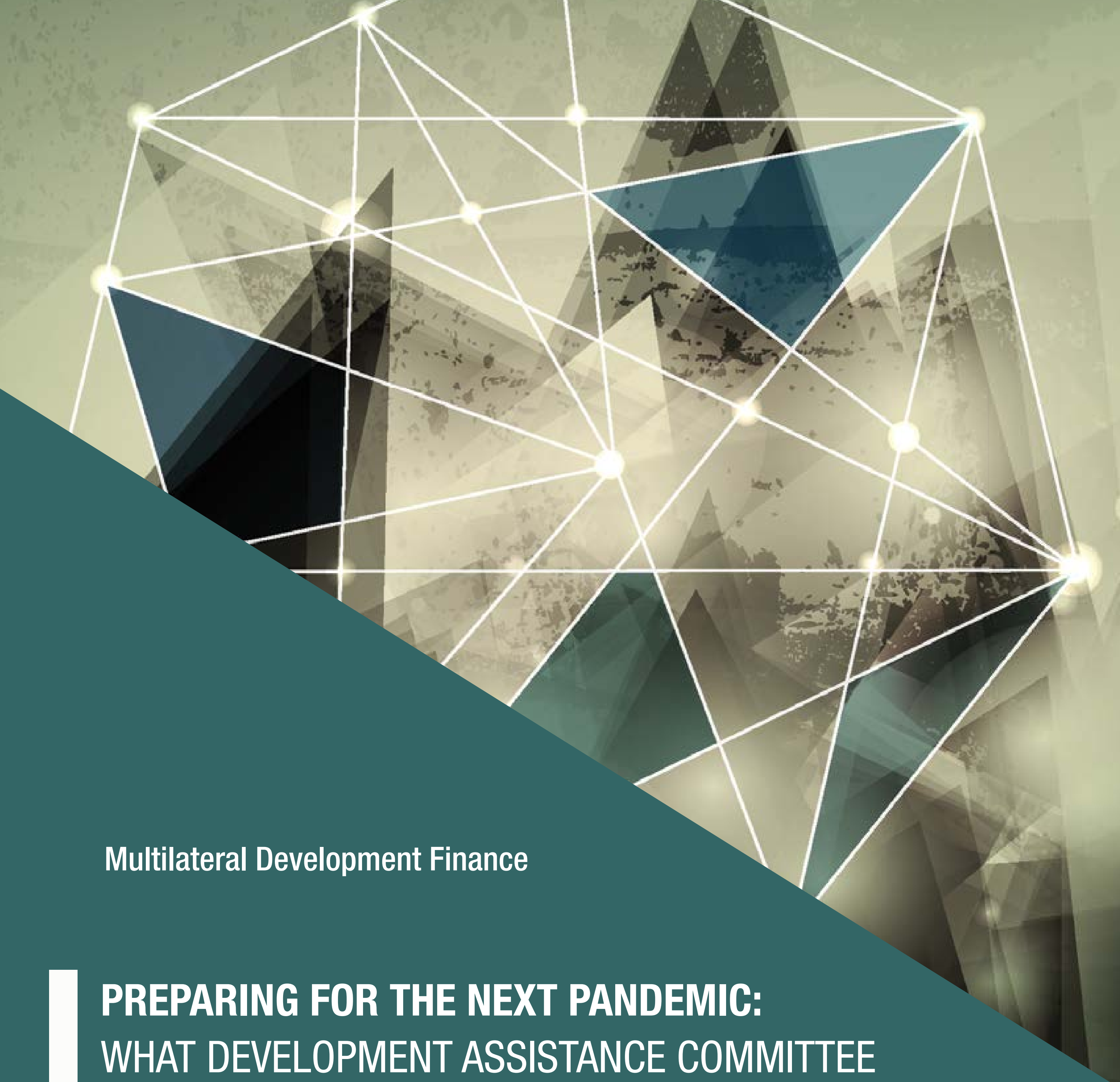

Multilateral Development Finance

PREPARING FOR THE NEXT PANDEMIC: WHAT DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS SHOULD KNOW

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Two recent reviews of the international response to the COVID-19 crisis recommend scaling up financing to multilateral organisations in support of pandemic preparedness. Implementation depends on members of the Development Assistance Committee (DAC), who provide the bulk of their resources and largely shape their mandates and programmes of work. This paper looks at the recommendations through the lens of current trends in DAC members' funding of the multilateral development system, and explores budgetary implications to inform their reflections and negotiations.

Key messages

- Two recent independent panel reviews of the international response to the COVID-19 crisis, carried out respectively by the *Independent Panel for Pandemic Preparedness and Response* (IPPPR) and the *G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response* (HLIP), call for a massive scale up in multilateral finance to prevent and respond to future pandemics. The reviews propose three main actions:
  i. scale up financing for pandemic preparedness;
  ii. strengthen the financing of the World Health Organisation (WHO); and
  iii. empower multilateral development banks (MDBs) to play a more prominent role in the financing of global public goods.
- The two reviews recommend the creation of a new multilateral facility dedicated to pandemic preparedness, which would require additional financing. This raises several questions related to the financing of global public goods, such as the method used to determine member states' contributions, and the extent to which such funding could be counted as official development assistance (ODA).
- Both reviews also recommend stepping up financial support to the World Health Organisation (WHO) and lowering the share of earmarked funds in members' contributions. For governments to follow through with such a recommendation, they may want to ask for reviews of the mandates, functions and performance of the organisation.
- The G20 HLIP also recommends expanding the mandate of multilateral development banks (MDBs) to financing global public goods. This would require an increase in contributions, including from DAC members, which collectively represent the majority shareholders and funders of these institutions.
- Progress towards the adoption and implementation of the recommendations would require DAC members to agree on the governance and accountability of the new and existing organisations subject to reforms, as well as their financing and monitoring and evaluation frameworks.

Calls to increase multilateral funding for pandemic preparedness are for the Development Assistance Committee (DAC) members to answer

The COVID-19 crisis is driving new thinking on the financing of global public goods, in particular in the areas of pandemic preparedness and response. The magnitude of the COVID-19 pandemic has put the international community under severe stress, revealing shortcomings in its ability to ensure global health security. COVID-19 has pushed health security to the top of the international agenda, highlighting the urgency of investing in other under-funded global public goods to avoid a similar or worse crisis. In this context, policy-makers are being called on to reform, even redesign, the multilateral system to ensure adequate provision of global public goods (GPGs) (OECD, 2020[1]).

Two recent independent reviews on the international community's pandemic preparedness and its response to the COVID-19 crisis point at major gaps in multilateral finance for delivering global public goods, including pandemic prevention and preparedness:

- In May 2021, the **Independent Panel for Pandemic Preparedness and Response (IPPPR)** mandated by the World Health Assembly, presented its findings on the lessons learned from

COVID-19 and policy recommendations to curb the COVID-19 pandemic and prevent future pandemics (Independent Panel for Pandemic Preparedness and Response, 2021[2]).

- In July 2021, the **G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response** presented its official report to G20 Finance Ministers and Central Bank Governors. It called for an increase in international financing for pandemic prevention and preparedness by at least USD 75 billion over the next five years, or USD 15 billion each year, equivalent to at least doubling the current levels of spending (G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response, 2021[3]).

The two reviews propose three main actions for a more effective financing of the multilateral system in support of pandemic prevention and preparedness:

1. Scale up financing for pandemic preparedness;
2. Strengthen the financing of the World Health Organisation (WHO);
3. Empower multilateral development banks (MDBs) to play a more prominent role in the financing of global public goods.

The recommendations of the two reviews and their potential implementation will be discussed separately, at the World Health Assembly[1] and the G20[2]. When deliberating, members of these organisations will also have to decide which of the two platforms to use to carry forward the negotiations and discussions about potential multilateral reforms. Those decisions could shape the multilateral system's ability to cope with future pandemics and set a precedent for future arrangements on the financing of global public goods in general.

If the recommendations of the two reviews were to be adopted, their successful implementation would critically depend on the contributions and collective efforts of DAC members, who account for around 75% of contributions to the United Nations Development System. Based on current financing trends, it is likely that DAC members would come under pressure to provide the bulk of the additional financing necessary to implement the reviews' recommendations, unless other countries step up to help filling the gap. To build the consensus necessary for the recommendations to materialise, therefore, discussions would also have to address possible concerns from member states about the accountability, transparency and performance of multilateral organisations, as well as perceived misalignment between the current activities of some multilateral organisations and their members' priorities.

To build the consensus necessary for the recommendations to materialise, the concerns, interests and priorities of DAC members should be reflected in the international discussions that will help review and develop the different proposals.

The next three sections respectively introduce the three recommendations of the panel reviews before exploring their potential implications for DAC members.

[1] The Special Session of the World Health Assembly at the end of 2021 and the 75th Worth Health Assembly in May 2022

[2] The G20 HLIP review and its recommendations will be further discussed at the G20 meetings in November 2021

Action area I - Scale up financing for pandemic preparedness through the creation of a dedicated facility

Recommendations from the two independent panels

Both reviews recommend establishing dedicated multilateral facilities to finance a comprehensive and inclusive pandemic preparedness and response. The G20 HLIP calls for the establishment of the Global Health Threats Fund, a dedicated fund mobilising USD 10 billion per year to support investments in global public goods for pandemic preparedness and response. This complements an earlier recommendation made by the IPPPR, to establish an International Pandemic Financing Facility through long-term (10-15 year) contributions of approximately USD 5-10 billion annually to finance ongoing preparedness functions.

The two independent panels have diverging views on the scope of the activities of the proposed new facility. While the IPPPR suggests that the facility should finance developing countries' pandemic preparedness activities through support for national strategies and regional surveillance platforms and R&D efforts, the G20 HLIP recommends that the facility should also be charged with global functions that would benefit developed countries as well.[3]

Both reviews agree that the funding for this facility should come from annual contributions of member states, which would be defined in a way that considers countries' ability to pay. The IPPPR suggests to base the allocations of the contributions to the new facility on the financing framework of the Access to COVID-19 Tools Accelerator (ACT-A). The formula used to calculate countries' assessed contributions reflects that countries that can afford to pay more, and that benefit most from a stable international economy and global trade, should contribute more (Røttingen et al., 2021[4]).

[3] According to the IPPPR, the facility should be overseen by a Global Health Threats Council, which would be led at head of state level with United Nations General Assembly and G20 nominating co-chairs. The G20 suggests that the new facility would be situated as an independent fund at the World Bank and that it should be governed by a Global Health Threats Board with participation from several multilateral organisations. The Global Health Threats Board would be anchored in the G20 and overseen by the Global Health Threats Council.

Box 1. The Independent Panel for Pandemic Preparedness and Response (IPPPR) suggests that assessed contributions to the new pandemic facility be determined through a formula similar to that of the Access to COVID-19 Tools Accelerator (ACT-A)

According to the ACT-A financing framework, which the IPPPR recommends adopting for the new pandemic facility, each country's contributions are determined through a three-step approach, based on the IMF quota formula and adjusted with GDP/capita to account for income-level differences across countries:

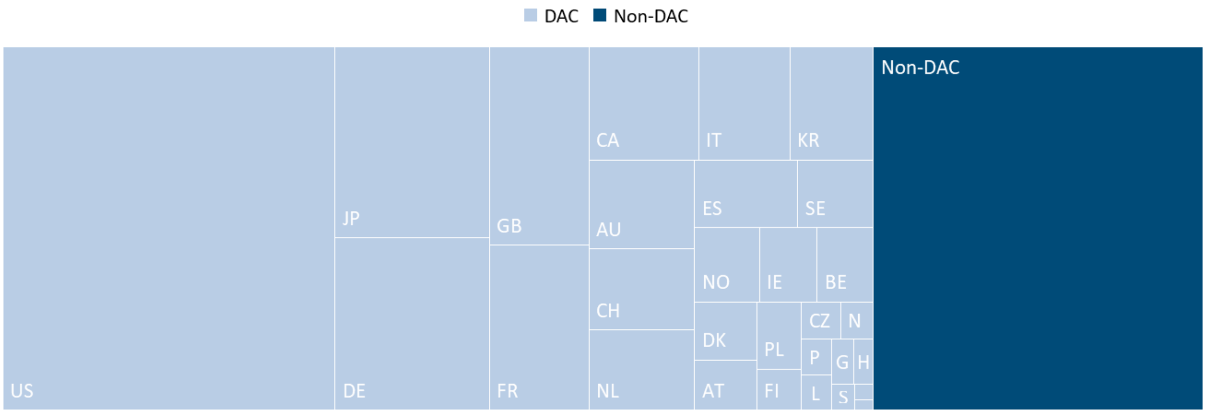
1. Market exchange rate GDP (MER GDP): The starting point for calculating contributions is each country's level of economic strength, measured by GDP at market rate. This reflects the view that financial contributions for global public goods are akin to a tax.
2. The MER GDP is adjusted to account for openness, reflecting the principle that countries that will gain more from a stable world economy and global trade should contribute more. The approach therefore leverages the IMF quota formula, which considers several indicators including MER GDP and economic openness. The relative weights between GDP and openness in the IMF formula are replicated, while a cap on economic openness is applied to limit outliers.
3. Progressivity based on GDP/capita: The approach includes a progression factor that linearly increases with GDP per capita. This reflects the principle that richer countries, with higher income per capita, can afford to bear a higher contribution as a proportion of their GDP than less advanced economies. A range of different estimates for each country's contribution is determined depending on the level of progressivity that members will need to agree on.

Source: Røttingen et al, (2021[4]), Financing Global Health Security Fairly, Financing Global Health Security Fairly | Center For Global Development (cgdev.org)

Implications for Development Assistance Committee (DAC) members

Based on the funding scheme proposed by the IPPPR, DAC members would collectively contribute the bulk of international financing for pandemic preparedness. According to the ACT-A formula, which has been put forward by the IPPPR, and depending on the choice made about the level of progressivity, DAC members' share of contributions to the proposed facility would range from 60% to 77%. Taking the mid-level estimate, the collective DAC share would amount to 72.5% of the total. Figure 1 shows how contributions would be split among the different DAC members. Further discussions in relevant international fora would be required to examine whether the ACT-A financing scheme is an appropriate model for the financing of the new pandemic facility

Figure 1. If the ACT-A financing scheme were to be adopted, DAC members would have to contribute a large portion of the funding for the proposed facility

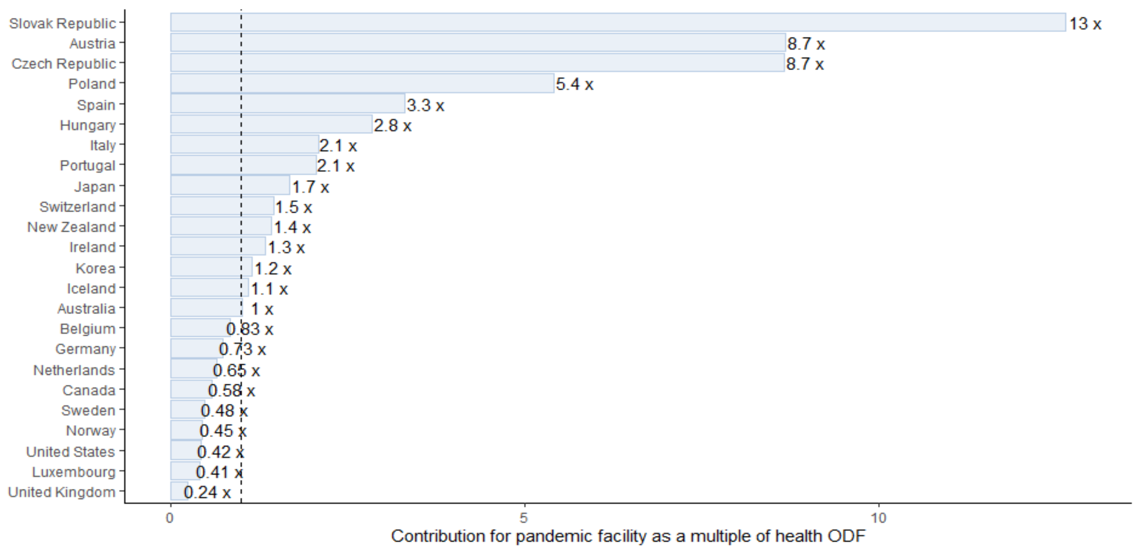


Source: Authors' calculations based on formula shared by ACT Accelerator Facilitation Council Financial Working Group.

For many DAC members, the contributions (although they would, depending on the proposal, not all be directed towards developing countries) would exceed their current official development finance spending on health. While the scope of health-related official development finance is broader than financing for pandemic preparedness and response, it gives an indication of the potential of DAC members to invest in global health (Figure 2). For some members, though, and especially the ones who would have to make the largest contributions, the amount of the additional financing effort is in line with, or even below, their existing commitments for global health.

Figure 2. The required investments in pandemic preparedness exceed health-related ODF for many DAC members

Annual contributions to new facility compared with health-related ODF in 2019



Note: The figure compares DAC members' health-related ODF in 2019 with the mid-range estimate for their annual contribution to a new pandemic facility. Outliers (Greece and Slovenia) are excluded.
Source: Authors' calculations based on Creditor Reporting System OECD/CRS database (2021[5]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

While the costs of investing in pandemic prevention and early response are significant, the two reviews make the case that they represent a fraction of the costs of paying for the consequences of under-investment. This is especially true for countries that would pay the most in contributions for the global public good of preparedness, such as the United States, Japan and Germany. Figure 3 compares the estimated contributions for preparedness with the amount of the fiscal expenditures made in the context of the COVID-19 response.

The reviews recommend that the financing for the new facility should preferably not count as ODA. According to the two reviews, this would mitigate the risk to see this additional financing for pandemic preparedness and response crowd out ODA to the health sector. The ODA-eligibility of members' contributions to the proposed new facility would ultimately depend in large part on the scope of its activities, i.e. the extent to which they are "administered with the economic development and welfare of developing countries as their main objective". For example, the activities proposed in the IPPPR proposal could be counted as ODA[4], since they support developing countries' pandemic preparedness efforts. On the other hand, for the facility proposed by the G20 HLIP, only the portion of the funding that promotes the economic development and welfare of developing countries could be considered ODA.

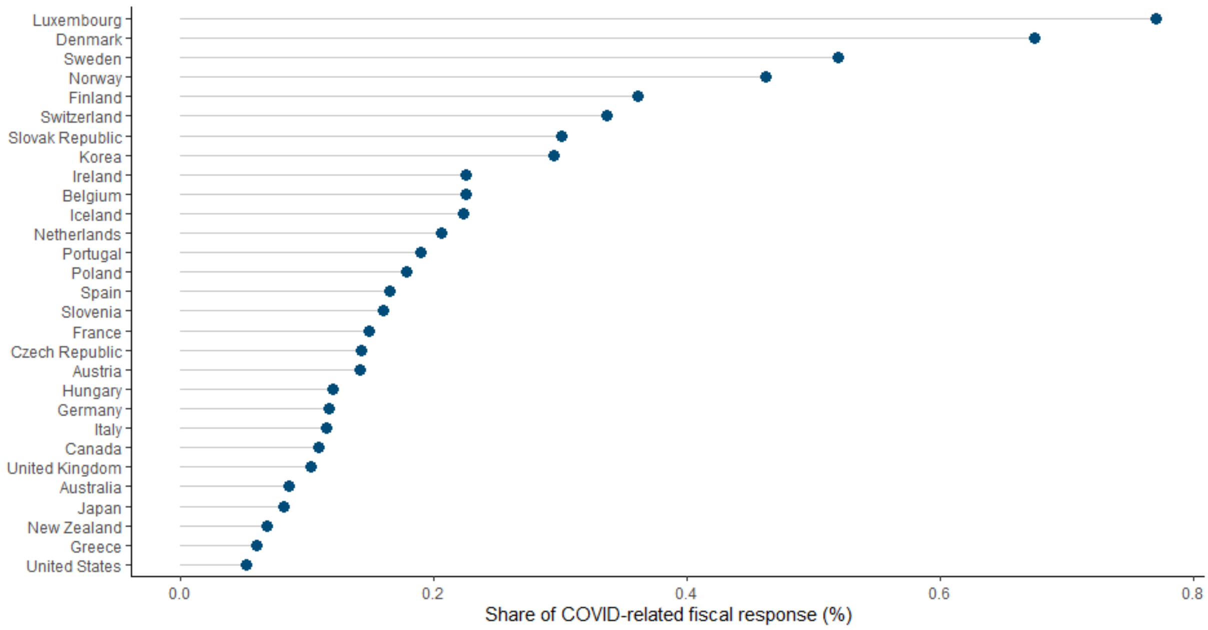
These considerations reflect a broader on-going debate on whether financing for global public goods should come from ODA budgets. Decisions about the ODA-eligibility of the contributions to the proposed facility can therefore set an important precedent for future financing arrangements for the provision of global public goods.

Efforts to raise financing for pandemic preparedness would in any case be reportable as Total Official Support for Sustainable Development (TOSSD). In fact, while financing for pandemic preparedness in provider countries or at the global level does not fall under the definition of ODA, it is considered in TOSSD, the new international standard for measuring the full array of resources in support of the 2030 Agenda. In particular, Pillar II of the TOSSD measure specifically tracks the financing of global public goods through domestic financing or financing of global-level functions (International TOSSD Task Force, 2021[6]). In 2019, DAC members' total TOSSD for health-related purposes amounted to USD 11.1 billion (as compared to the USD 5 to 10 billion that the two reviews propose raising for the new facility).

[4] The activities would have to meet the definition of ODA, i.e. be administered with the promotion of the economic development and welfare of developing countries as its main objective; and be concessional in character and convey a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

Figure 3. The required annual investments in pandemic preparedness represent a fraction of the fiscal expenditures made to counter the consequences of COVID-19

Share of proposed financing for pandemic facility compared to fiscal expenditures in response to COVID-19



Note: The figure compares the same estimates as in Figure 2 (mid-range estimate for their annual contribution to a new pandemic facility according to the ACT-A formula) with COVID-19 related fiscal responses of governments since January 2020.
Source: MF (2021), "Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic", https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.

Action area II – Strengthen the financing of the World Health Organisation (WHO)

Recommendations from the independent panels

The IPPPR diagnosed that the World Health Organisation's (WHO) financing, with a heavy reliance on voluntary contributions, is a major risk for the integrity and independence of the work of the organisation. It also noted that this had caused weaknesses during the COVID-19 response in WHO's independence, flexibility, and agility in providing the necessary support. Concerns about the vulnerability of the WHO funding have also previously been raised in the OECD's 2020 Multilateral Development Finance report (OECD, 2020[7]).

The panel therefore recommends, "establishing the financial independence of the WHO based on fully un-earmarked resources, and on an increase in Member States' fees to two-thirds of the WHO base programme budget." By means of comparison, the volume of assessed contributions has stagnated. As a result, the share of assessed contributions has steadily declined from 22% in the 2012-13 budget cycle to currently below 17%% of the total budget. The G20 HLIP reiterates this recommendation, calling for an increase of "assessment-based core contributions to two-thirds of the budget for the WHO base program, and an organised replenishment process for the remainder of the budget."

Implications for Development Assistance Committee (DAC) members

Were WHO member states to follow through with the recommendation, many DAC members would have to significantly step up their financing to the organisation. While WHO's overall budget has been increasing over the years, the collective ODA contributions from DAC members have stayed relatively stable[5]. It should be noted that this masks differences among countries, and that some members such as Germany, the United States, Sweden, Japan and Korea have increased their ODA contributions to WHO between 2013 and 2019.

Funding two-thirds of the WHO budget based on the current distribution of assessed[6] contributions would mean, that the majority of DAC members would have to increase their contributions. Core contributions consist of assessed contributions, to which the ODA coefficient of 76% is applied, as well as voluntary contributions to the core budget, to which the ODA coefficient of 100% is applied. It should be noted that providing more core funding through assessed contributions, therefore, would mean that less of members' contributions is counted as ODA. This could be a disincentive for DAC members to agreeing to an increase in assessed contributions to ensure greater flexibility to the WHO.

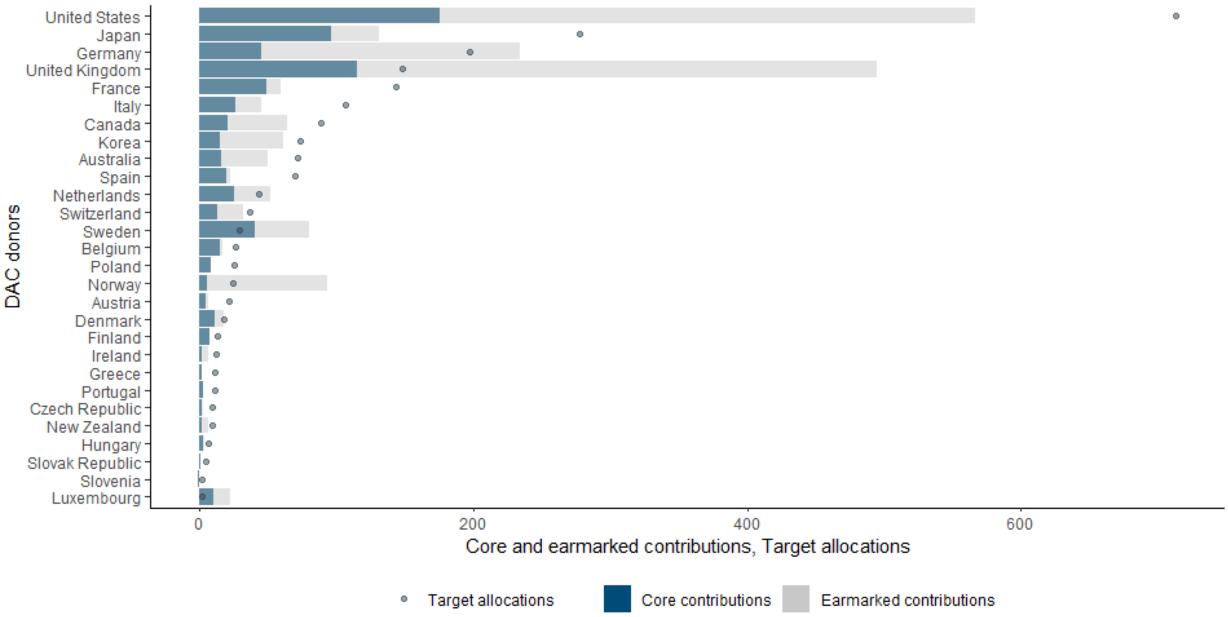
Figure 4 displays the target levels of assessed contributions that DAC members would have to make following the proposed increase in assessed contributions. It compares these targets to current contributions that DAC members have made to the core budget of the WHO and the earmarked contributions that count as ODA. This excludes earmarked funds for purposes that are not explicitly addressing needs of developing countries. Even excluding those amounts, some members such as Germany, United Kingdom, Sweden, Norway and Luxembourg, though, already pay more than their respective shares.

[5] This excludes earmarked contributions to WHO that do not serve the purpose of promoting the economic development and welfare of developing countries, which are not counted as ODA.

[6] Assessed contributions are the dues countries pay in order to be a member of the Organization. The amount each Member State must pay is calculated relative to the country's wealth and population.

Figure 4. DAC members would need to step up financing efforts to the WHO to implement the recommendations from the two reviews

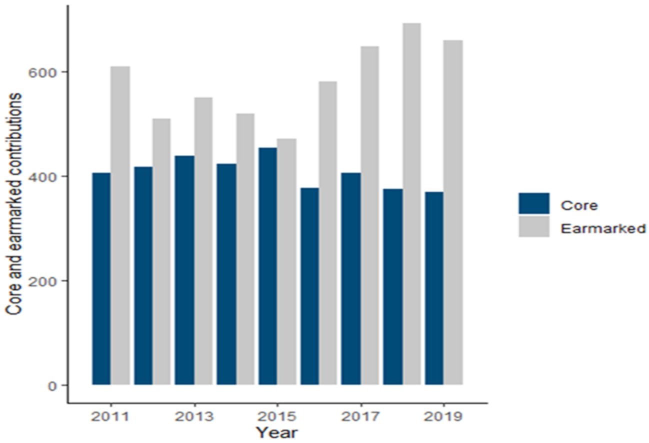
Actual contributions vs targets (2019 USD million) for 2018/19



Note: Earmarked contributions only include amounts that are counted as ODA, while for core contributions including assessed and voluntary contributions; the actual disbursements (without applying ODA coefficients) have been calculated. Target levels display assessed contributions that DAC members would have to make following the proposed increase in assessed contributions.
Source: Authors' calculations based on Creditor Reporting System OECD/CRS database (2021[5]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

In addition to increasing the quantity of financing, the recommendation calls for a drastic reversal of DAC members' funding patterns. For the past years, DAC members have progressively moved towards more earmarking, while their contributions (both assessed and voluntary) to WHO's core budget have decreased (Figure 5). One of the reasons donors use earmarking is to channel funds towards areas that they consider a priority. A growing use of earmarking could therefore hint at a divergence between the activities funded from WHO's core budget and the thematic areas deemed a priority by its members. For example, in recent years, DAC members have primarily used earmarking to the WHO to support activities related to infectious disease control. By comparison, the core outflows of WHO for development purposes are mainly targeting health policy, administration and general expenses, followed by health infrastructure.

Figure 5. DAC members have increasingly relied on earmarking in their WHO funding



Note: Earmarked contributions only include amounts that are counted as ODA, while for core contributions including assessed and voluntary contributions; the actual disbursements (without applying ODA coefficients) have been calculated.
Source: Authors' calculations based on Creditor Reporting System OECD/CRS database (2021[5]), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

> In order to reverse current funding patterns to the WHO, which has increasingly relied on earmarked funds, there may be a need for discussions to better align the mandate and functions of the organisation with donor priorities and concerns

In order to reverse current funding patterns to the WHO, which has increasingly relied on earmarked funds, there may be a need for discussions to better align the mandate and functions of the organisation with donor priorities and interests. Furthermore, there could be a clear rationale to link the discussions on WHO's funding to a review of its performance. Such a review could be informed and guided by the conclusions of the IPPPR but also by specific assessments of WHO's general operations, such as the one conducted in 2019 by the Multilateral Organisation Performance Assessment Network (MOPAN) (MOPAN, 2019[8]).

Action area III – Empower Multilateral Development Banks (MDBs) to play a more prominent role in financing global public goods

Recommendations from the independent panels

According to the G20 HLIP, the financing of global public goods such as health security, should be included in the core mandates of the International Financial Institutions (IFIs), especially the World Bank and other multilateral development banks (MDBs). The recommendation is based on the finding that MDBs are an important but under-utilised tool in supporting and incentivising countries to finance investments in pandemic preparedness.

To fulfil this expanded mandate, the two reviews suggest that MDBs will require additional financing in coming years. Although the reviews state that MDBs can first draw on existing financial resources, their recommendation for shareholders is to support timely and appropriately sized replenishments of MDBs' concessional windows and capital increases over time. This is to ensure that the greater focus on global public goods does not come at the expense of poverty reduction, which lies at the core of these organisations' mandates.

Implications for Development Assistance Committee (DAC) members

As the majority shareholders in several of the main MDBs, DAC members have the voting power to set the direction for reforms in these institutions, including possible revisions of their mandates. Moreover, DAC members are likely to be called on to contribute the financing that would underpin such a mandate expansion. The collective share of DAC members in major MDBs ranges from 44.3% for the African Development Bank (AfDB) to 85.7% for the European Bank for Reconstruction and Development (EBRD). The contribution of DAC members to replenishments of the concessional lending windows of MDBs often exceeds their shares in the respective organisations. For example, DAC members accounted for almost 90% of the most recent IDA replenishment, far exceeding the shares in voting power they hold at the IBRD (59.6%). In parallel to the contributions to a potential pandemic facility, the ODA-eligibility of funds for MDB activities related to global public goods will need to be discussed as well.

Table 1. Development Assistance Committee members hold a majority of the shares in Multilateral Development Banks

Organisation	Collective share of DAC members (%)	Share of non-DAC members (%)
African Development Bank	44.3	55.7
Asian Development Bank	57.8	42.2
European Bank for Reconstruction and Development	85.7	14.3
Inter-American Development Bank	49.8	50.2
International Bank for Reconstruction and Development	59.6	40.4

Source: Authors' calculations based on Annual Reports and websites of respective organisations.

> DAC members, as the majority shareholders, would need to be behind the financing efforts that underpin a mandate expansion of MDBs to include global public goods.

Next steps: Four things Development Assistance Committee (DAC) members must agree upon

1. **Enabling of a more effective multilateral response to future pandemics crucially relies on support from members of the DAC**, who play a key role in shaping the mandates and programmes of work of the organisations that are responsible for pandemic preparedness and in equipping them with the necessary resources.
2. To secure the agreement and financial commitments from DAC members to follow through with the recommendations, **discussions on how to implement reforms in the multilateral system must take into consideration DAC members' concerns, interests and priorities**.

3. DAC members will need to **agree on questions related to the governance of the existing and proposed organisations** as well as measures to monitor and evaluate performance. The reform agenda needs to be grounded in appropriate accountability and fair financing frameworks that ensures the participation and involvement of developing countries.
4. The DAC can serve as a platform for **discussions and exchanges on the global pandemic preparedness through multilateral development systems.** This will then lead to a stronger collective response.

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