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Financing
Sustainable Development

Addressing Vulnerabilities

FERDI

ECONOMICA

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INTRODUCTION

Using Finance to Address Vulnerability and Make Development Sustainable: Issues and Contributions

Patrick Guillaumont and Matthieu Boussichas

This introductory chapter first presents the major issues that the financing of sustainable development must address and outlines the general orientation of the book – designing development financing that is sustainable and addresses the various types of vulnerabilities faced by poor countries. We suggest elements of a response to some of the major issues, some of which are covered in the subsequent chapters.

In a second part to this introduction, we summarise the answers given in the various chapters to the questions raised in the first part. This summary aims to be faithful to those answers without expressing any reservations, even if they are not necessarily consistent with each other, in order not to weaken the force of the proposals that emanate from them. All of the chapters share the common aim of making development financing sustainable and addressing countries' vulnerabilities.

1. Issues to be addressed by sustainable development finance

In the first part of this introductory chapter, we follow the original book outline and discuss, according to this plan, a small range of issues that give the book : its content around the general theme, namely, the promotion of sustainability by tackling vulnerabilities. Once we have recalled the purpose and spirit of the book, we first consider the major cross-sectional issues, and then review the three types of problems that must be answered and that correspond to the three main dimensions of sustainability – economic, social and environmental (mainly climate-related).

A book that relies on focused issues

International events, their sequence and its meaning
This book on financing for development is published during a year that is rich in important international events for development. The final event of the year, COP21, will take place in Paris in December and is crucial to the climate negotiations. It will be preceded by the adoption of the new Sustainable Development Goals (SDGs) by the General Assembly of the United Nations in New York in September, and by the UN's International Conference on Financing for Development in Addis Ababa in July. What can we infer from this timeline? While the previous International Conference on Financing for Development, which resulted in the 'Monterrey Consensus', took place in 2002, two years after the adoption of the Millennium Development Goals (and was itself followed by their actualisation in Doha in 2008), this time the issue of financing for development will be addressed before the adoption of the SDGs. This sequence seems to imply that the intention

is to adapt the goals the financing, which will not probably be the case. Nevertheless, the prospects of funding that result from the Addis Ababa conference will be integrated somehow into the post-2015 Development Agenda to be adopted in September. It is with this perspective in mind that this book has been designed. Its purpose is to explore how development finance can contribute to the achievement of the post-2015 Agenda.

Varying and independent views

To this end, the book gathers together the views of independent experts. It does not seek a consensus in which each author supports all the formulated proposals. The points of view are the personal responsibility of the authors, who all have been selected for their expertise on the topic they address, whether scientific or operational[1]. The 45 authors are from 15 different countries, the majority of which are European, though all other parts of the world (Africa, Latin America, China, the United States, India, Japan, etc.) are also respresented. Several chapters are jointly written by two authors, one from the North and the other from the South.

Common attention given to sustainability and vulnerability

The diversity of the contributions to this book is consistent with its general orientation, which is intended to match the post-2015 Agenda, and is the result of the following diagnosis. It is now widely agreed that development sustainability can be expressed along three easily distinguishable, but closely related dimensions -economic, social and environmental. Sustainable development is threatened by various forms of vulnerability, which find their source in these three dimensions. To promote sustainable development, funding should therefore tackle economic vulnerability, social and political vulnerability, and environmental vulnerability (in particular, vulnerability to climate change). If vulnerability means the risk of being (permanently) affected by exogenous shocks –whether external or natural – it can be tackled either by shock mitigation or by adaptation to shocks. This distinction, now commonly made with regards to climate change, applies to all sources of vulnerability. To some finer degree, it is convenient and now usual to distinguish three components of vulnerability – the magnitude of the impact of expected shocks, structural exposure to these shocks, and adaptation capacity or resilience. Mitigation covers the first two components, while adaptation concerns the third.

Cross-sectional issues

What's new and what isn't new: When is finance innovative?

There is a certain misconception that the new agenda for development, and the new mode of financing for development that is supposed to support it, are entirely new. However, the novelty lies mainly in the proportions attributed to each mode of financing and their evolution, and also sometimes in the semantics used to describe them. If innovation in the field were to be limited to so-called 'innovative financing for development' to its current extent, it would be insufficient to really constitute the emergence of a new financing for development. More than a half century ago, some had already proposed the adoption of a 'cosmic tax' for development (Moussa, 1958), dependent on the income of the developed countries, which was more ambitious but certainly less realistic than the funding presented today as innovative.

The innovative nature of financing may in fact refer to either its source or its terms. If philanthropic sources are sometimes classified as innovative, this is essentially due to their greater volume and diversity; the principle itself is not innovative. More clearly considered innovative are the new levy

1. Only a small number of the authors (one fifth) are currently working in international institutions.

taxes or para- fiscal bases that have been introduced (e.g. airfares) or that have been proposed (e.g. financial transactions or consumption of drugs). The difficulty of using new tax bases lies in finding ones that do not generate distortions and inefficiency, and also in maintaining the link between the tax base and the purpose to which the tax receipt was originally supposed to be directed, as shown in the case of the tax on airline tickets[2].

Innovations in funding modalities are probably more promising and, even though they are often an old practice, are likely to expand. This is the case for the 'counter-cyclical loans' of the Agence française de développement (AFD), examined below in more detail. One can see throughout these various cases an attempt to respond to a problem of vulnerability.

Finally, should we consider all the financing that corresponds to the new vision of development that the SDGs are supposed to reflect as "innovative"? This would imply that the SDGs express a fundamentally new vision and that all of the corresponding funding is part of this vision, forged during the long process of the preparation of the goals. But the qualifiers 'sustainable', 'humane' and 'inclusive' that are used today to describe development in fact identify the substance of development, which is perhaps often forgetten. The development economics textbooks of half a century ago differentiated between growth and development by stating that development corresponds to economic growth that is sustained and distributed among all segments of the population. From the beginning, development was designed as sustainable and inclusive, but so-called 'development finance' has probably not taken these two qualifiers of development sufficiently into account.

Indeed, the concept of sustainability has since been enriched significantly with the construction of its three dimensions – economic, social and environmental – and financing for development should take each of these into account.

Universalism and differentiation considered more compatible

Two views that appeared to be opposing at the beginning of the process of preparation of the post-2015 Development Agenda have finally been reconciled. The Agenda is universal in that it concerns all the countries of the world and not just the developing countries, even though it appears primarily to concern those. It is universal also in that it concerns all the citizens of the world – the poor must not remain so, wherever they are ('nobody left behind'). The differentiation between groups of countries according to their specificity was, at the beginning of the process, perceived to some extent as altering the principle of universality, but over the months the need for differentiation was acknowledged. A major illustration of this is the attention paid to the category of the Least Developed Countries (LDCs), the only official UN category within the group of developing countries. There is only one reference to this category in the report of the High-Level Panel (United Nations, 2013a) and in the report of the Sustainable Development Solutions Network (SDSN (United Nations, 2013c)[3], there are five references to it in the report of the Secretary-General of the United Nations on the post-2015 Development Agenda (United Nations, 2013b), while in the report of the Open Working Group of the General Assembly on Sustainable Development (United Nations, 2014a) the word 'LDCs' appears 26 times, as it does in the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (United Nations, 2014b).

The recognition of the specific needs of vulnerable countries, and in particular the LDCs, has progressed, thanks to a large extent to the power of persuasion of the Office of the High Level Representative for Least Developed Countries, Landlocked Developing Countries and Small Island

2. We proposed, before the Monterrey Conference, a voluntary levy on the purchase of drugs in pharmacies, based on the idea of a provision for solidarity on the part of those in rich countries who have access to medicines with those in poor countries who have no access.
3. However, the 'vulnerable countries' are mentioned nine times.

Developing States (OHRLLS) and the echoing of this among policy-makers. At the same time, the intellectual coherence between the principles of universalism and differentiation has been well established. Ferdi has been able to promote this at various meetings at the United Nations (side events or interventions at the Open Working Group). All the poor of the earth deserve equal attention and, while the majority are in middle-income countries, low-income countries facing severe handicaps to growth – which are by definition the LDCs – generally have a higher proportion of poor who mostly have even lower chances of getting out of poverty. The definition of universal objectives cannot ignore the structural handicaps that characterise some countries and condition their progress towards these universal goals. It is logical and fair that the international community supports these countries in particular, even if they are not where the majority of the poor are to be found.

Specificity of the LDCs: One or more poverty traps?

However, the proliferation of special situations would inevitably call into question the principle of universality. This is why it makes sense to focus as a priority on LDCs, specifically defined as poor countries that face structural handicaps which limit their opportunities for sustainable development. In other words, these are the countries that can be caught in a 'poverty trap' (Guillaumont, 2009a). As it is used in development economics, the concept of a poverty trap could be criticised if it were interpreted as a determinism, which is not. It highlights a real risk faced by many countries. Two types of structural handicap, which are considered to some extent to be independent of countries' current will, are used in the identification of the LDCs by the United Nations: a low level of human capital in terms of education and health (assessed via the Human Assets Index, HAI); and a strong structural vulnerability (assessed via the Economic Vulnerability Index, EVI). As the level of human capital is fairly closely correlated to income per head, LDCs are often likened to poor and vulnerable countries. They are economically vulnerable according to the EVI index, which takes into account both the magnitude of external and natural shocks they repeatedly face (for example, changes in international commodity prices or droughts) and their exposure to these shocks (measured by the size of the country, its remoteness, the concentration of its exports, the structure of its production, etc.). But they are also vulnerable with regard to other indices relating to climate change or to political and social fragility. These are all arguments for offering particular support to LDCs (Guillaumont et al., 2015).

The issue of 'traps' in the development process has re-emerged in recent years in another context – a possible 'middle-income trap' that would block a country in its growth after it has passed the low-income threshold and has therefore escaped the poverty trap. The existence of a 'middle-income trap' could be an argument for specific support for lower-middle-income countries, alongside the fact that they include the majority of the world's poor. Related to this is the thesis of the 'missing middle', according to which the reduction of aid is not matched by an increase in tax revenues until a certain threshold of per capita income is reached. The middle-income trap hypothesis has been debated even more than the low-level trap, as has the missing middle hypothesis more recently. Beyond the theoretical and statistical controversy, the important point for the structure of financing within the new Agenda is that these concepts are based on assumptions and observations relating to the policies of states, while the concept of a trap that is at the heart of the categorisation of LDCs is based on a diagnosis of structural handicaps that are supposedly beyond a country's will, and thus justify specific support from the international community.

Eligibility and graduation issues: Criteria are more important than categories

When differentiation occurs across categories, there are inevitably problems of borders. The differentiation of funding according to groups of countries depends on the thresholds of the basis on which these groups are identified. This applies to groups of countries that are eligible for concessional windows of the MDBs, and to the LDC category as well. The issue of the conditions of 'graduation' then arises with acuity. It was first discussed, and often still is, in the case of LDCs, which can be explained by two main reasons.

The first reason is that various trade and financial benefits are supposed to depend on belonging to the LDC category under a binary mode (e.g. a country either has or does not have access to 'everything but arms' of the European Union), raising the fears of graduation. The second reason is related to the very working of the category, which for 20 years after its creation in 1971 included no output mechanism. The graduation conditions were defined in 1991 in a spirit of extreme caution, but in a complex manner that amplified the fears and debates (Guilllaumont 2009a, Guillaumont and Drabo, 2014).

Over the last 15 years, the question of the graduation of LDCs has evolved in a way that offers lessons for other *ad hoc* categories set up by various institutions. In the first place, the countries proposed for graduation more often than not resisted it. In doing so, they received time extensions from the United Nations, within the framework of a 'smooth transition' strategy. An important, though not often noted development was the adoption of a resolution on smooth transition through which the General Assembly of the United Nations invited the development partners to use the criteria for the identification of LDCs (including the vulnerability criterion) as criteria for aid allocation. This invitation, which takes up a proposal repeatedly made by Ferdi and which has been implemented by the European Union, is evidence of the interest in considering criteria in addition to categories and, where appropriate, in preference to categories (Guillaumont 2011a, 2013; Guillaumont et al., 2013). If the LDCs are to be given preference in international policy, it would be due to their structural characteristics. If so, it is legitimate to grant benefits according to these characteristics (or the criteria that reflect them), and one can thus meet the aims of the category while avoiding the graduation discontinuity. This is obviously not possible, however, for binary policy measures.

Ambiguous and recurring doubts about absorptive capacity

Joining concerns about the drying-up of aid once a certain threshold of income is reached, doubts are repeatedly raised, through various arguments, about the capacity of low-income countries, in particular LDCs, to absorb large inflows of external assistance. Such doubts were already being expressed more than a half century ago, in reference to management difficulties and delays in implementation, but since this period have often regarded as false pretences to avoid increasing aid. The arguments have changed over the years, sometimes supported by cross-sectional econometric estimates (an early reversal of the curve representing the impact of aid on growth rate), sometimes by the risk of 'Dutch disease' (a loss of competitiveness due to appreciation of the real exchange rate), and sometimes by the risk of institutional decay. But all these arguments have been a matter of debate and none can really resist if we consider that absorptive capacity depends on the very modalities of aid, which prevents us from considering them as reasons for limiting the volume of aid, except in extreme cases (Guillaumont and Guillaumont Jeanneney, 2010).

The global governance of development financing

Two main institutional frameworks have over the past decade welcomed discussions on financing for development. One is that of the United Nations, whose conferences in Monterrey (2002) and Addis Ababa (2015), as well as the Doha mid-term conference in Doha (2008), constitute the major events. This framework has been strengthened by the Development Cooperation Forum, which has been organised every two years since 2008 at the initiative of the ECOSOC. The other framework is that of the OECD. Originally called the Forum on Aid Effectiveness, it met in Rome (2003), Paris (2005), Accra (2008) and Busan (2011), where it became the Global Partnership for Development, before meeting again in Mexico (2014). Before the Busan conference, the Paris and Accra Declarations had contributed specifically to adopting certain important principles for aid management, such as ownership and alignment. Since Busan, the objective has clearly been widened to the whole area of cooperation for development, and the Forum's members have tried to associate themselves with two large emerging countries, China and India, which only agreed with reservations to the Busan Declaration and limited their participation in the Mexico conference. However, supported by UNDP, the new 'Global Partnership' is seeking a competence and legitimacy that would bring its role closer to that of the Development Cooperation Forum. The result is a clear need for coordination between these two frameworks, one which may be argued to be wider and more legitimate, while the other is perhaps more operational.

Another problem that reveals this competition between institutions is the proliferation of international official meetings dealing with the financing of development[4], involving what is probably an excessive number of senior officials from developing countries, despite the meetings being designed to ease their task.

As it is not necessarily the same people (from the North or South) who participate in all of the meetings, this may also result in a consistency problem, and certainly in a coordination problem (Guillaumont, 2011b). An example is provided again by the case of LDCs. Seven months after the adoption of the Istanbul Programme of Action (IPoA) at the end of the United Nations Conference on LDCs in May 2011, the final Declaration of the Busan conference made no mention of the LDCs, which brings to mind the title of the famous Alfred Hitchcock film, *The Lady Vanishes*; here, the LDCs vanished. In fact, while LDCs as a category are present in the meetings and records of the United Nations, they are not as present elsewhere, where more informal and variable groups of fragile states are preferred. It is no wonder, then, that the relationship between the structural economic vulnerability present in LDCs and the fragility of states is not better analysed and taken into account in policies (Guillaumont and Guillaumont Jeanneney, 2009)

Separate issues do not mean separate finance: Earmarked funds

Another general trend in financing for development is the proliferation of funds specific to a sector or a country – so-called 'arrow earmarked' funds set up within the multilateral system. The proliferation of sources of assistance to the same country, known as the fragmentation of aid, has indeed drawn much attention, as evidenced by a number of studies and statements, and we can assume that there is an optimal degree of fragmentation, noticeably depending on country size.

Earmarked funds in the multilateral system, either in the form of a specialised multilateral institution, or within a multilateral institution (a so-called 'multi- bi'), raise a problem of greater magnitude, despite having received less attention. Are they a suitable financing instrument to promote sustainable development?

These funds were often created to meet sustainable development needs that were not being met by the existing system and they mainly address health needs (e.g. vaccinations with GAVI, a response to the challenge of AIDS with UNITAID), climate change (e.g.with the GEF) and acute country crises (the Central African crisis). They helped to obtain greater resources, were supposed

4. Such as the UNCTAD XIII (in Doha in 2013) or the conferences of the United Nations, which are admittedly only decadal focusing on groups of specific countries (LDCs at Istanbul 2011, SIDS at Samoa 2014, LLDCs at Vienna, 2014), not to mention the meetings of the Bretton Woods Institutions.

to be more visibly effective and were spent more easily than through traditional channels, while having the advantages of multilateralism. Some seem to envisage financing for development after 2015 as a juxtaposition of sectoral funds (health, education, energy, infrastructure, etc.). But the number and volumes of these thematic funds – they represent around 800 funds at the World Bank and 60% of UNDP disbursements – raises three problems. The first is the appropriation by the recipient countries of policies designed by the leaders of thematic funds. The second, linked to the first, is the consistency of these strategies with the policies of the countries in the area and beyond. The third problem is related to the global geographical allocation of resources resulting from the disbursements from these funds.

Conditionality, results and vulnerability
The policy ownership issue has been discussed now for several decades, in particular in the context of ajustment policies and support. To avoid the shortcomings of the traditional conditionality, relying mainly on the use of policy instruments, a new kind of conditionality has been conceived, relying on results or performance and applied by the European Community to a small share of its budget support (Adam et al., 2004). While its application has remained limited, more and more interest was expressed for the result approach in aid management. For the enhancement of ownership in recipient coutries, the result or delivery approach seems quite relevant, but the results (obtained from a given support) may depend on exogenous circumstances, as well as initial conditions. It means that it should be supplemented by a consideration of possible exogenous events, and more generally of the countries' vulnerabilities.

Development finance for economic sustainability

Sustainability first implies sustainable economic growth. Financing for development must therefore allow countries to cope with the economic vulnerabilities that may affect their development. The link between financing for development and sustainable growth covers many aspects, of which only a few are discussed here.

External assistance to dampen shocks
A great debate has been ongoing in the macroeconomic literature on aid effectiveness for 15 years. It has weakened complacent ideas according to which the effectiveness of aid depends essentially on the quality of policies and institutions in recipient countries. At the same time, it does appear that aid is more effective in the case of exogenous shocks because it allows amortisation (see a review of these cross-sectional econometric studies in Guillaumont and Wagner, 2014). In brief, shocks slow down growth and, as aid dampens shocks, its marginal effectiveness is stronger in vulnerable countries. Prioritising help for these countries, and in particular LDCs, is therefore legitimate not only for reasons of equity, as seen above, but also for the reason of effectiveness.

This effect, highlighted in various works (Chauvet and Guillaumont, 2001; Collier and Goderis, 2009), does not exclude the possibility of problems with aid instability, but the issue is not that aid in itself is unstable, but that it is sometimes unpredictable (hence the need for clear criteria for allocation), and in particular that this could have an overall destabilising impact. But more often, and in any case compared to the evolution of exports, aid has a stabilising impact, which explains why its marginal effectiveness is, on average, stronger in countries where exports are unstable (Guillaumont, 2006; Chauvet and Guillaumont, 2009).

Beyond volatility, continuity: Is there a gap in the evolution of development finance once aid *declines?*

Another aspect of aid effectiveness, and one that has been insufficiently explored, is the role it can play in the launch of economic growth in poor countries (through its impact on what are known as 'growth episodes'), and also on the duration of growth (Guillaumont and Wagner, 2012; 2014). This impact seems to be more significant in the case of exogenous shocks.

It is generally agreed that the importance of ODA in financing development declines with growth of income per head. But the speed of the decline and the threshold above which the aid could disappear are obviously matters of debate (as was made clear above in relation to the graduation of LDCs). The substantive issue is whether, above a certain threshold of income per capita, the growth is sufficiently sustainable, or 'self-sustaining', to no longer require external support on ODA terms. If countries are highly vulnerable to external or natural shocks, they may still need external support on preferential terms.

While the level of aid to GDP tends to decrease with increasing per capita income, the volume of tax revenues does not grow equivalently, at least up to a certain threshold. This was recently argued by Kharas and Rogerson (2014), who suggested the existence of a 'missing middle' that could justify the allocation of aid to lower-middle-income countries. Behind the discussion of the strength of the relationship that underpins this thesis, the question is whether the lack of fiscal revenue in countries whose income per head is just above the low-income threshold results from structural factors or political factors that are specific to those countries. Political factors are reversible and do not justify a specific effort from the international community. If the total volume of ODA is finite, whatever is taken by each country is at the expense of others.

The rationale for assistance beyond the low-income threshold seems stronger in the case of countries that are clearly vulnerable for exogenous reasons. This is what justifies the continuation of assistance to LDCs – the relatively numerous LDCs that are above the low income threshold, but are all still vulnerable[5].

Which foreign-domestic linkages can make growth sustainable?

An important question raised by the previous debate concerns the likely linkage from concessional external financing to local (public and private) funding. Here, again, the impact of aid on domestic savings was the subject of an old debate (Guillaumont, 1985) in which radically opposing opinions joined to denounce the risk of eviction (crowding out) of savings by foreign aid. Two clear lessons emerged. One was that, even though there may be some substitution of aid to saving, the net effect of aid on investment remains positive. The other was that the relationship should be analysed in a dynamic manner, including the effect of additional investment on growth, and through it, on savings. Today's debate about the effects of aid and external funding on tax revenue lights the same way: even if there is some substitution of aid to tax revenues, the net effect on the financed expenditure is positive and the key is to consider it in dynamic framework through the effect on investment and growth (Guillaumont and Guillaumont Jeanneney, 2010). This leads to finding the uses of external funding that are most likely to lead to an increase in tax revenues, and in private investment as well. There is no doubt that technical assistance can still play a role here, as well as the development of the infrastructure for private investment. With this in mind, 'aid for trade' may have a significant impact (Cadot and de Melo, 2014).

Financing regional integration

5. Kharas and Rogerson also recognise the merits of preference being given to LDCs for assistance.

One of the directions of external financing that can contribute effectively to the sustainability of economic growth is the support it can provide to regional integration. Regional integration is a powerful factor in reducing vulnerability, especially in smaller economies, through the various forms it can take (trade, money, coordination of budgetary policies, promotion of regional infrastructure, etc.). It creates an economic area that is more diversified than a narrow national space could be, reduces production costs and, above all, under its terms it requires integrated countries to carry out better economic policies and allows the sharing of risks between them[6].

External support is essential to implement the integration measures, the benefits of which are often not perceived by the countries concerned to the same degree. So far, it does not appear that external financing has been sufficiently affected to this end (Guillaumont and Guillaumont Jeanneney, 2014). If there is one area where the concept of 'leverage' (a term that is often improperly used) can find a useful application, it is likely to be in the financing of integration.

A variety of means to cover the risks

There are a range of ways in which funding can cover the risks inherent in a development process. The emphasis in the previous sections has been on its assignments, but its financial conditions are obviously important. Debt sustainability is a major component of the sustainability of growth. Despite a mass of studies, this remains a complex and controversial topic.

Another domain that has been less explored, but has a high potential for innovation, is guarantees that can be made to investments in countries where the risks are high but where the investment needs are no less.

The potential of the adjustment of the financial conditions of loans, including ODA loans, to make a contribution to making growth more sustainable should be noted, through flexibility in debt service depending on the economic environment. This has been implemented by the Agence française de développement through 'counter-cyclical loans', with the counter-cyclicality not in the volume of loans granted, but in their service. The debt service can, for example, be partially deferred (or accelerated) based on a price index of exports. It is regrettable that this practice has not been extended further since the first loan of its kind was granted by the AFD, and it shoud be noted that it does not address the vulnerability of the countries that mainly receive grants.

Finally, in the field of macroeconomics one should not forget the sustainability that can be brought about by monetary arangements offering a guarantee of convertibility to a partner who can thus continue to trade even after a negative shock on the balance of payments has led to a depletion of external reserves. This is the case for the monetary agreements between France and the franc zone monetary union, whose contribution to growth sustainability is thus enhanced. As these agreements stipulate that the countries benefiting from the guarantee must respect a certain monetary discipline, the principle, to which we will return later, can be referred to as a guarantee in exchange for rules.

Is compensatory finance obsolete?

One instrument remains emblematic of the struggle against shocks and vulnerability, namely, compensatory financing of (negative) shocks. This was implemented in 1963 through the IMF's Compensatory Financing Facility –an instrument that has since been repeatedly reformed (and even renamed)– and, on a sectoral (agricultural) basis from 1975 to 2000, by the European Commission through Stabex, which was intended to compensate falls in agricultural exports of African, Caribbean and Pacific signatories of the Lomé Convention. Stabex was replaced in the

6. See the proceedings of Ferdi's 10th anniversary conference, Guillaumont Jeanneney (2014), Hugon (2014) and Morrisson (2014).

Cotonou Convention by Flex, which has since been supplemented by Super-Flex. The general problem that all systems of compensatory finance for poor countries in the event of adverse shocks –such as shortfalls in export earnings due to exogenous factors beyond the country's control– have to face is the following: in principle, the compensatory finance should be automatic and fast, but its implementation always requires control of the exogeneity and the magnitude of the shock by the body which funds it. This control inevitably delays and limits the disbursement, especially if it turns into real conditionality. The Stabex story illustrates perfectly this tension between an original principle of automaticity and a growing desire to control the use made of the transfers, which then ceased to be counter-cyclical (Guillaumont and Guillaumont Jeanneney, 2003).

This difficulty should not lead to a rejection of the principle of compensatory financing of shocks, which still has an important role to play in making growth more sustainable in poor countries. However, it does require that such financing be designed and developed on a clear basis. If a conditionality of transfers designed after the shock is hardly compatible with speed of disbursements, it is conceivable to make automatic access to compensatory financing subject to the prior adoption of rules of domestic management of shocks. The countries concerned would thus be encouraged to develop their own means of resilience, either through the quality and flexibility of their economic policy, the management of their foreign reserves, or the adoption of internal mechanisms for the protection of the people most vulnerable to shocks. It would be another application of the principle of 'a guarantee in exchange for rules'. On the other hand, the international capacity for rapid and automatic response to exceptional shocks, in particular those related to natural disasters, still needs to be strengthened and combined with a more lasting support (Guillaumont, 2009b)

Development finance for poverty reduction

It is well recognised that sustainable development implies inclusive economic growth, i.e. associated with the entire population of a country. The financing of sustainable development should lead to the reduction of poverty in its various dimensions – monetary and non-monetary. Its modalities are important here. It should be noted that if funding leads to more stable growth, it also makes it more favourable to the poor, because macroeconomic instability has dispropotionately unfavourable effects on the poor. Regardless of this indirect effect, several major links exist between financing for development and the reduction of poverty, as illustrated by the contributions to this book.

Financial instruments to protect the poor from natural hazards

The previous section has highlighted the role of insurance against shocks that foreign aid could play at the macroeconomic level. At the microeconomic level and within each country, domestic finance, possibly supported by external funding, must help the poor to protect themselves against the risks they face, in particular natural hazards. The high risk of low-income people being caught in a 'poverty trap' when a shock occurs (a poor harvest, a fall in prices of commodities, disease, etc.) makes financial mechanisms that enable them to protect themselves particularly useful. Protection, or insurance, not only has an immediate social effect, it is at the same time a factor in economic growth, especially in rural areas where agricultural innovation is often constrained by climatic risks.

A wide variety of instruments exist including, among others, index-based weather group insurance (indexed to avoid moral hazard, with group insurance to allocate fairly the proceeds of the insurance between the members) and also adapted forms of credit and savings.

EnabIing the poor through financial deepening and trade infrastructure

Beyond the specific financial instruments intended to deal with the risks, there is the financing of any economic and financial infrastructure that can make development socially sustainable.
Financial deepening, as measured by the increase in the M-to-GDP ratio, may itself be a factor in poverty alleviation, provided it is achieved according to the proper sequence – seeking to increase deposits, before credits, to lead the poor to use the banking system. New technologies can accelerate this process, in particular developments in mobile telephony and in mobile banking, which greatly facilitate the access of the poor to financial services.

It is with this social perspective that 'aid for trade' must also be re-evaluated. At the heart of these flows, along poorly defined contours but with a clear purpose, is the financing of transport and communication infrastructure. This can be directly favourable to the poor by reducing their marginalisation, while also enhancing global economic growth through increased trade.

Looking for impact: A general concern for social impact

The financing of sustainable development has brought into focus a fundamental question of public economics, which has been addressed historically on various occasions – the question of how to assess the social (or environmental) impact of investment beyond its monetary profitability, and how to ensure this is taken into account by the investors themselves. This is both a methodological and a political question. It was at the heart of the Pigou analysis of externalities, but has been contested by proponents of a strict analysis of the profitability of projects, who see externalities as false reasons for the wrong projects (and, more rarely, vice versa for negative externalities). Efforts made at the World Bank to integrate the impact on income inequality into calculations of social profitability (e.g. Squire and van der Tak, 1975) remained without operational application, partly because they raised difficult methodological problems, but mainly because it seemed preferable to act on the distribution of income by redistribution, which meets other limits. In this old debate there has, apparently, been insufficient reflection on the lesson offered in the book by Albert Hirschman, Development Projects Observed (1967) that side effects will often reveal themselves to be central, essentially for their sustainability. Finally, what is sought in 'impact investment' is to design investments that, while ensuring some profitability in the short term, will provide prospects of long-term profitability through their social effects (capacity building or environment), then lead to sustainable development.

Is global earmarked funding targeted to the poor?

Another issue raised by the structure of financing for development, and discussed above, is that of vertical funds earmarked for a particular objective. As this objective is usually a social one (the major funds are in the field of health), one can imagine that they would contribute to the social sustainability of development. And yet it is on the basis of their social impact they have often been criticised. Such funds are sometimes accused of benefitting middle-income countries more than low-income countries or LDCs. To make a judgement on this issue, an analysis is necessary (which Ferdi intends to conduct soon) that allows factors of allocation other than per capita income to be taken into account, in particular the size of the population (higher in middle-income countries), but also the specific needs of the countries in terms of external support for health (for instance, depending on their distance from achieving the SDGs) and their performance or efficiency in moving closer to the Goals. In the case of health, which is to a large extent a global public good, the international community is led to take into account the impact of the funding it grants on a global level, and not only on health in the countries where the funding is being implemented. A similar problem arises for funding to cope with climate change.

Development finance to address climate change

The additionnality issue and the channel of financing

This is an issue the donors do not like. New funding is presented as additional, while it cannot truly or completely be so, since national budgets are subject to the rule of unity and, anyway, public resources are partly fungible. The question of additionality then becomes a matter of degree, which can only be assessed *ex post*. After the fall of the Berlin Wall, Western countries claimed their willingness to assist countries that were previously members of the Soviet bloc and not diminish their development assistance efforts; a claim which the evolution of their efforts has exposed as false.

With funding devoted to climate issues, however, a different question arises. There is no tradeoff between two competing destinations for the same type of financing, but a competition between two or more purposes. Naturally, it is hoped that the funding which will be decided for climate change will not come to substitute for development aid, but much will depend on how the funding will be implemented.

Imagine that the amount that will be mobilised to cope with climate change has been defined, or even decided. You must then choose between multilateral channels (new or existing institutions) and bilateral channels (powered mainly by national resources). The risk of substitution with development assistance is probably higher in the case of bilateral management of funds. It is also higher for adaptation to climate change than mitigation.

The mitigation-adaptation tradeoff

Adaptation concerns every country individually, and the funds a country receives under this name are supposed to be used for its own development. They can be channelled in a different manner and according to specific criteria, but their use cannot be dissociated from that of development aid. There is therefore a risk of fungibility threatening the additionality of resources. The specificity of the criteria that the allocation of funds for adaptation will reflect can only allow them to be differentiated from the other flows of funds for development.

Mitigation of climate change, instead, corresponds for the most part to the production of a global public good. It must be implemented in individual countries, but in the interest of the planet. The funds made available for this purpose should be allocated where mitigation opportunities are most important, according to the financial conditions that will be associated with them. The financing of adaptation and that of mitigation, distinguished by their purpose, will therefore tend to mainly involve different countries – more developed countries for mitigation than for adaptation.

It is not possible to deal with the geographic allocation of funds for adaptation and for mitigation, whose objectives are different, at the same time. In the following, we assume the respective share of 'climate finance' that will be devoted to each of two objectives to be given by political decision.

The recipients of this financing will be different. If it is relatively easy to find projects for adaptation that lead to development, it is difficult to identify real mitigation projects. Most often, mitigation may occur through the modalities of implementation of all development projects. Therefore, the choice of a model for the allocation of climate finance between countries is essentially a question relating to adaptation funds.

The geographical allocation of adaptation funds

Adaptation funds must meet the needs of countries affected by climate change, for which they are not solely responsible and to which they are less resilient the poorer they are. A problem arises with the allocation of funds for adaptation, insofar as these funds will go through multilateral organisations (general or specific, existing or new). This is the type of problem that all multilateral development banks have to solve and for which they have implemented a system of *performance-based allocation (PBA)* (Guillaumont and Wagner, 2015). In this context, a specific allocation formula will have to take into account a criterion of per capita income and a performance criterion that must be defined (see infra), but in particular it will have to include as a criterion vulnerability to climate change. This requires a measure of vulnerability, such as Ferdi's indicator of physical vulnerability to climate change, or something similar (Guillaumont, 2015). The key is that the measure of vulnerability to climate change should be independent of (either present or future) policy, i.e. a vulnerability for which the recipient countries are not responsible, in order to justify the broad support of the international community. The need for concessional resources for adaptation must therefore be determined by per capita income and the index of vulnerability to climate change, while the performance or effectiveness would be measured by an index of adaptability, which itself might be built according to different options (a general performance index, similar to that used in the allocation of ODA models, an index of the quality of environmental policy, an index of quality of the already financed adaptation operations, a portfolio-type assessment, etc.).

Suppose a simulated global distribution of adaptation funds from a template of the above type, combining three indicators of physical vulnerability to climate change, income per head and performance, according to coefficients representing a degree of international consensus. The model would define for each country the equivalent of a 'real need' or of a right to draw on the adaptation funds, on the basis of which it could apply to the various institutions of financing through which the adaptation fund would be channelled.

It is worthwhile recalling here that the geographical allocation of the adaptation fund should be consistent with the allocation of development funds, insofar as the adaptation is only a component of development.

Mitigation: What is the allocation issue?

For mitigation, the problem of allocation is different since the aim no longer concerns each particular country, but is the production of a global public good. Moreover, mitigation is not only sought through pure mitigation projects; it is also present across all development projects. The notion of an envelope by country of the concessional funds for mitigation is therefore questionable. An optimal allocation would be one that equalises the marginal cost of avoided CO across countries (with regard to effectiveness), but that would also take into account income per head (for equity). The former depends on the nature of the projects presented. As a first approximation, one could conceive of a formula that, besides the criterion of equity, would use a performance criterion proxied by an indicator of climate policy.

The effectiveness issue: Performance again

For the best use of the resources mobilised against climate change, effectiveness must certainly be taken into account. If it is impossible to measure project by project, a macroeconomic assessment of the performance of the countries where the projects are carried out would be necessary.

But what performance should be assessed? It could be general economic performance and, in this case, its measurement would not differ from one that is eventually used for development aid. It may be the quality of a country's climate policy, i.e. its commitment to the fight against global warming, which would mainly be its energy policy. But this quality, measured by various indices, is more relevant to mitigation than to adaptation. Finally, looking to the PBA as an example, it would be possible, and probably more rational, to have an assessment of the portfolio of projects financed by the funding institution and relating to mitigation and adaptation.

2. The responses in this book to the questions of sustainable development financing

The first part of this introduction shows how numerous and complex the questions relating to sustainable financing for development are. Each requires a debate that Ferdi, through this book, wished to prompt by bringing together respected international experts on development. While far from answering all these questions, the book does offer original views on many key issues. In this second part of the introduction, we bring out some of the key messages that emerge from these views, while insisting on the fact that the essential element lies in each specific contribution, all limited in size.

How the three dimensions of sustainable development and the corresponding vulnerabilities are dealt with throughout the book

New players, new challenges, new tools

The 15 years since the adoption of the Millennium Development Goals (MDGs) have seen profound economic and geopolitical international changes. These have led to a new international consensus on development. The first part of the book is devoted to this major evolution and its implications for the financing of development (Chapters 1 to 8), while the subsequent three parts address, in turn, the way in which financing for development is led to take into account each of the three dimensions of sustainable development – economic (Chapters 9 to 14), social and political (Chapters 15 to 20) and environmental (Chapters 21 to 26).

Giorgia Giovannetti and Mauro Lanati (Chapter 1) describe the different financing instruments (both new and old) and raise the question of the role of aid from new and traditional development stakeholders in international development financing. These points are developed in the following chapters (2 to 8). Believing that the financing for development follow-up process has to be modernised, Serge Tomasi proposes, in Chapter 2, the creation of a new and more comprehensive indicator for official development finance (ODF) that takes better account of developing countries' diverse economic trajectories and the range of financial instruments, regardless of their level of concessionality. This indicator would thus promote an optimal allocation of resources. Justin Yifu Lin and Yan Wang (Chapter 3) also propose expanding the definition of development finance to take into account all forms of funding to support development. Their proposals today are reflected in the OECD's work to develop a concept of 'Total official support to sustainable development' (TOSSD).

In Chapters 3 to 8, the book addresses issues related to the evolution of the balance of power between development stakeholders and its implications for development financing. It gives the floor to authors illustrating the new diversity of development and allows for a comparison of the views of senior representatives from developed, emerging, and recipients of aid countries on the architecture and global governance of development.

While each individual will have his own views on financing for sustainable development issues, all would consider that the strong interdependencies among countries have two major implications. On the one hand, many economic, political and environmental issues are being regionalised or globalised, and only coherent and coordinated action between development actors can deal with these challenges. On the other hand, all countries, particularly the richest, have a responsibility for the fate of others, notably of the most vulnerable. Sustainable development, in all its components, is therefore more than ever a shared concern.

The rest of the book addresses each of the three dimensions of sustainable development through their corresponding vulnerabilities.

Dealing with the financing of economic sustainability, especially in the most vulnerable countries, Chapters 9 to 14 provide answers to issues of the mobilisation of domestic and external resources, how to better measure these resources and how to assess their real potential. This second part of the book also explores which instruments are able to promote the reduction of economic vulnerability and what can be done in vulnerable countries and fragile states.

The next part (Chapters 15 to 20) deals with the financing of social and political sustainability, and offers a set of additional thoughts on the socio-economic, financial, agricultural and health risks faced by the poorest, as well as the tools to be developed to confront them.

The last chapters (Chapters 21 to 26) focus on the financing of the environmental dimension of sustainability. In this final part, various mechanisms to mobilise sufficient funds to combat climate change and to preserve and promote the environment are proposed and debated, as well as some principles for the allocation of these resources in order to make their use as effective and relevant as possible.

Faced with huge financial needs, an uncertain global governance

The above-mentioned changes require a renewed global development financing architecture to be conceptualised, both its objectives and its means of implementation.

The international community is engaged in the definition of an agenda for development after 2015, expanded to sustainable development and involving a sharing of responsibilities between the different development stakeholders. These issues are recalled in particular by Barry Herman (Chapter 8), who finds that the Sustainable Development goals (SDGs) reflect in part this change and are a concrete materialisation of the rapprochement between the development, environment and climate agendas. The development and sustainable development agendas are now one, and the integration of climate issues into the new development goals should promote coherence in the management of these issues, starting with the decisions to be taken during the three major upcoming international events of this year.

However, according to Pierre Jacquet and Varad Pande (Chapter 26), the plurality of the SDGs reflects the difficulty of reaching a global consensus on sustainable development, particularly because the actions to achieve the objectives are difficult to identify, and because the relationship between the development and sustainable development agendas turns out to be complex due to different chronological priorities. For these two authors, the alignment of the objectives and interests of the various stakeholders is the key to the ongoing negotiations. Barry Herman (Chapter 8) considers that it would be naive to minimise the difficulties to obtain a set of binding decisions adopted by all that can satisfy the high, but legitimate, ambitions displayed today. He argues that in order to prevent the Addis Ababa conference from producing empty outcomes, the agreement or the message will have to be as clear and strong as that of Monterrey and will have to be endorsed by all, while a set of forums on development has developed outside the United Nations area since Monterrey (notably the Global Partnership for Effective Development Cooperation, the G20 Development Working Group, and so on).

The credibility of the agenda will depend on the ability of the development stakeholders to promote newly adjusted and relevant concepts of financing. That is the purpose of this book, which investigates how the new financing for development enables the international community to tackle vulnerabilities that affect its sustainability.

The preparatory work for the three main conferences of the year has led to the outlining of a first diagnosis of the financing needs for sustainable development agenda. The main message coming out of this perilous exercise is, according to Giorgia Giovannetti and Mauro Lanati (Chapter 1), that the needs are enormous, and great exceed the funding capacity of traditional donors. Furthermore, Pierre Jacquet and Varad Pande (Chapter 26) think that sustainable development financing is about much more than just money, and that the question of ways and means should be at the core of the debate. The challenge is therefore to mobilise additional resources for the new objectives of the international community and to define the most effective manner to achieve these objectives.

The role of the private sector in the financing of sustainable development

A sustainable improvement in the living conditions of populations requires the funding of a large number of structural elements of development. Rich countries became developed by the adoption of rules and institutions favourable to a market economy. Jaime de Melo and Laurent Wagner (Chapter 18) recall that no country has known economic progress in the long run by closing itself to trade, which is an engine of growth rather than the other way around, and that growth trickles down. They emphasise the fundamental role of private development actors, and the importance of funding to promote trade as a way to alleviate poverty and provide the economy with the means to develop sustainably.

The economic progress made over the past two decades by most middle-income countries, including emerging countries, validates this principle. International cooperation by rich or emerging countries and the multilateral development banks, the great diversity of which is recalled by Jean Michel Debrat and Mamadou Lamine Loum (Chapter 7), remains legitimate to support this progress, which is sometimes fragile, through a set of financing instruments adapted to potential market weaknesses. Several chapters deal with essential instruments for the financing of sustainable development, such as concessional and non- concessional loans or better access to specific risk-management mechanisms. They emphasise the complementarity between the roles of private and public stakeholders in the financing of sustainable development, in particular when market weaknesses prove too numerous.

This is particularly the case in vulnerable countries. It is also the case for the funding dedicated to the promotion of regional and global public goods, which requires the fair sharing of means and efforts across all countries and the adoption of common regulatory rules.

If the future of financing for sustainable development depends on funding from the private sector, combined with suitable regulation and targeted support from the public sector, this book shows that there is a need for differentiation of development goals and types of funding across countries and according to the challenges that they face, with a particular focus on the two things that are most sensitive to finance – the development of vulnerable countries, and the preservation and promotion of regional and global public goods.

The potential of financing for sustainable development in poor countries

Giorgia Giovannetti (Chapter 1) stresses that no individual source of financing is independently sufficient to successfully provide the required resources for sustainable development financing. However, if the overall funding needs are considerable, they are particularly acute in countries facing strong structural handicaps where ODA is often an important source of funding. ODA aims to address economic, socio-political or environmental and climate vulnerabilities while contributing to mobilising other potential sources of financing of the economy, whether public or private, local or external.

In the domestic field, better mobilisation of domestic public resources may relieve national budgets that are under tension and release resources that are essential to development financing. Through an alternative measure of non- extractive resource tax efforts in developing countries, Gerard Chambas, Jean-François Brun and Mario Mansour (Chapter 11) argue, however, that the potential for additional resources that would come from an improvement in policies is not necessarily that high in the short term. This is particularly the case in many low-income countries, fragile states, sub-Saharan African countries and, in particular, for member countries of West African Economic and Monetary Union (WAEMU), where the tax potential outside of extractive resources is better exploited than in many countries of Asia and Latin America, and most countries that are largely dependent on extractive activities. For Chambas, Brun and Mansour, the debate should focus more on public expenditure effectiveness and the need to improve tax neutrality than on the mobilisation of additional fiscal resources.

A specific contribution comes from Grégoire Rota-Graziosi and Bertrand Laporte (Chapter 24), relating to the extractive activities tax system. They analyse the factors of an optimum mining taxation. Highlighting the contrast between the slight increase in tax revenues from the mining sector in Africa since 1995 with the strong growth in revenues from exports of the companies that exploit them, Rota-Graziosi and Laporte underline the difficult tradeoff between taxation and attracting investors to extract and exploit resources. They stress the three principles for a fair sharing of mining revenue and to avoid the 'resource curse': transparency, simplicity and neutrality. Moderate efficiency of mining taxation makes countries vulnerable to aggressive tax optimisation practices. Sufficient capitalisation and a good VAT liability of mining companies should limit these practices, but, for these authors, these two conditions are rarely met in developing countries.

Released public domestic resources should allow local and national authorities to stimulate the mobilisation of private domestic resources in order to finance sustainable development in the long run. Bruno Cabrillac (Chapter 10) explores the conditions of an effective private savings mobilisation policy, recalling nonetheless that each measure may be subject to specific tradeoffs with other economic policy objectives. A first requirement is to ensure the stability of prices through good macroeconomic policies. This involves correctly adjusting the level of financial repression to encourage investment without harming savings, increasing taxes with relevance in order to raise public savings without stifling private savings, and liberalising capital to develop private savings by avoiding increasing financial instability. A second condition is a high quality banking sector, which requires the following: increasing the capacity of the regulator, which has a cost; defining well the degree of regulation; promoting the opening- up of the financial market, which increases the need for regulation; implementing a proper monetary policy; and guaranteeing bank deposits while taking measures to prevent the moral hazard an implicit state guarantee may cause. In addition, the mobilisation of private savings requires the promotion of financial inclusion – which is also dealt with in Chapter 17 by Sylviane Guillaumont Jeanneney and Roland Kpodar in the case of poor countries – and the implementation of specific policies such as, for instance, the adoption of fiscal incentives for private savings.

In addition, the complexity is not so much in the recommended 'recipes', which are fairly conventional, but in their applicability to harsh environments. In Chapter 17, which is devoted to the promotion of pro-poor financial development, Sylviane Guillaumont Jeanneney and Roland Kpodar emphasise that in countries where the proportion of population who is 'underbanked' is high, priority must be given to the promotion of access to a powerful and innovative payment system and the safeguarding of savings, before access to credit. Access to credit can then be promoted via better geographical coverage of banks and innovations like mobile finance, a better definition of property rights and better financial education of the population.

The released resources should also contribute to attracting private external resources, including foreign direct investment and remittances from migrants. If, as claimed by Bruno Cabrillac (Chapter 10), these resources alone will not cover future funding needs, they are still a very important potential source. Using several scenarios based on hypotheses on the evolution of a country's income and inequalities between countries, population, education, and costs of migration flows, Frédéric Docquier and Joël Machado (Chapter 12) believe that by 2100, the share of remittances from migrants in the GDP of low-income countries, which is already significant today, should at least remain the same and, under some scenarios, could be multiplied by four, or even by ten in an optimistic scenario.

The central question remaining is how to direct these flows towards the financing of sustainable development. The book focuses on the incentive effect of an adequate taxation, and on the importance of supporting specific instruments, such as societal entrepreneurship. Jean-Michel Severino and Pierrick Baraton (Chapter 20) specify its potential and the conditions for its development. The authors analyse companies whose objective is profitability but that try to take into account externalities related directly or indirectly to their activities. The viability of this form of financing for sustainable development lies in the fact that it can allow these companies to solve long-term strategic problems for their group, such as markets affected by climate change, environmental degradation, poverty, and so on. Severino and Baraton admit the difficulty of measuring the extent of societal entrepreneurship, which was estimated at US$7 billion of assets in sub-Saharan Africa in a recent study by JP Morgan. Considered as being complementary to ODA, in terms of their amount and by their targets, these investments are expected to accelerate. For these authors, the development of societal entrepreneurship implies two conditions: i) regulators and public authorities have to adopt a legal and regulatory framework that is conducive to societal entrepreneurship; (ii) mission investors must be able to better account for the effectiveness of their contribution, although their impact may still be difficult to assess.

The persistent role of ODA in vulnerable countries

The book thus highlights the persistent importance of ODA for the poorest and most vulnerable countries, while it should be noted that there has been a recent tightening of public budgets devoted to development policies in many OECD/ DAC countries.

According to Paul Collier (Chapter 15), the conditions for integration into the international market economy are not satisfied in fragile countries – they are isolated, their domestic markets are too small, and their production units are atomised, so they are therefore characterised by a general inefficiency, a sub-specialisation, the unavailability of certain goods and services essential to domestic production due to prohibitive costs, and so on. The author draws a parallel with the Great Britain of the eighteenth century, when there was a similar need for investor 'pioneers' and 'risk takers' who were able to invest in activities that were potentially sustainable in the long run, but for which the return on investment remained hypothetical. Collier notes that a fragile state does not automatically produce such investors, and thus considers development assistance as the primary means of encouraging these indispensable pioneer investors to intervene in long-term viable activities, including fighting against remoteness factors, by subsidising infrastructure and capital and by allowing investors the possibility to insure against political risks.

In poor and vulnerable countries, ODA plays a critical role (the so-called 'catalytic effect') in mobilising other sources of financing in an economy.

ODA is expected to improve the mobilisation of domestic public and private resources (Chapter

10), including through the promotion of local actors (Chapter 7) and the promotion of national banking and financial institutions (Chapter 17).

Aid can also facilitate activity by subsidising loans to SMEs and agriculture (Chapter 17), by granting guarantees (Chapter 14), and by contributing to making available a set of tools to reduce the risks facing the most poor (Chapter 16).

Julia Benn, Cécile Sangaré and Mariana Mirabile, in Chapter 14, specify that the guarantees for development must be considered as a complement to traditional forms of aid, and not as a substitute. Furthermore, they emphasise that guarantees remain an underutilised instrument, although they note that the amounts invested through such guarantees doubled between 2009 (US$3.2 billion) and 2011 (US$6.4 billion). Their use should be increased when market conditions enable additional resources to be mobilised for development, i.e. when there are good regulatory and legislative frameworks, good access to reliable payments systems and open and transparent tender processes.

With regard to the role of ODA in risk reduction, Alain de Janvry and Elisabeth Sadoulet (Chapter 16) point out that exposure to uninsured risks is a major source of low growth and poverty. They believe that in poor countries where people are most exposed, ODA should promote the use of financial products such as weather index insurance or flexible savings and credit products. ODA should also allow the growth of microfinance through the reinsurance of credit lines, support the installation of credit bureaus to improve the sharing of information on customers risk, and further improve access to credit for emergency funds.

ODA must also contribute to reducing the health risks of the most vulnerable. However, according to Michel Sidibé (Chapter 19), the global health funding system suffers from profound evils which must be quickly tackled: i) insufficient funds; (ii) poor coordination, often increased by national sovereignty which undermines transnational coordination of global health financing in the absence of strong accountability mechanisms; (iii) a dependency of poor countries on external financing; (iv) volatile and unpredictable aid; (v) unequal distribution of resources, to the detriment of the most vulnerable; (vi) socio-economic and political factors of health remaining neglected in health policy; (vii) weak accountability of most of stakeholders; and (viii) under-investment in the prevention and anticipation of future diseases and pandemics. Sidibé recommends the adoption of a global compact for health with the implementation of a system of minimum social protection around the world funded by international solidarity which would be increased to 2% of global GDP to this end, the creation of a global equity health fund, the adoption of a global consensus on the universal right to health and the ability for all to be able to exercise this right, and finally the adoption of an international regulatory framework to compensate for vulnerabilities and inequalities.

The development of new uses of development assistance to facilitate its catalytic effect materialises essentially through the blending of public and/or private financial tools, also called 'mixed financing'. Pierre Jacquet and Varad Pande (Chapter 26) consider that it should no longer be regarded as a subsidiary of the discussions on financing for development, but rather as a key method. For them, blended finance creates favourable conditions for sustainable development by orienting private interests towards the promotion of global and local public goods. It can encourage a renewed focus on performance and results, and must therefore be recognised as a structural element of the post-2015 agenda.

In addition to public-private partnerships, subsidies on loans (a classical tool of development banks), blended finance and results-based financing programmes, Michel Sidibé's proposal (Chapter 19) of a Global Health Equity Fund bringing together public and private sectors and civil society that can mix their resources and improve their coordination, and the provision of public guarantees for lending operations (Chapter 14) provide examples of these new uses of public resources.

The relevance of the use of aid to support inclusive economic growth is also highlighted by Jaime de Melo and Laurent Wagner (Chapter 18), who remind us that aid for trade in developing countries, by contributing to the improvement of infrastructure, proves to be a beneficial tool for exports and is positively correlated with a reduction in poverty. According to de Melo and Wagner, the effects of trade liberalisation on inequality and poverty are specific to the context and the structure of each country. The authors encourage donors to engage in a political dialogue with recipient governments to improve regulatory frameworks and to ensure the exercise of competition in the provision of services.

As ODA is partly based on external debt, however, it is essential to ensure that the structure and the macroeconomic stability of a country are not adversely affected by development assistance. It is with this in mind that Ugo Panizza (Chapter 9) suggests a method for the determination of the concessionality of development assistance loans that is evolves over time and is thus more suited to the dynamics of the borrower. This would consist in disbursing the money according to the needs of the borrower and then determining, at the time of repayment and according to predefined clear rules, the degree of concessionality (which could be 100% if needed, i.e. a pure grant) depending on the situation of the country (indexed to GDP). A grant would thus be decided *ex post* according to ex ante arrangements on debt cancellation rules. This could discourage irresponsible loans, but could also lead to irresponsible borrowing.

Development assistance goals are numerous, and ODA amounts are probably still insufficient to finance all of them. Beyond a possible increase of ODA from the DAC countries, which for many contributors to this book would be desirable, other external public financing can be a complement.

Additional external resources of traditional ODA

In addition to traditional aid from OECD/DAC countries, external resources are available. They may be 'innovative' due to the mechanism that generates them, or come from sovereign wealth funds or from a greater contribution by emerging countries to development financing for poor countries.

Pierre Jacquet and Varad Pande (Chapter 26) point out that the innovative nature of financing has often consisted in applying a classical instrument (tax or loan type) – or a mix of instruments– to a sector or a new object. Philippe Douste-Blazy and Robert Filipp (Chapter 25) consider that the amounts generated by the 'leverage effect of development assistance' represent to date nearly US$8 billion, almost entirely in the health sector. In their chapter, they study the possibility of replicating these mechanisms in other sectors, including education, food security, biodiversity and addressing climate change, for which Arild Angelsen proposes a retrospective and prospective assessment of the REDD+ initiative[7] (Chapter 23).

Douste-Blazy and Filipp believe it could be difficult to apply the mechanisms which have funded neglected parts of the health sector to the education sector, due to the much longer time it takes to measure the social return of an investment in education (the result of an investment in education is often measured only when the recipient cohort reaches adulthood). This long delay is likely to deter many investors. Douste-Blazy and Filipp instead propose the creation of an investment bank for education to facilitate public-private co-funding of projects. This bank could be a subsidiary of the Global Partnership for Education.

Regarding biodiversity, Douste-Blazy and Filipp draw attention to the existence of the Endangered Species Technology & Innovation Fund (ESTIF), which monitors and controls the

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trade in endangered species. This fund is financed by a portion of the return on investment of technology companies that participate in it. Such an initiative is of interest to companies because it allows them to disseminate their technology and they can hope for an opening-up of markets. The authors thus illustrate the potential of innovative financing when a company has a business interest in subsidising a public interest initiative.

Another potentially important source of external financing comes from sovereign wealth funds. Giorgia Giovannetti and Mauro Lanati (Chapter 1) remind us that assets managed by these funds represented approximately US$7 trillion in 2014, of which 60% comes from exports related to gas and oil, mainly from resource-rich emerging countries. For these authors, ODA can have a role to play in countries' ability to establish sovereign wealth funds, including through technical assistance and expertise in the management of the funds, to direct part of their institutional investments to the poorest countries.

Finally, the increasing contribution of the emerging countries to development financing for the poorest countries opens up new prospects for international cooperation and is changing, little by little, the traditional patterns of cooperation.

Justin Yifu Lin and Yan Wang (Chapter 3) study the role of China in development cooperation and consider the Chinese experience as a model of structural transformation for poor countries. According to these authors, the crisis in Western countries in 2008 associated with the difficulty of economic theories to consider the complexity of the world today has caused a loss of confidence of developing countries in the Washington Consensus. Contrasting trajectories of the West and the Orient explain why poor countries are now turning to the East to find solutions to their development issues. Basing their thinking on the theory of comparative advantage and a joint learning model, Lin and Wang consider that the solutions lie in the fact that the comparative advantages of China in infrastructure projects meet the problems of infrastructure in Africa, while China benefits from its cooperation with Africa's human and natural resources, i.e. what China itself lacks. In addition, through its overseas investment and industrial modernisation, China promotes the development of labour-intensive light industry (which the country itself has abandoned) in poor countries whose labour cost is now lower. Lin and Wang offer a vision of South-South cooperation based primarily on trade and the law of the market.

In a broader and more institutional vision of cooperation between developing countries, Debapriya Bhattacharya analyses the role, opportunities and challenges of South-South cooperation (Chapter 4). For Bhattacharya, the strengthening of the position of Southern countries in the world economy promotes increased contributions by them to the development of low-income and middle-income countries. Southern countries must exploit these economic dynamics to redefine some basic rules of the international development cooperation framework, which currently favours the OECD. This implies a greater structuring of the concept of South-South cooperation (which would benefit from a clearer institutional framework based on principles adopted by stakeholders), defining the rules of cooperation, and promoting tools beyond the simple sharing of knowledge and capacity-building, such as the blended finance. Bhattacharya sees as necessary the rapprochement of cooperation models between emerging economies and the OECD/DAC countries to promote the development of a triangular cooperation that is beneficial to all.

The analysis of Hiroshi Kato and Masato Tokuda (Chapter 5) corroborates this need for rapprochement between cooperation models, and emphasises the fundamental role that the traditional donors can and must play in the promotion of South-South cooperation. Pointing out that it often takes the form of technical cooperation and a sharing of knowledge, they believe that South-South cooperation cannot be summed up as an exchange based only on the law of the market.

They remind us that, despite the prominence of the private sector in international development, many aspects of development are not subject to the markets, including the transfer and sharing of knowledge in the management of the public sector. Thus, Kato and Takuda believe that traditional donors enjoy the experience, tools, methods and resources that are appropriate to the needs of the Southern countries that are willing to engage in South-South cooperation but have limited sharing and knowledge-transfer capabilities. Stressing also the importance of this rapprochement, Justin Yifu Lin and Yan Wang (Chapter 3) caution against the risk of international cooperation where emerging partners would not have the influential place they deserve. According to Lin and Wang, the emergence of new multilateral development banks and funds seems inevitable, and they consider this a positive element for international development. An example is the recent establishment of the New Development Bank. For Jean- Michel Debrat and Mamadou Lamine Loum (Chapter 7), the Bank usefully complements the inadequate supply of finance in Asia, but for these authors, as well as for Benoit Chervalier (Chapter 6), its creation raises the question of its articulation with the traditional development banks, who are sometimes themselves competing with each other, and vertical funds. One of the options put forward by Debrat and Loum, echoing a recurring criticism, is to grant a higher power to the emerging countries in the governance of the major multilateral development banks. Another, complementary, option is to refocus the action of regional banks around projects that promote regional integration. For this reason, Patrick Guillaumont and Sylviane Guillaumont Jeanneney (Chapter 13) suggest that the African Development Bank (ADB) increases the envelope dedicated to regional operations and allocates it on the basis of an 'indicator of need for regional integration'. This indicator would reflect both the narrowness of the internal market and the distance of external markets. It could possibly be supplemented by an indicator of countries' commitment to promoting regional integration. It would avoid the effects of thresholds and encourage countries to engage in a process of regional integration. For these authors, the loss of customs revenue due to the strengthening of regional integration could be compensated over a transitional period by budgetary aid or support of a different nature.

According to Benoit Chervalier (Chapter 6), the need for rationalisation of the multilateral development ecosystem should be addressed by the G20, the only institution able to seize this issue and make a rational response.

This redistribution of international power relations and the evolution of cooperation models, both institutional and instrumental, call into question the practices of multilateral development banks. One of the major reforms being debated deals with maintenance of their concessional windows, which Benoit Chervalier (Chapter 6) considers is essential to cooperation focused on the poorest countries (except the specific case of the Asian Development Bank).

The financing of global public goods

The now urgent need to preserve and promote regional or global public goods justifies a broadening of development goals to include environmental, climate and security issues. Compared to the traditional problems of development, the difficulty of overcoming these new issues is twofold. First, it is necessary to mobilise more funds. Second, there is a need to coordinate the international community as a whole to make these policies efficient (Chapter 8), in particular because of the risk of stowaway behaviour as some countries seek a free ride thanks to the public nature of these goods (Inge Kaul, Donald Blondin and Neva Nahtigal Chapter 21).

The introduction of sustainability to the international community's goals implies that economic actors agree to pay the corresponding extra cost usually observed in the short run and reduce their preference for the present. To do this, governments must either lay down binding standards (to the possible detriment of competitiveness) or create the right incentives through tax or by subsidising the cost of sustainability. They can also choose to create a specific market similar to the system of payments for environmental services (REDD+) based on the carbon market, as analysed in Chapter 23 by Arild Angelsen.

As Gaël Giraud, Alain Grandjean and Benoît Leguet (Chapter 22) notably recall, the financing of regional and global public goods by domestic taxation tools or ODA is limited by the constraints that weigh upon public budgets. As ODA is struggling to fully assume its traditional goals, it is not in a position to finance the US$100 billion of public resources per year expected for the Green Climate Fund. For Inge Kaul, Donald Blondin and Neva Nahtigal (Chapter 21), the principle of additionality must prevail. If in poor and vulnerable countries ODA can contribute to 'turning green' development projects to make them more sustainable, ODA and resources for global public goods are complementary but different, and must be additional.

The book explores several ways to mobilise funds for environmental and climate challenges. One option is to create a market for a specific environmental good, but experience shows that the establishment of systems of payments for environmental services can be delicate. Arild Angelsen (Chapter 23) takes stock of the REDD + initiative for forests, one of the main experiences in this area, and offers a series of recommendations for the future of this method of management of environmental goods. He finds that the inadequacy of the carbon market has made REDD+ highly dependent on aid. According to Angelsen, this dependence is likely to compel REDD+ to produce measurable outcomes in the short run, with the same problems that face results-based financing of aid systems – pressure on public budgets and controversies over performance measures, criteria and the definition of the objectives. If this 'aidificiation' sounds like a failure of REDD+ as an ambitious system of payments for environmental services, Angelsen offers five lessons: i) we should learn from the experiences of results-based approaches in other areas of financing to avoid known pitfalls; (ii) disbursements must be made more credible, which involves discouraging 'the bureaucratic culture of annual budget expenditure', including promoting multi-year financial commitments; (iii) we need to be realistic about private sector funding of REDD+ and find good incentives that generate positive externalities favourable to public goods like the global climate, such as carbon taxes or caps and exchange systems; (iv) money is not the only factor, REDD+ should also be able to encourage adoption of appropriate reforms; and (v) rather than thinking REDD+ as a payment for environmental services policy, we should perhaps consider it as a goal.

Another option to contribute to the Green Fund, proposed by Gaël Giraud, Alain Grandjean and Benoît Leguet (Chapter 22), is monetary in nature. Based on the work of the IMF (2010), the author envisages to feed the own funds of the Green Fund a contribution of the top 21 countries responsible for the stock of greenhouse gases, on the basis of their foreign-exchange reserves, denominated in Special Drawing Rights (SDRs) at the IMF and completed by an additional SDRs issue. An annual fund of US$100 billion could reasonably be split into US$40 billion of subsidies intended solely for adaptation projects and US$60 billion intended, on the one hand, for mitigation projects (accounting for five-sixths of US$60 billion) and, on the other, for adaptation projects (one-sixth of US$60 billion). His proposal would not involve increasing the money supply and would make it possible to fund US$100 billion of annual loans over ten years at a minimal cost for the 'advanced' countries, with the 'historic polluters' nonetheless remaining the main contributors. The need for the following years' grants would be supplemented by additional issues of which the inflationary and fiscal cost would be minimal. As illustrated by the previous proposal, regardless of the option envisaged for the mobilisation of the necessary resources for the Green Fund, it will involve the establishment of new mechanisms, but also, and above all, both vigorous and consensual political choices.

In a complementary way, Inge Kaul, Donald Blondin and Neva Nahtigal estimate that there is a need to better identify the resources available to address climate climate following the OECD- DAC example for development assistance.

The challenge is also to ensure relevant use of the funds mobilised for each aspect. Inge Kaul, Donald Blondin and Neva Nahtigal estimate that adaptation and mitigation policies still suffer from a lack of clarity and are struggling to define whet is necessary to achieve the goals.

A challenge of public goods financing is also the governance of mobilised funds. In his proposed monetary option, Gaël Giraud, Alain Grandjean and Benoît Leguet favour entrusting the management of the mobilised funds to the Green Fund, rather than to the IMF itself, according to the principle of one vote per country. Inge Kaul, Donald Blondin and Neva Nahtigal propose to outsource the management of mobilised funds for the climate, irrespective of their origin. They envisage the creation of an independent international agency, with technical expertise, led by a president with public and private experience, and with a mandate to manage climate funds in a supra-national way and to ensure their overall effectiveness beyond national considerations. This agency would also be competent to manage geographical allocations. In any case, Gaël Giraud, Alain Grandjean and Benoît Leguet point out that, regardless of the option chosen to mobilise and manage climate funds, substantial efforts would be required to support state loans and this should be the responsibility of the international banking and financial institutions that have historically partnered states.

Priority allocations

The issue of the allocation of concessional resources, which involves a public decision, is discussed several times in the book. The global redistribution system must be improved and adapted to the new problems that international public funds should help to resolve.

According to Serge Tomasi (Chapter 2), for concessional resources such as official development assistance, their relative scarcity associated with the widening of development issues and the gradual decrease in the number of low- income countries implies that these resources have to be mainly allocated in favour of most vulnerable and fragile countries. Tomasi suggests the adoption by main ODA donors of an allocation rule targeting the least developed countries. Under this rule, 50% to 70% of ODA would be granted to the poorest countries. Paul Collier's analysis of fragile states (Chapter 15) campaigns for an increase in ODA in their favour. By positioning itself in favour of the maintenance of the concessional windows of multilateral development banks targeted at the 30 countries that will probably be low-income countries in 2030, the analysis of Benoît Chervalier (Chapter 6) strengthens these positions.

A number of authors in this book prefer targeting the most concessional resources in favour of the most vulnerable countries, although Michel Sidibé (Chapter 19) believes that health funds should be allocated in favour of the most marginalised and most vulnerable people, regardless of their country of residence.

Given the extremely important role of aid in poor and vulnerable countries, and in particular in LDCs, and the role of public resources in the financing of global public goods, most authors insist on the need to clarify the rules of allocation of official development assistance and the resources dedicated to the issue of climate change. This is an endeavour to which Ferdi is committed and which will be the subject of another book.

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