100 million from the United States, this fund would represent a single funding source for developing countries seeking technical assistance on all aspects of domestic resource mobilization including: 1) improving taxation capacity and tax compliance; 2) boosting expenditure efficiency and addressing inefficient subsidy schemes; 3) using natural resources effectively; and 4) improving collection and regulations of custom, duty, and tariff funds.

There is currently no single funding source or agency that covers all aspects of domestic resource mobilization. Further, developing countries could be required to approach the fund with their proposals for increased domestic resource mobilization, thus advancing country ownership and country-led utilization of domestic funds. Such a fund could expressly help developing countries meet current expectations to raise at least 17 percent of GNI in domestic resources (UNDP, IMF, OECD, World Bank). Finally, the United States could partner with other donors to make this a multilateral fund with associated higher resource levels.

11. **Increase DRM and Public Health: Commit to Increase Tobacco Excise Taxes**
US Commitment: USTR will include "safe harbor" provisions in trade and investment agreements, protecting national tobacco control measures from being challenged under these agreements.

Supporting countries in raising tobacco taxes would contribute to saving hundreds of millions of lives over the next fifty years, increasing economic output, and raising revenues for cash-strapped governments. Tobacco use caused 100 million deaths in the 20th century. If current trends persist, it is projected to cause 1 billion deaths in the 21^{st} century. More than 80 percent of those future tobacco-related deaths will occur in LMICs. A 2012 ADB report found that increasing the price of tobacco by 50 percent in the five highest-burden countries in Asia would reduce the total number of tobacco users by almost 70 million and reduce total tobacco-related deaths by almost 30 million. The ADB report also found that for the five countries evaluated, the tax revenue generated would average 0.30 percent of GDP—amounting to over $24 billion in revenue per year. Tobacco control policies are among the lowest hanging fruit for development, both in terms of their impact on human and fiscal health.

References:
http://www.cgdev.org/blog/tobacco-taxes-win-win-asia-pacific-region
http://www.cgdev.org/blog/ustr-export-good-tobacco-policies-tpp
http://www.cgdev.org/blog/why-can%E2%80%99t-america-do-investment-promotion-africa-china-or-canada

12. **20 by 2020: Commit to Ensure at Least 20 Percent of DAC Donor's Development Assistance is Provided on the Basis of Development Outcomes by the end of 2020.**
US Commitment: In view of the potential for improving the effectiveness of aid through outcome-based approaches, the United States commits to increase the focus on paying for outcomes in its aid programming, both in its bilateral programs and through the multilateral system. By 2020 at least 20 percent of US development assistance will be programmed to pay ex post for verified development outcomes in recipient countries. To effectively execute this goal, the administration could establish a Development Impact Fund for piloting, and then scaling, outcomes-based development approaches.

A paradigm shift on ODA is required: effective development aid must focus on outcomes achieved, not solely amount of aid provided. While multiple donors have introduced variations on outcomes-based aid, the share of assistance provided through such mechanisms remains disappointingly modest given their potential. A commitment at Addis to shift a share of aid into outcomes-based aid will provide for measurable, sustainable development results.

There is a range of ways in which it is possible to pay for outcomes, including through outcomes-based contracts directly with partner governments, such as Cash-on-Delivery Aid, or through Development Impact Bonds, which leverage the resources of the private sector; while public sector funding is used to compensate investors for taking the risk of funding development programs, if outcomes are achieved. Examples of outcomes-based aid programs include Britain's Department for International Development's (DfID) Cash-on-Delivery Aid programs for completing schooling in Ethiopia and Rwanda; the World Bank's third instrument, Program for Results; and UNFCC agreements for outcomes-based approaches to reduce deforestation and forest degradation (REDD+). The MCC is also exploring outcomes-based financing in new compacts.

References:
http://www.cgdev.org/initiative/cash-delivery-aid
http://www.cgdev.org/publication/introduction-cash-delivery-aid-funders
http://www.cgdev.org/initiative/development-impact-bonds-0
http://www.cgdev.org/publication/investing-social-outcomes-development-impact-bonds
http://www.cgdev.org/publication/future-aid-building-knowledge-collectively

13. AMCs for R&D: Commit to an Advanced Market Commitment for 3 New Vaccines

The use of patents to finance research and development concentrates R&D efforts in innovation likely to attract high financial returns, but may leave gaps in areas of invention that could deliver the highest social returns, particularly those that would primarily benefit the populations of developing countries. Addis could mobilize advance market commitments in underprovided global public goods. Examples include an Ebola vaccine, a malaria vaccine, and an HIV vaccine. Countries could also commit to AMCs for a variety of innovations not related to vaccines, such as technological advancements in clean energy or agriculture.

References:
http://www.cgdev.org/page/advance-market-commitment
http://www.cgdev.org/blog/finding-cure-ebola

14. Don't Waste Ebola Money: Commit to Long-Term Health Investments

US Commitment: A percentage of existing Ebola funds will be used to build and strengthen disease surveillance and rapid response in developing countries.

While not strictly falling under the rubric of financing for development, the availability of existing funding for the Ebola response in West Africa provides an opportunity for sustainable global health investments, particularly as the immediate disaster response needs slow. As one example to consider, even assuming West Africa is able to build excellent public health systems following the Ebola outbreak, these systems will not include rapid response teams needed for outbreak response. A regional solution, such as an African Center for Disease Prevention and Control, previously proposed by the African Union Commission and World Health Organization, should be considered.

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