The Renaissance of Public Entrepreneurship: Governing Development Finance in a Transforming World

BACKGROUND RESEARCH PAPER

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"It is safe to say that enterprise which depends on hopes stretching into the future benefits the community as a whole."

John Maynard Keynes, *The General Theory of Employment, Interest and Money*, 1936, Chapter 12 on "The State of Long-term Expectations"

"The further backward we can look, the further forward we can see."

Winston Churchill

Table of Contents

Executive Summary ... 1

I. Introduction and Outline ... 4

II. Public Entrepreneurship in the Transformation Agenda – Past, Present and Future ... 7

a) Understanding the Transformation Narrative and Public Entrepreneurship ... 7

b) From "Asian Miracles" to "Rising Africa" ... 12

c) Transformation in the 21st Century: What's New? ... 14

i. *Outlook for Development Finance in 2030* ... 14

ii. *Public Entrepreneurship and Development Possibilities: Beating Risk and Creating Capabilities* ... 15

iii. *Business Models for Scaling-Up Progress to Include the Poor* ... 19

III. Public Entrepreneurship and Public Finance – Pitfalls and Prospects ... 23

a) Lessons from History ... 23

i. *Pitfall I: Financial Arms Races* ... 23

ii. *Pitfall II: Imprudent Lending and Borrowing* ... 27

b) Prospects: Will History Repeat Itself? ... 30

IV. Rules of the Game in Development Finance – New Thinking, New Players and Established Frameworks ... 35

a) ODA's Identity Crisis: Old Players in a New Game? ... 35

b) Export Credits Discipline at the Crossroads: New Players in an Old Game? ... 43

c) Transformative Investments and Debt Sustainability ... 48

V. Conclusion: Governing Development Finance as a Transformative Agenda ... 55

Appendix: New Emerging Frameworks in Global Development Governance ... 60

References ... 63

Endnotes ... 73

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Executive Summary

This paper examines the role of public entrepreneurship in initiating, shaping and accelerating a transformative development agenda, driven by a new wave of middle class growth and urbanization in developing countries, in a context of radical geo-economic change, climate change challenges and 21st century technologies. This unprecedented transformation, now reaching from Asia to Africa, has created a global agenda in a polycentric world.

We consider public entrepreneurship as a fundamental organizing vector for a transformative agenda, supplying vision, leadership and enabling investments and working with private sectors to generate innovative business models for scaling-up sustainable growth and employment opportunities around the world. It links up the transformative processes of advanced economies in the past, emerging economies in the present, and rising Africa and beyond in the near future. It sheds new light on reviving debates on developmental states, industrial policies, and the scaling-up processes for an inclusive and sustainable transformation agenda.

Against this background the paper focuses on how public entrepreneurship has been shaping global governance of development finance as it ventures abroad equipped with public finance. Governance matters, for it is the key to getting *incentives* right and deploying

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international public finance in an effective and prudential manner. It helps to enable public entrepreneurship to flourish while avoiding potential pitfalls.

History tells how advanced economies have established institutions, rules, and norms to solve the pitfalls of financial arms race and imprudent lending and borrowing. It is an *evolutionary* process imbued with a spirit of *problem-solving*, but also full of *political contestation*.

Yet these established frameworks are undergoing a process of "creative destruction." Emerging economies are following in the footprints of advanced economies and becoming new players in today's transforming world economy where they will account for an increasing share of world output, savings and investment. They are deploying an expanding envelope of public finance to reach commanding heights in the global economy, beating risks and conquering uncharted investment frontiers through intensified linkages with other developing countries.

New frontiers in development finance governance are emerging, with profound impact on ongoing development finance rule-making processes. The key pressure points are located on the scope and definition of official development assistance and development effectiveness, market failure in the supply of long-term finance, global financial and fiscal integrity, unfolding modalities and expanding scale of development banks, rules of the game for export credits and the treatment of transformative investments in the debt sustainability framework. These trends have sparked on-going debates on rule-making processes in the OECD, the IMF, the World Bank and among others.

Looking forward, the key challenge ahead is how to update and innovate the governance of development finance to harness the renaissance of public entrepreneurship to realize the transformative development agenda. The present paper does not aim to give definite answers to this question. We seek to place the present challenges into a historical context in order to better understand the *nature* of the challenges and to stimulate wider intellectual and policy debates in the post-2015 development agenda.

I. Introduction and Outline

The world is facing a historic opportunity for transformation *via* a new wave of industrialization and urbanization at an unprecedented *scale* and *pace*. This transformative agenda calls for renewed public entrepreneurship that can initiate and accelerate large-scale and long-term development financing by overcoming the fear of *risk* of entering uncharted territories.

For this entrepreneurship to thrive, governance is the key for it can provide the right incentives to innovate financing instruments and business models to meet new challenges while putting accountability mechanisms in place to avoid the pitfalls of unconstrained power. Yet existing governance systems have not kept pace with time. On the one hand, a polycentric world with a greater number and diversity of players challenges the effectiveness of traditional disciplines and surveillance frameworks. Surges in public finance carry the potential for falling into historical debt traps if not well governed. On the other hand, historical legacies have constrained traditional public finance providers from playing a more proactive transformative role to create markets and build confidence. Unfinanced high-return investment opportunities *paradoxically* co-exist with abundant capital. Looking ahead, emerging economies will be pivotal to this renaissance of transformative public entrepreneurship. With an increasing share of global output, investment, and savings, emerging economies are becoming a significant source of development finance – a trend accelerated by the recent global financial crisis. Against this background, this paper aims to tackle the question of how to innovate and update the governance of development finance to create public entrepreneurship for sustainable, inclusive and equitable economic growth.

The paper proceeds in three parts:

First, we analyse key ingredients of public entrepreneurship and how it has played a role in the transformative agenda of newly emerging countries as a risk-taking initiator, enabler, and

accelerator. Public entrepreneurship establishes confidence by creating and demonstrating investment viability, creates an "enabling" culture for market and capacity building, provides long-term horizons, and acts as an accelerator to crowd in private finance for scaling-up. In practice, public entrepreneurship has played an indispensable role in breaking the circle of pessimism and inaction to unleash the transformational potential for countries to advance up the development ladder. And public entrepreneurship will be essential for nations collectively to tackle global challenges within a compressed time horizon.

Second, we examine the pitfalls of public entrepreneurship. If abused by unconstrained political drivers in the absence of accountability mechanisms, public entrepreneurship can trigger crises if states engage in race-to-the-bottom contests on financial terms (financial arms races). It can also generate debt crises due to moral hazards inherent in the assurance of bail-out by taxpayer money. History has witnessed such kinds of mistakes. Consequently, advanced economies have put strict collective self-discipline (e.g., export credits and tied aid disciplines) on the use of public finance involving implicit and explicit state subsidies. At the same time, the Bretton Woods Institutions have exercised multilateral surveillance over debt sustainability to deter excessive accumulation of foreign debts. Looking forward, we examine the prospects of whether history could repeat itself against the background of the renaissance of public finance.

Third, we explore how the revival of public entrepreneurship driven by emerging economies has put pressure on existing governance systems, challenged established thinking and fostered burgeoning innovation in financing packages. As latecomers, emerging economies have followed advanced economies to use public policies and public finance to spur entrepreneurship. This comes with both risks and opportunities. On the one hand, historical pitfalls might reappear if financing is uncoordinated and unconstrained, which could create a new round of crass

competition ending up with unsustainable debts to the detrimental of all. On the other hand, the sheer size of financing from emerging countries has opened new frontiers of global investment, offering alternative thinking, instruments, and financing options and put pressure on old players to adapt their business models to intensified competition. This has helped to address some unintended consequences in the established governance frameworks (e.g., as export-linked project finance receded, the market alone did not automatically take up the role of providing long-term finance for productive purposes).

We examine key pressure points in the governance of development finance. **Firstly,** official development assistance (ODA) is experiencing an identity crisis, as the historical legacy of aid as a taxation-based welfare transfer from the North to the South encounters new ways of thinking and different practices. **Secondly,** trade finance discipline – a "Gentlemen's Agreement" among old players – has found itself at a crossroads, for new players have sought maximum latitude to conquer new investment frontiers as old players had done in the past. **Thirdly,** the multilateral debt surveillance system has to strike a delicate balance between managing risks of debt distress and enabling transformative investments.

Amid this chaos of change, established frameworks are in the process of adapting to a changing landscape of development finance by renovating ODA reporting systems to get incentives right, seeking an updated multilateral framework for trade finance coordination, and adopting differentiated and complementary approaches to ensure long-term debt sustainability. In a polycentric world, the governance of development finance has become more complex and intertwined than ever before. Stakes are high in updating and innovating governance of development finance to fulfil the vision of a transformation agenda for shared global prosperity.

II. Public Entrepreneurship in the Transformation Agenda – Past, Present and Future

This section aims to put the burgeoning transformation narrative into historical perspective by conceptualizing it as the renaissance of *public entrepreneurship*. It links up the transformative processes of advanced economies in the past, newly industrialized countries, and rising Africa. By doing so, it sheds new light on debates on developmental states, industrial policies, and the scaling-up processes for an inclusive and sustainable transformation agenda.

a) Understanding the Transformation Narrative and Public Entrepreneurship

The phenomenon of the emerging countries has been changing the face of the global economy and dramatically reducing the incidence of global poverty within just a few decades.

Many academic and policy discussions have been devoted to understanding better how the transformation process works and can be made to work in almost any country – none of the emerging country cases of today were predicted, indeed were often considered as unlikely to take off. And based on this understanding, "transformation" is now becoming the development narrative of choice across the developing country world, supplying new ambition and new vocabulary.[1]

The transformation narrative proposes that a country with a largely traditional economy with relatively low productivity can create a largely modern economy with relatively high productivity, within a generation, that is, much faster than ever before in history. In this narrative, such a development process is driven by a key actor, who may be styled as the "Public Entrepreneur" (see Box 2.1). The Public Entrepreneur provides the vision and the discipline that drives the modernization process, crowding enterprises into the modern sector and generating rapid learning

processes and new human and institutional capabilities. In today's world, the learning opportunities in a global economy, with ubiquitous connectivity available *via* mobile technology and high leap-frogging potential expanding human capacities and new middle class markets, provide powerful new accelerators for such transformation processes.

Analytically, the Public Entrepreneur in a developmental state solves the *first mover* problem identified by development economists in the 1940s and 1950s – that a significant number of players must enter the modern sector in a concerted effort in order to create the circular flows of income and learning needed for the modern sector to become self-sustaining and dynamic.[2] Today we should understand overcoming this first-mover problem enables catch-up development processes to take hold with all the public investment in infrastructure, human resources and institutions. Developed countries have tackled this challenge over the last two centuries and more, and it poses similar challenges for developing countries now.

Historically, the transformation idea begins with Alexander Hamilton in his Report on Manufactures to the US House of Representatives in 1792, recommending moderate tariffs to finance subsidies for innovative industries. Then Frederich List studied Alexander Hamilton and the US experience and influenced German policies for building a modern economy in the late 19th century. In turn, under the Meiji Restoration, Japanese officials studied List and the German experience intensively. The East Asian "miracle countries", notably Korea, Taiwan and China learned much from Japan, and Korea also drew inspiration from Germany.[3] Japan itself played a leading role in generating the ideas, investments and economic networks that helped the transformation processes work through regional linkages in East and South East Asia over recent decades.

Now, African Union Heads of State, on the 50th anniversary of the African unity movement, are launching a fifty year African Transformation Plan (*Africa 2063*). This follows in the wake of intensive study and debate in African think tanks[4] and policy fora[5] to deconstruct the East Asian experience and apply it to the African context, and the emergence in Africa of a number of self-styled "developmental states", including Ethiopia, Rwanda, Kenya and Nigeria, now among the fastest growing countries in the world.

Working across the last 250 years, this trace must constitute one of the most powerful chains of influence of ideas and experience in the history of world economic development. At the same time it also works to underline the path dependence of transformative development. Each case is unique and highly contextual in its political, historical and geographical setting, and the specific nature of a transformation pattern varies radically across countries across and within given space-time locations. But the one common feature is the appearance of Public Entrepreneur who establishes a new, inclusive development narrative that generates dynamic capacity development processes in both public and private sectors and an active and effective state.[6] This feat has been accomplished in the emerging countries from a variety of complex political starting points. *The 2013 Human Development Report* provides an overview of ongoing transformation experiences and identifies three key drivers – a proactive developmental state, tapping of global markets, and determined social policy innovation.[7]

Box 2.1 Public Entrepreneurship in a Transformation Agenda

A transformation agenda entails breaking *business-as-usual* mentalities by creating long-term visions for value-creation. At the heart of the transformative process is the role of public entrepreneurship, with three core generic features:[8]

- alertness to opportunities,
- judgmental decision making under uncertainty,
- bold and creative innovation.

Public entrepreneurs are public-policy pioneers who can identify potential value-creation opportunities that are often suppressed by status-quo inertia, marshalling public resources in concert with private resources for fulfilling the "imagined" vision, and fostering a mutually-reinforcing, synergy creating interaction between public actors and private actors, turning *latent* value creation and capture into *realized* value creation and capture.

To advance up the value chain, first-movers have to take risks, overcome misperceptions or even disillusionment, and bear the losses of failure in experimentations. The large-scale transformation agenda entails an order of unprecedented complexity and magnitude with a long-term horizon. At the initial incubation/take-off stage, this is often beyond the reach of private players whose range of action usually constrained by short- / medium- term performance criteria. Thus, public entrepreneurs are crucial to overcoming *diffidence* and *inaction* by creating enabling conditions for taking-off and scaling-up value creation.

This does not mean that public entrepreneurship *alone* can accomplish the task. Nor does it imply that centralized state planning or control that would substitute private enterprises, civil societies, and social sectors. On the contrary, it fosters polycentric innovation on different levels. It triggers and sustains the transformation agenda by coordinating efforts of multiple stakeholders and enabling bottom-up initiatives to flourish and scale up, creating a formal sector able to operate across time and space, and to generate public revenues for

> financing public goods.[9] Thus, it does not substitute for but stimulates and complements private entrepreneurship. Local public entrepreneurship creates innovation ecologies, provides public goods in sectors or localities; thus, it spreads and speeds up transformation processes.[10]

So what enables public entrepreneurship to take up the role as an initiator, enabler, and accelerator while avoiding potential pitfalls of abusing its fiduciary duty as the steward of public resources?[11]

Governance matters, for it is crucial to getting *incentives* right.

On the one hand, institutional space is much needed to enable public entrepreneurship to think strategically by looking forward and outward. Otherwise, unduly rigid institutional rules would engender disincentives and constrain the potential of proactive public entrepreneurship to ignite and sustain the value creation process.

On the other hand, institutional safeguards are important to avoid abuse of public finance in both domestic and international spheres. Loopholes in institutions may breed perverse incentives for private interest capture rather than system-wide value creation. Thus, a robust and accountable institutional setting (both domestic and international) is needed to unleash the potential and avoid the pitfalls of public entrepreneurship.

Therefore, the key governance challenge is how to enable public entrepreneurship to flourish in a prudential and responsible manner. In a developmental state, governance matters in a highly context specific manner.[12] Such active and responsible public entrepreneurship emerges from, and requires, as mentioned above, a strong national project with political incentives aligned with national wealth creation and the resolution of civil conflicts; a capable civil service with access to independent policy analysis and a

strong civic ethic; a global economic governance system that is supportive; and a regional security context that provides long-term confidence.

b) From "Asian Miracles" to "Rising Africa"

The migration of the transformation agenda from East Asia to Africa is not accidental. Commodity demand curves have shifted upwards and outwards with the emergence of a numerically large Asian middle class, and associated inward investments in commodity production have diversified economic relationships and generated rising incomes and helped to accelerate the growth of an African middle class. The incentive patterns that encourage the emergence of public entrepreneurs have thus changed radically. In the 1980s and 1990s, low commodity prices, poor economic prospects and rising opportunities for amassing private wealth in an increasingly permissive international financial industry encouraged state capture by individuals and political elites.[13] The new economic vectors originating from the Asian Miracles are helping to turn the balance of incentives for political leadership towards inclusive national wealth creation. At the same time, the significant debt reduction packages organized by donors over the last decade and rising assistance from emerging donors have opened new financing options for national economic strategies.

But in the background, and now increasingly in the foreground, has been the steady effort by African leaders to build a political and development architecture across the continent to address Africa's fundamental challenges and opportunities. This architecture has the following main components: peace and security, regional integration, agriculture, infrastructure, and good political and economic governance.

These frameworks are still a work in progress amid much regional and local complexity, but the progress has been significant and under-recognised, clouded by unresolved and new crises. The

incidence of civil conflicts has fallen markedly and regional peace-building initiatives and capabilities are increasingly being brought to bear on persisting and new conflicts. The African Union (AU), the UN Economic Commission for Africa and the African Development Bank have been combining their convening power and analytical resources to work jointly to underpin African development thinking and policy processes. The New Partnership for Africa's Development (NEPAD) has been integrated into the African Union. The Regional Economic Commissions are working to combine their integration efforts to create large markets by joining up Africa, and the mobile telephone and broadband access revolutions underway in Africa have been underpinned by African policy processes.

It is in this context that the AU is adopting the transformation narrative in the form of a 50 Year Transformation Plan (*Vision 2063*) as a signal and a strategy to break out of national, regional and continental traps of commodity dependence and geo-political fragmentation. At the pan -African level then, the AU and its companion institutions are taking on the role of public entrepreneur, changing the vision and the perceptions of the continent as the key foundation for the transformation process across Africa. The new *Ten Year Plan for African Transformation* issued by the African Development Bank and the strategic analysis and principles set out in the *2013 Economic Report on Africa* provide analytical foundations and action agendas.[14] All this indicates the emergence of a wide range of "public entrepreneurs" among African leaders and a growing class of performance-oriented African civil servants. At the same time, private entrepreneurship is also on the rise in Africa and increasing regional economic linkages hold the promise to pull Africa's fragile states into larger economic communities – a dynamic that could overcome ethnic conflict and other sources of civil instability. And the emergence of an African growth story, from the commodity sectors to the opportunities generated by urbanisation,

growing middle classes, and the joining-up of Africa, is beginning to crowd in African and international equity investors.[15]

Credibility is thus building up. Still, the challenges to design, agree and implement coherent national and regional strategies are a complex and ongoing political process. Alongside the capacity requirements set out above, there is still a long way to go. How good is good enough is a question in the African context as elsewhere and hopefully the current momentum in Africa's favour will help African governments and key actors carry forward the new fifty-year Vision.

c) Transformation in the 21st Century: What's New?

i. Outlook for Development Finance in 2030

The current world macro-economy is poised between the possibility of *spreading recession* driven by the policy aftermath of the financial crisis and *spreading recovery* driven by encouraging long-term prospects in developing countries. A downside scenario is not excluded. But the transformation process in developing countries can be a key driver for the whole world.

A dramatic shift in the pattern of world savings and investment is underway. By 2030, the World Bank estimates that the emerging and developing countries' share of global savings and investment will rise to two thirds of the global total, up from around one half today. And one half of the world's capital stock will be located in developing countries. Aid flows from traditional donors will become a much smaller share of total financial flows to developing countries. Due to large fiscal constraints in donor countries, ODA will probably grow very slowly and environmental aid is also likely to level off in the near future.[16] Developing countries' own tax revenues and royalties from natural resources will be buoyant.

Against this mega-trend, financial institutions based in emerging countries can be expected to grow and their global reach to expand so that the international financial industry will look

different from today.[17] Yet their financial systems so far have far lagged behind their commensurate weight in global output and trade.

This would raise a key strategic question of how to improve the *quality* of financial intermediation in emerging economies to channel savings for long-term development investments.[18]

The *upside* scenario is that developing countries' *own* financial markets will play a major role, matching long-term financing needs with long-term funding. But the *business-as-usual* scenario is that their excess capital continues to be parked in foreign exchange reserves in major advanced economies and that the world might run into a new financial crisis due to excessive liquidity in international capital markets chasing short-term profits.

Therefore, the stakes are very high in ensuring well-functioning financial systems to strike a right balance between efficiency and stability. Re-channelling capital for productive uses in a prudential manner will the key for a transformative agenda to work. Otherwise, the downside scenario is around the corner – economic recession and financial meltdown to the detriment of all.

ii. Public Entrepreneurship and Development Possibilities: Beating Risk and Creating Capabilities

While the growth prospects in developing countries are fundamentally strong, with population growth and urbanization creating growth dynamics that operate internally and among developing countries much more than between developed and developing countries, global investors still have the perception of a high risk environment, even as they seek higher returns to meet the pension requirements of aging populations. These higher returns will in fact be available as population growth in developing countries translates into the world's source of labour force and market growth.[19]

The transformation narrative helps to change the high-risk perception as growth stories become stronger. What this implies, however, is that public entrepreneurs are successfully working to create the capabilities needed across the economy to create and capture sustainable value, in other words, a pro-active role for the state as described above is central.

This implication remains problematic in terms of mainstream economic thinking and policy, although less so than in previous decades. In developed countries there is also a strong move to actively shape public policies to support economic capacities in a rapidly changing global and technological environment.[20] In this context the role of public entrepreneurs at local as well as national levels is receiving new attention in OECD countries.[21]

Box 2.2 Value Creation and Value Capture: New Perspectives on Industrial Policies

Economic thinking on the growth process has been evolving in significant ways since the 1980s, modifying quite profoundly the policy implications of neo-classical theory bound by assumptions of perfectly competitive markets and perfect information, with technology as an exogenous factor. Today, it is mainstream to regard "Total Factor Productivity" as the key indicator of economic success or failure and to investigate a wide range of policies, and market and institutional functioning in an economy that might explain relative economic success or failure. The state is seen to have responsibility for improvements in these areas, but with *less* government rather than *more* a frequent policy prescription. Total Factor Productivity remains, nevertheless, a black box.

Meanwhile "new growth theory" has enlarged the production function to include new factors of production, including ideas, institutions, population and human capabilities.[22] This approach opens a different perspective, illuminating the scope for achieving faster and more inclusive development through learning processes and entrepreneurial innovation. And institutional improvement and education and health are shown to be part of the production function. Complementing the new

> growth theory, organizational science researchers have been reconstructing the understanding of the way in which sustainable value creation and value capture occur in contemporary contexts, with significant co-operation between and among public and private actors, so that value is in fact co-created and captured in the context of uncertain, path dependent environments, limited rationality, learning, and adaptive and pro-active behaviour.[23] This approach to understanding the economic process is particularly helpful in understanding how the transformation process has worked historically and in recent East Asian cases; how it can work in other developing country contexts in a global economy; and how organizational innovation in value creation and capture processes now enters policy domains such as digital property rights, taxation of profits and intangibles and the absorption of social values into the analysis of economic processes. It also provides insights into the ways in which developed countries now seek to foster innovation ecologies through national strategies, with international dimensions that need co-operative treatment.

Thus old debates about industrial policy are moving into new territory, where public entrepreneurship and private entrepreneurship are closely related, in both developed and developing countries. It becomes clearer too, that the "miracles" in the emerging countries have been due to the close, proactive attention of their leadership to fostering market-based value creation and value capture processes in their countries, backed by teams of performance-oriented bureaucrats stimulating and disciplining the learning processes of enterprises. The transformation process thus implies a hands-on rather than a hands-off approach to competitive sectoral policies and the shaping of human and institutional capabilities.[24] In developed countries, the new narrative centres around innovation and education policies and the relationship between public and private entrepreneurship here.

A large area of common ground is thus opening up. For developing countries, industrial policies for economic transformation go well beyond received ideas of protecting infant industries, to

cover skills, finance, infrastructure and political economy, in the context of the new global landscape of value chains. And they need pro-actively seek to generate the technological learning processes that are the core driver of moving up the value chain. Fostering an enterprise sector that can create and capture value is indeed the heart of the catch-up development process. For developed countries, global value chains require a more sophisticated view of how their production and innovation systems have been evolving in this new landscape and how policies might be fashioned to influence their position in global co-creation and capture of value. To help illuminate the issues for world trade policy and domestic strategies, a new data set of trade in value-added has been generated by the OECD and WTO with China as a lead sponsor of this work.[25]

This convergence on the need for public policy activism in fostering value-creation goes along with increasing tensions in dealing with the global interface of domestic policies. Recent and potential cases taken up by the WTO Disputes Settlement process are a vivid illustration (c.f. the Airbus-Boeing dispute). Now the tensions are around solar panels and telephony systems in the EU-China context. There is an argument that sector specific public policy activism, while justified on long term global growth and welfare grounds, might require a new international process beyond the WTO.[26] The WTO subsidies code has little guidance to offer on cases where large positive spillovers of local and global importance are at stake and require economic rather than legal expertise and approaches. But certainly, more discussion in international fora is necessary to fully understand the way forward in reconciling activism in developed and developing countries with the level playing field principles based on Ricardian thinking about resources allocation efficiency, in a world characterized by increasing returns, global value chains and regional trade agreements.[27]

iii. Business Models for Scaling-Up Progress to Include the Poor

The transformation process, although working today at an historically fast pace, takes a generation, and the *African Union Transformation Plan* targets the year 2063 for achieving middle-income status for the whole continent. There is the promise that this fast pace will have wide impact, but it can also leave many behind as rising inequality across much of the world indicates. How will the process of reaching the poor be speeded up to make these objectives a reality?

The public and private entrepreneurship concepts set out above provide a clue – look for business models that can be widely replicated, crowding in more active agents and more active "consumers" at the bottom of the pyramid than has ever happened before. In other words, the huge challenge *today* of a prospective additional 2 billion people in developing countries can become a huge opportunity *tomorrow*.

New business models for social protection have already shown scope for replication in *adaptive* forms across the developing world. Such social protection systems are indeed a major contribution to developing markets at the bottom of the pyramid that can be the foundation for enterprise and employment generation at the grass roots level. And at the same time they preserve and build human capacity, as recognized by the Commission on Growth and Development in a special supplementary report issued after the financial crisis.[28]

But in addition, there is a new perception that the "development industry" has not been geared towards thinking in terms of helping to generate scalable business models that could reach millions of poor people and bring them into new economic circuits of income, employment and innovation. Mobile telephone-based information technology is beginning to make this way forward both more possible and more obvious.

A recent publication from Brookings provides an analytical framework for approaching the scaling-up agenda, deconstructs the range of the business models and how they work, and examines case histories.[29] It finds that incentives and time frames and human resources in both bilateral and multilateral aid agencies in fact hinder the emergence of mindsets and mandates to engage in scaling up projects, with only a few aid agencies having ventured into this area.

In a developmental transformation narrative, scaling up ventures should be a frontline business. The Brookings study illuminates some of the well-known examples, such as the Bangladesh Rural Advancement Committee (BRAC) and the Grameen Bank in Bangladesh, models which have been widely replicated elsewhere, and many others. The field is moving fast. Not mentioned in the Brookings study, but of high potential interest are the Ethiopian Commodities Exchange, which sets prices at auction for a range of commodities, including an internationally recognized quality range of coffees, that are then instantly relayed throughout the country, with sales and income settlements within a few days, boosting farmers cash income and quality incentives. The founding Managing Director has now established her own business to help found such commodity exchanges in other developing countries);[30] The ECOBANK in West Africa, established by ECOWAS in Togo twenty years ago, now operating in 33 countries with 26,000 staff and providing Internet banking services;[31] and *2ie* – a tertiary education centre located in Burkina Faso – has a replicable business model to provide professional education for engineers and other in demand vocations.[32]

Furthermore, there are two areas where scaling up is strategically important for the whole transformation process:

- ***Scaling up in small holder agriculture***

Successful transformation processes begin in the agricultural sector. This under-recognised fact is elaborated in detail, in the different Asian country contexts, in the recent book by Studwell, *How Asia Works*. [33] For the countries in East and Southeast Asia, deep land reform was the basis for success in Japan, China, Korea and Taiwan, establishing land tenure systems that generated highly intensive agriculture, stimulating the rural sector and providing food for rising urban populations, and effectively transferring capital for the early transformation process. The social impact of taking away the role of rural elites was an inherent part of the ultimate success stories. Countries in the region which have been less comprehensive with land reform and smallholder agriculture are held back even today by social cohesion problems. Rural-urban dynamics are a key growth and employment vector in the transformation process. Africa will see the world's fastest growing food market in the world in the coming decades. The opportunities for small farmer based supply chains are immense.[34] Farmer oriented technologies also offer the prospects of a major productivity increase, with small farms moving out of the subsistence mode into the modern commercial sector.[35] This could happen fast with close policy attention, and rebuilding of the agriculture research base and effective outreach services for farmers. In China, rural enterprises benefited from a subsidy scheme to help develop the rural service economy and generate demand for both food and local manufacturing. Large-scale farming also has a role in African development as the co-operation between Brazil, Japan and Mozambique on soybean farming illustrates, but the lessons from Asia (and Brazil also) on small scale farming and the elaboration of land tenure rights are key. These are political and organizational factors primarily which can unleash incentives and technical upgrading of African agriculture [36]

A wide range of experience documents in a recent IFPRI commissioned survey indicates that there are a number of key elements that characterize successful scaling up cases around the developing world. The role of a central actor, essentially the Public Entrepreneur of this paper, who pulls together the range of actors, institutions and policies required are the most fundamental in fact. But a set of other elements needed for policy design and implementation are also identifiable and replicable in different contexts. Getting beyond project-level interventions to more systemic approaches is key for developing countries and for providers of development assistance. These findings apply generically to the scaling up challenge and provide the basis of action agendas in many sectors and contexts.[37]

- ***Scaling up in the green economy***

In the green economy, scaling up will again be central, with the discovery of business models and the emergence of entrepreneurship as the way forward. The Green Climate Fund, now hosted in Korea alongside the Institute for Green Growth Innovation, has the task of mobilizing US$100 billion per year by 2020, with public finance leveraging private finance. A potential basic model for getting this to work is that aid agencies can focus on helping developing countries with capacity building and business models and then developing countries are able to attract private sector funding into green economy ventures or to provide the greening of existing ventures.[38] With urbanization a strong vector of transformational development there are highly positive, employment creating dynamics between the green economy and urbanization.[39]

III. Public Entrepreneurship and Public Finance – Pitfalls and Prospects

As public entrepreneurs go abroad, they deploy public finance[40] to command new heights in the international sphere to advance their national competitiveness. Today's advanced economies did thus as they engaged in the catching-up process in the past. This sometimes led to governance challenges, for public interventions end up with political and economic disasters if not well managed (or even abused as has occurred).

This section traces back to the roots of existing international rules and norms governing financial competition when major advanced economies ventured aboard equipped with public finance. It will focus on two major areas of risk emerge from the pages of history.

a) Lessons from History

i. Pitfall I: Financial Arms Races

The first major risk is a financial arms race. If all suppliers compete to match the financial terms of their foreign rivals, exporters draw on official credit support to win sales without regard to the financial means or political risks of the debtors/buyers. This can easily end up with a race-to-bottom abyss in the absence of coordination and discipline. Such irrational crass competition erases prudent judgments on repayment capacities of borrowers/buyers. It tilts the level playing field and breeds perverse incentives, for companies focus less on improving quality of goods and services and more on how to secure preferential treatment to compete on cheap terms of credits.

In order to avoid this pitfall, it is crucial to put in place collective self-discipline to avoid race-to-bottom destructive competition (See Box 3.1 for the OECD Export Credit Disciplines).

Box 3.1 Collective Self-Discipline in Export Credits: Consolidation of "Soft Law"

The OECD Export Credit Group aims to provide for a level playing field for all in a prudential, predicable, and transparent manner by eliminating subsidies to the greatest extent possible. Such forms of self-restraint have to be undertaken on a collective (or multilateral) basis, for any unilateral discipline would put national enterprises and investors at a competitive disadvantage.

Hence this kind of soft law ultimately depends on voluntary compliance of sovereigns in a collective manner. This entails a basic sense of "fairness" among all participants. Although unfair treatment may occur under the tremendous pressure to reach expedient political compromises, such situations cannot last forever for losers would refuse to comply with rules and collective agreements would fall apart. Thus, export credit disciplines are not something set in stone once and for all, but rather an *evolutionary* process seeking to reach and maintain political consensus among all participants.

To achieve the goal of collective self-discipline, it has been crucial to reach agreement on a universal benchmark for market rates against which undue subsidies can be identified. This turns out to be a daunting negotiation task, for exporting countries with different national public finance systems have disparate natural advantages in providing certain forms of subsidies (e.g., interest rate subsidies, long maturities). Thus, a single benchmark could easily discriminate against some and in favour of others. These complexities help to explain why the first *Arrangement on Guidelines for Officially Supported Export Credits* (more commonly called the "Gentlemen's Agreement") did not come into effect until 1978, even though the Group on Export Credits and Credit Guarantees was established by the OECD as early as 1963.[41]

In the late 1970s pressure to reach a political settlement became compelling. The financial arms race in the wake of the oil crises was so severe that it put tremendous fiscal burdens on each nation as they tried to spend and export their way out of economic recession. Ultimately, a deal was cut on the minimum

interest rate. But due to the pressure to reach a provisional compromise, this floor turned out to be too high for countries with low interest-rate currencies and came to be viewed by Japan in particular as "unfair" treatment, unduly constraining its ability to provide trade finance. For example, due to the high interest rate imposed by the Arrangement, the volume of export credits supported by the Japan Ex-Im Bank (now the Japan Bank for International Cooperation – JBIC), decreased in 1984 to a level of 40% of the peak recorded in 1981.[42]

Yet this uniform minimum interest rate was not "remedied" until 1994. After prolonged negotiations the Participants agreed upon a differentiated approach where the applied interest rate is tied to the market rate in each currency, known as the commercial interest reference rate (CIRR).

In short, the pursuit of harmonized standards on market rates has not been a smooth journey. The more heterogeneous the participants are, the more effort it takes to get everyone on the same page. As the number of players increases, the negotiation costs increase substantially. Trust matters, for it helps to bring goodwill to debates and to encourage problem-solving. Otherwise, suspicion reduces the negotiation process to a zero-sum game where "levelling the playing field" becomes viewed as a political slogan used by aggressive players to gain competitive advantages over others.

Yet the painstaking negotiation efforts among export credit agencies (ECAs) were vitiated by a loophole – the lack of a clear distinction between tied development loans and export credits in a strict sense had enabled exporting countries to use tied aid as a disguised form of trade promotion.[43] To deter misbehaviour in this "safe haven," ECAs adopted a strategy of raising the bar high – making "aid" too expensive to be employed as an export promotion tool, i.e., tax a behaviour that you want to discourage. Thus, a minimum grant element was introduced and progressively raised from 20% to 35%, creating a "no finance zone." Why should public finance with grant elements between 0% and 35% be forbidden? The rationale was that subsidies that distort trade *cheaply* (allowing the maximum

trade distortion for any given level of subsidy resources) are the most dangerous to the trading system and open competition.

But this comes with the disadvantage that it impinges on the flexibility of tailoring concessionality based on risk-return profiles of specific projects. From the perspective of the primary designer (the US negotiator in this case), this cost had to be accepted in order to avoid opening a Pandora's Box of subsidized competition if flexibility at the project level was permitted.[44]

Yet the "no finance zone" was no guarantee of a subsidy ceasefire. The requirement of at least a 35% grant element was not prohibitively expensive enough to deter abundant tied aid practice. It was not until the Helsinki Agreement in 1991 that a new layer of discipline was introduced and subsidies for "commercially viable projects" in "richer developing countries" were forbidden.[45]

For this rule to function, a working distinction between commercially viable and commercially non-viable projects had to be established. This was not something that could be defined on an *ex ante* basis. ECAs adopted a "case history" approach, investing enormous energies among participants to *gradually* establish a common understanding on which development projects required a subsidy to be viable. The credibility of this system depends on transparent information exchange. Project information is shared among participants on a bulletin board to be scrutinized by peers.

This "exit" of public finance from commercially viable projects assumes the existence of mature market-based finance. Yet this may underplay the proactive role of public finance in incubating markets by transforming a commercially non-viable project into a viable one. This proactive role is very difficult to accept for those with deep-rooted convictions that public finance is not a solution to the problem and that public finance is the problem.

ii. Pitfall II: Imprudent Lending and Borrowing

The second major risk is debt and financial crises. When politics trumps prudential financial and economic judgments, short-term perverse incentives lead to excessive borrowing and lending to an unsustainable level. For instance, artificially low credit encourages borrowers to assume unaffordable debts in the belief that they would be able to refinance quickly at favourable terms. In short, the implicit official bail-out exacerbates the problem of moral hazard: a direct parallel is the cheap financing that has led to recent real estate bubbles which, when they burst, led the US and the rest of the world into financial turmoil.[46]

Thus, to deter imprudent lending and borrowing, it is important to establish surveillance systems to ensure long-term sustainable capital flows (See Box 3.2 for how the IMF and World Bank debt sustainability frameworks have operated).

Box 3.2 Multilateral Surveillance on Debt Sustainability

To establish an effective multilateral surveillance system, the core challenge for the IMF has been to decide *what categories of external debt should be made subject to control and the way in which these categories should be defined*.

Ideally, the economic viability of external loans could be a viable benchmark for discerning "good" loans from "bad" ones. Yet the IMF decided at the very beginning that it *could not* and *should not* exercise such discretion for two reasons: (1) the lack of expertise on project appraisals to make such qualitative judgments;[47] and (2) the uniformity of treatment among its members.[48] Therefore, it decided to resort to quantitative limits criteria.

In retrospect, IMF's debt limits policy has experienced substantial change. In 1967 when the policy was first introduced, its original purpose was to speed up "the restoration of confidence" in economic management of member countries in order to hasten "the inflow of long-term capital" by sending positive signals on prudential debt management.[49] Thus, IMF limitations on borrowing were

prescribed *only after* "considerable damage to mutual confidence among members has *already* been caused."[50] The policy was not designed as an *ex ante* deterrence of certain categories of credits.[51] The rationale behind the emphasis on avoiding any "outright prohibition" was to avoid narrowing the range of alternative sources of credits open to debtors and discrimination against certain creditors.

But later, the debt limits policy gradually evolved into an *ex ante* deterrence of new external debt – whenever the size and the rate of growth of external indebtedness were judged as unsustainable by the IMF (rather than the borrowing countries), debt limits would be applied to countries with the IMF-supported programmes preferably *at an early stage*.[52]

This shift was made to respond to unsustainable lending and borrowing in the 1970s. In the wake of oil crises in the 1970s, many developing countries resorted to borrowing in international capital markets, particularly from commercial banks, to finance widening current account deficits which delayed the necessary domestic adjustments from the perspective of the IMF. In the 1980s in the context of outbreak and prevalence of widespread payments difficulties, the prescription of debt limits by the IMF had become "a universal practice."[53]

Such an *ex ante* approach entailed the formulation of clear operational criteria to decide which kinds of loans were more *likely* to cause debt distress. While it was acknowledged that it was arbitrary to make an across-the-board rule, quantitative limitations on new external debts (known as "performance criteria") were introduced due to "an overriding need to safeguard the principle of uniformity of treatment among members."[54]

As a result, a built-in assumption was made that concessional finance (with longer maturities, greater concessionality, etc.) was more development oriented and should be excluded from the control. This coincided with the "no finance zone" of the export credit discipline.[55] While the two policy frameworks were constructed on the grounds of two different rationales (one to avoid export promotion competition and the other to avoid accumulation of unsustainable external debts),

> they effectively put restrictions on both creditors and debtors to undertake loans that fell into this "no finance zone."

In a nutshell, both these pitfalls result from unaccountable power, including implicit and explicit public guarantees. There is huge potential for corruption in the absence of appropriate public scrutiny. For instance, if export credit agencies grant contracts to politically connected firms, this amounts to a disguised welfare redistribution from disadvantaged groups to vested interests. Development banks can also be plagued by similar political capture. Undue political influence is often associated with higher *ex ante* risk taking and higher *ex post* loan defaults.[56] Meanwhile, lack of financial integrity is equally detrimental on the side of borrowers. When corrupt politicians and officials use their access to funding for personal wealth accumulation rather than the creation of national welfare, the story often ends up with "odious debts."[57]

In short, the above two pitfalls involves the abuse of political power. And they can become too deeply entrenched to be redressed in a timely manner. Once such wrongdoing gains a foothold, it is hard to weed out, for vested interests fight to maintain the status quo.[58]

Consequently, the abuse of public finance ultimately crowds out private capital and retards self-sustaining private sector development by inducing overdependence on soft public finance options. Such distortions are particularly large if public finance is sharply out of step with the market, providing perverse incentives that lead to uneconomic capacity expansion through over-subsidization.

Therefore, in order to avoid these pitfalls it is crucial to put in place collective self-discipline and surveillance systems to minimize misuses of public finance.

b) Prospects: Will History Repeat Itself?

Memories of developing country debt crises which have marked each of the previous three decades remain strong, even if the debt crises of today are centred in developed countries. As the pitfalls described above indicate, the possibility of a slide into crisis is never to be discounted. Yet looking ahead, the world looks different for three reasons:

- the new priority now given to the financial and fiscal integrity agenda and the sustainable development agenda more broadly;
- the emergence of new middle classes as a growth vector;
- and the growing momentum behind equity financing and attention to its quality.

i) Financial and Fiscal Integrity: transparency, accountability and sustainability

The emergence of a much more determined and collective international effort to address financial and fiscal integrity issues that is an effective deterrent to corrupt behaviour and illicit flows is a major shift from the permissive international environment of recent decades and hence a landmark in global and local incentive systems. The forthcoming G8 agenda promises to strengthen and extend the agenda,[59] with broader back-up from the G20 coming in September at the St Petersburg G20 Summit.

A shift from unproductive rent-seeking by leaders and elites to productive entrepreneurship within a national project to move up the economic ladder is the essential incentive change inherent in the transformation process. Where political elites remain more oriented to personal wealth accumulation, the development process does not take off, and any relapse into rent-seeking is highly negative for long term growth and undercuts the social consensus behind the national project.

Thus financial and fiscal integrity are deeply functional issues as well as being issues of ethical and political probity. The developmental state, with its close state-private sector interaction, has to insist on the fight against corruption for systemic reasons.

As now widely acknowledged, regulatory failures in global financial markets in recent decades have made it possible for significant illicit financial flows to be transferred abroad.[60] Major financial institutions are being fined for non-compliance with surveillance regulations and for the promotion of financial products designed around tax avoidance. This vulnerability in the global system is an important area of G20 consensus and action, backed by intensified work in international institutions and intensified exchanges of tax information, with impact on the professional services involved as well as the behaviour of principals.

The integrity of the global financial system is clearly linked to the balance of political incentives as a causal factor in state fragility.[61] Hence decisive action at the international and local levels on illicit transfers via banking systems, trade invoicing and extractive industries, is an essential part of creating the environment for the strong political vision and leadership needed for economic transformation in fragile states. Economic transformation is now a built-in dimension of the New Deal[62] agreed with the g7+ group of fragile states in the context of the Busan Partnership for Development, resonating with the Machiavellian case for a social contract that minimizes the use of violence and the role of predatory elites.[63] The process in Myanmar to draw up a transformation plan for 2030 provides a current example.[64]

Integrity is also the key to public expenditure management for development. This requires the emergence of the professionalism and political processes that drive decision making in terms of development outcomes, and fostering systemic capacities for policy making and service delivery.

Investment in intellectual and analytical capacities to support decision making and building consensus around visions and policies is thus fundamental. In a virtuous circle, the progressive emergence of such capacities creates the basis of a dynamic investment process and financial sector and public revenue expansion.[65]

On the level of public expenditure and revenue integrity, regional efforts and dialogues are making progress with the professionalization effort. In the African context, the *Collaborative African Budget Reform initiative*[66] and *the African Tax Administration Forum*[67] are examples of these efforts, which were not in place at the time of the debt spiral of previous decades. As mentioned, the professionalization of debt management capacities is part of this crucial upgrade of financial management in developing countries.

ii) The new economic vector in global growth: the rise of the global middle class

The emergence of a middle class across the developing world of an unprecedented size brings an entirely new vector into global growth.[68] There are fears that a continuation of export-led strategies with a widening range of emerging countries will strain the absorption capacity of developed countries beyond political limits, create unsustainable international imbalances and intensify the need for national policy space to deal with adjustment problems.[69] On the other hand, there is the prospect that the new middle classes will create huge new markets for developed country exports. A global growth boom fueled by both rising consumption and rising investment in a whole range of developing countries would be the macro-economists' dreams come true. It would also push global payments balances more into the textbook pattern, where developing countries have significant current account deficits (as importers of capital) while developed countries have surpluses (as exporters of capital). Reality will be more complex than

that, but nevertheless, this is a thinkable and desirable future path for the world economy. The rebalancing agenda for the Chinese economy would be an important component of this new direction.[70]

For developing country debt positions, this would represent a growth scenario with diversified sources of demand, internal as well as external. The dynamics of rural-urban migration and regional integration would become more important than exporting to OECD markets which will in fact become a diminishing source of international demand. With national income growing fast and tax revenues alongside, debt burdens would remain sustainable even as foreign borrowing rose. For pension funds around the world, developing country bonds would be a prime investment.

This scenario would need to include the progressive resolution of domestic political struggles in a range of unsettled countries, but it would indeed contribute to such solutions for rising middle classes strive to hold their public servants accountable. The role of the public entrepreneur would be to combine domestic political settlements with the national transformation project. That is exactly what has been achieved in most of the emerging countries, although some are still struggling with difficult equations on this front. Their success depends on "good local consolidation" of struggles rather than transplantation of externally-imposed "formula."[71] An optimistic future for world development is not a lost cause. [72]

iii) Crowding in Private Equity and Making Growth Green

Financial integrity in the broadest sense is the foundation for investor confidence and sustainable development.

Evidence and a track record of a development vision and a progressive strengthening of the quality of decision making and public communication can help unlock financing for infrastructure and create sustainable development pathways. An emerging development story attracts financing from foreign companies and equity funds.

Inherently, in the long-run sustainable development is less costly than unsustainable development, which bears large cleanup and social costs. The fundamental issue is therefore how to strengthen the quality of decision-making and policy implementation at all levels. Here there are international instruments such as the UN Compact and the OECD Guidelines on Multinational Enterprise that set standards of behaviour.[73] Sustainability guidelines are also now a part of export credit disciplines. Global businesses have reputational incentives to promote sustainability, and emerging country global brands recognize that. Supply chain surveillance is a growth industry, contracting to major companies around the world, although factory disasters and widespread pollution and recurring environmental accidents show how much remains to be done. Regulators in emerging countries with finance and investment flowing abroad are increasingly conscious of the responsibilities of their own institutions and enterprises.[74]

IV. Rules of the Game in Development Finance – New Thinking, New Players and Established Frameworks

In today's transforming world economy, national transformational agenda has created more and more new players in the international sphere. Established frameworks governing a limited set of traditional donors and creditors have encountered a burgeoning number of new players – as emerging economies embark on "going abroad" strategies using public finance to conquer frontier markets as advanced economies have done in the past.

This is changing the rules of game. This section will focus on three governance areas in development finance that are currently in the process of rule-making: (i) definition and reporting rules of official development assistance (ODA), (ii) collective self-discipline of export credits, and (iii) multilateral debt surveillance system.

a) ODA's Identity Crisis: Old Players in a New Game?

Official Development Assistance (ODA) has been a long-standing *symbol* of a just and essential welfare transfer from the North to the South. This political framework has deep roots in the historical legacy of colonialism and contemporary humanism, as well as in post-World War II "financing-gap" development thinking.

This philosophy of *tangible resource transfer* (known as "donor effort") has fundamentally shaped the key features of the reporting system for the purpose of *burden-sharing*[75] among donors and *target-monitoring* towards aid commitments[76]. As a result, it *incentivizes* donors to favour certain types of fiscal accounting and financial instruments that can be *countable* in ODA terms. The flip side is that it restrains donors from expanding development co-operation instruments that are not "ODA-able." The strength of this incentive system depends on how much

importance donors attach to the symbolic function of ODA figures – a signal of donors' commitment to international development.

But development finance providers from the Global South do not share the same mental or political framework and their choices are not bound by ODA norms – they do not perceive their development finance as a welfare transfer but as a toolkit to incubate and cultivate investment and commercial opportunities. Their ideological stance of "mutual benefits"[77] gives them full liberty to pursue investment opportunities that have been de-legitimized as ODA by DAC rules. However, development finance from emerging economies has often been narrowly judged from the perspective of ODA.[78]

The two distinct traditions encounter each other in the changing landscape of development finance. Financing needs of developing countries have become more and more differentiated – while some are still struggling with meeting basic human needs and overcoming fragile situations, more and more poor countries have taken off and aspire to fly higher. A new wave of graduation from Low-Income Countries status has strengthened this mega-trend[79] which has unleashed huge investment demands putting these countries on the path towards realizing financial independence by tapping into market-based financing pools.

Yet these transitional countries often find themselves falling between two stools. On the one hand, they are disqualified as aid recipients;[80] on the other hand, they have yet to gain reliable access to financial capital markets. And further, the prevailing short-termism in capital markets means that long-term financing supply falls short of their investment demands.[81]

Therefore, the pressing challenge ahead is how to help these countries manage their risk profiles as they cross the bridge between subsidized credits and market credits. From this perspective, the

primary function of this bridging finance is not to maximize donor budgetary transfers but rather to utilize the latent creditworthiness of public finance to help establish a track record of success, build up their own capital stock and then become full-fledged market players.

But this transformation agenda should *not* trump a strong and sustained support of concessional financing from donors.[82] While traditional donors have essentially abandoned the "financial gap" rationale for aid, they have multiplied their efforts to assist with human and institutional development, or social organization more broadly, including the development of the private sector and trade capacity. Health, education and gender equality are crucial to building human capital both as dignified human empowerments as an *end* in itself and as a key *means* for growth, via increasing human capabilities. The UN-led MDG framework has made a substantial contribution from this perspective, as have the Paris and Accra agendas for aid effectiveness with their focus on developing country leadership of development strategies and programmes.[83]

Box 4.1 How has ODA reporting system shaped donors' incentives in practice?

First, it focuses on measuring "welfare foregone" from the donor perspective – i.e., the opportunity cost of making "aid" available to recipients that can be *otherwise* used for domestic investment in donor countries.[84] But it fails to capture benefits from the recipient perspective – i.e., how much softer "aid" is compared with credits recipients can secure from *alternative* channels (e.g., international financial markets). This conundrum has led to an unsettled policy debate in the Development Assistance Committee (DAC) of the OECD – a donor forum in which the definition and measurement rules of ODA have been forged and managed over time as a result of delicate political bargains.

Conventionally, the "welfare transfer" concept entails some concrete *fiscal effort* in any ODA loan transaction. Yet recently some donors have raised money on financial markets at low rates, using implicit or explicit state guarantees, and re-

lent to developing countries without any tangible and explicit fiscal effort.[85] They still meet the ODA criterion of a 25 *per cent* grant element calculated at the standard 10 *per cent* discount rate (This fixed discount rate has unduly overstated the opportunity cost of aid-giving; as a result, it set a very low bar for donors to pass the ODA eligibility test). Such practices help donors to reduce the political cost of aid-giving in times of domestic budgetary austerity while making progress in honouring their aid pledges (the donors remain bound, however, by the DAC terms agreement of an overall 86 *per cent* grant element in their aid programme as a whole).

While donors make no fiscal "sacrifice" and may even potentially earn a profit although they may claim not seek to do so, these loans can be favourable in the eyes of recipients if their riskier profiles are substituted by the donors high-quality risk profile. Yet this lending practice with zero fiscal transfer is highly problematic in the mainstream mentality among DAC donors. There is a concern to "prevent notions that ODA loan schemes follow a commercial logic"[86] in order to defend the "integrity" of ODA reporting and avoid the "reputational damage" involved in diluting the welfare transfer component of ODA.[87] This has launched a further round of rulemaking in the DAC.

Traditionalists argue that ODA without a donor country fiscal effort is a *negation* of ODA as a national and collective taxpayer effort with its moral dimension of "giving." But *reformists* embrace it as an opportunity to expand the quantity and reach of official development assistance *via* financial leverage. Especially, the scope for such lending to increase rapidly is significant in a low interest rate world.

Second, the measurement of ODA is based on the "net cash-flow" principle. This means that donors take credit when tangible financial resources are actually transferred to recipients. At the point of disbursement, providing loans boosts ODA performance since their face value counts the same as an outright grant, but reflows coming back are recorded as *negative* ODA. Hence donors with significant loan programmes must continually expand their new lending in order to keep up their net ODA performance to avoid a sharp drop – a signal of flagging

support for international development.[88] And this principle fails to give credit to guarantees and insurances that would have crowded in private financing and enabled recipients to be less aid-dependent. As a result, these financial instruments are subject to perverse incentives, for their success involves no actual flows whereas their failure incurs visible donor effort and at that point counts as ODA.

Third, the ODA definition exerts pressure on donors to give aid loans on terms as concessional as possible at the risk of over-subsidization and the perpetuation of aid-dependence [89] to the detriment of both donors and recipients. To create incentives for donors to maximize resource transfer, the ODA reporting rules were set to establish a core eligibility test – a minimum concessionality threshold at 25 *per cent* at the level of *each* transaction. While this standard is taken for granted nowadays, history reveals that it was actually a *provisional* political compromise[90] among donors, primarily driven by political pressure to delineate development loans from export credits so as avoid deploying "hard aid" as a weapon in the export credit race. This rigid criterion was initially resisted on the ground that it would leave little flexibility to donors if they were faced with additional demands for finance even at harder terms.[91] But the rule was ultimately accepted as a price donors had to pay in order to separate aid from commercial lending.

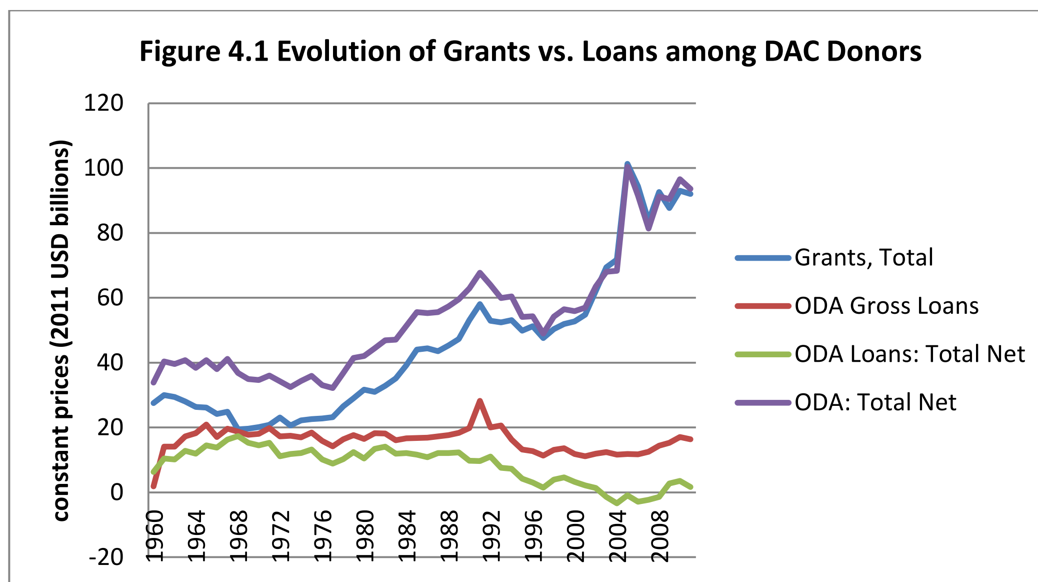
Moreover, the push for greater concessional financing has been further strengthened by introducing the minimum grant element of 86% at the overall aid programme level. This effectively limits donors' capacity to provide harder loans, for harder loans can only be "released" by putting much softer loans/grants in aid programs. This has created, as intended, convergence pressures on donors to offer highly concessional loans or outright grants. It entails a trade-off between volume and terms – the softer the terms are, the smaller the volume is. (Given the net ODA performance measure, most donors give grants, since hard loan programmes soon run into the reflow problem. Escalating and unmanageable amounts of loans would then be needed to keep up the ODA performance obligations[92]).

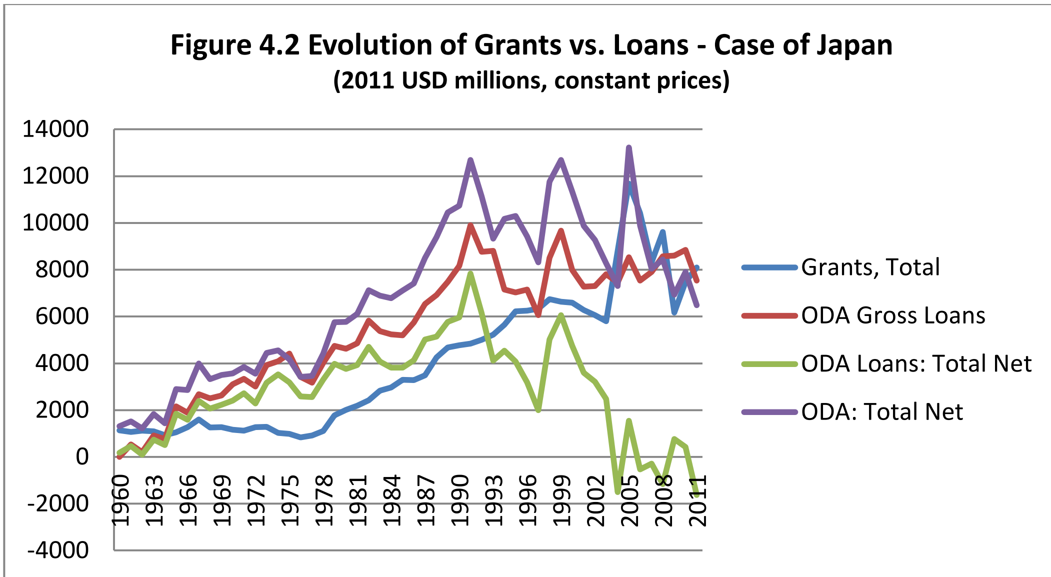
Figure 4.1 shows that grants have constantly and substantially increased upon the introduction of tightening of the ODA definition in 1972. Gross loan

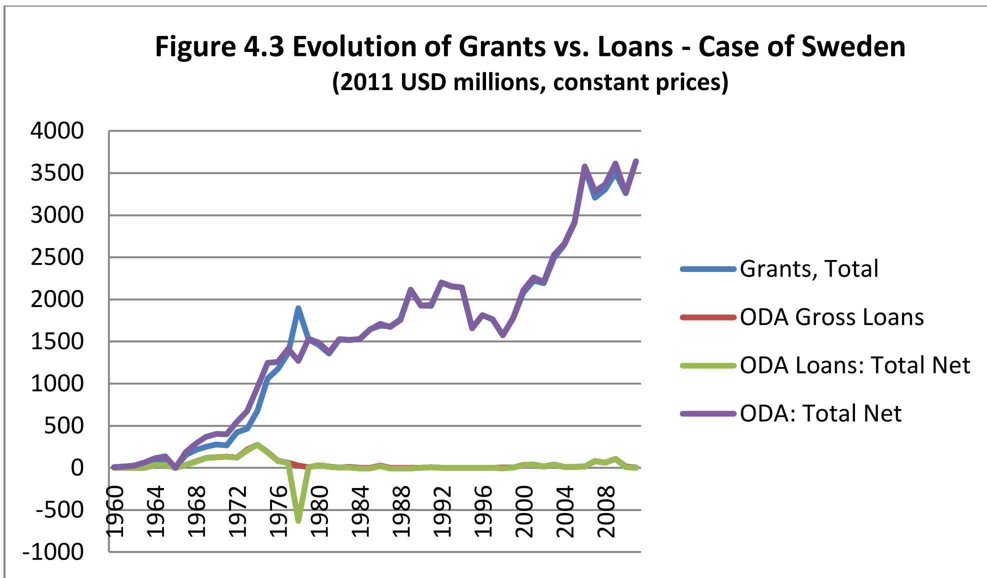
disbursements have stagnated and even declined as loan repayments increase (as indicated by the gap between net ODA loans and gross ODA loans – i.e., between yellow and red lines). Especially, since the early 2000s net loan disbursements have turned to negative – i.e., recipients pay back more than donors disburse. Accordingly, donors have stepped up their grant delivery.

It is interesting to compare Japan with Sweden (two typical DAC donors – loans- vs. grants- oriented). Figure 4.2 shows that Japan had the tradition to prefer loans to grants, but its gross loans disbursements had stagnated and loan repayments have risen since the early 1990s. Especially after 2000, grants skyrocketed and surpassed loans. This case illustrates how DAC norms and rules, among other factors, can convert a donor into a "normal" player.

In sharp contrast, Sweden – representative of "like-minded" Scandinavian donors – place primary emphasis on grants. Its loans disbursements have almost been nil since the early 1970s. Its net ODA disbursements are almost equal to grants.







Source: OECD DAC Aid Statistics Online, 2013.

In a nutshell, in line with the founding philosophy of resource transfer, the established incentive system has favoured grants over loans, explicit flows over implicit guarantees, and softer loans over harder ones. Furthermore, these incentivized behaviours have been further *legitimized* and *routinized* by regular peer review processes to be spread as "best practices" among DAC donors.

Going forward, the strategic policy issue ahead is **how to open the way for a new wider category of public development finance, based on financial market borrowings, while putting safeguards in place to enable the effective exercise of development quality control on such financial transactions.**[93]

The future policy framework has to address the following questions:

(1) **Give credit to financial instruments/schemes that contribute to the capacity for independent development in developing countries.** This is in line with the ultimate purpose of national transformational agenda. But the existing *fiscal transfer-focused* and *net-flow-based* reporting system unintentionally discourages them from thriving.

(2) Give space to alternative types of development finance to widen the choice menu at the disposal of receiving countries. The current reporting rules exert harmonization pressures on donors to give grants that de-legitimize market-oriented financing and under-emphasize the bridging financing between grants and commercial loans. This should be done in a way that can preserve the incentives for donors to continue to provide essential grants and other finances that market-based solutions fail to offer.

(3) **Focus more on a wider set of policy-relevant official financing to promote more public scrutiny and accountability mechanisms.** Other Official Flows (OOF) have often been consigned to oblivion for most spotlights have been concentrated on ODA. An updated governance system should inform the public of the scale and nature of increasingly expanding official finance to foster *mutual accountability* in an effort to harness financing power to the transformative development agenda.[94]

b) Export Credits Discipline at the Crossroads: New Players in an Old Game?

The prevailing philosophy in the established export credit disciplines are that any "subsidy" component designed to promote exports will act as a "distortion" of competition, and should be eliminated.[95] And history tells us that such disciplines are indispensable to avoid irrational and destructive financial arms races in global export markets and unsustainable debt mountains.[96] The disciplines are thus a living embodiment of international cooperation among financial powers, no matter how big or small, accepting self-restraint to forgo myopic short-term gains and pursue instead, long-term orderly competition in export markets.

But this mainstream philosophy assumes a passive and reactive role for public finance – i.e., it merely temporarily steps in neutrally where markets fail to provide finance. As a result, it overlooks more proactive roles for public finance – such as market creation by incubating financially viable opportunities in uncharted sectors and areas. From this perspective, public finance does not simply guarantee calculable risks with taxpayer's money but rather invests to convert uncertainties into manageable risks and realizable values to create enabling investment opportunities for private entrepreneurship.

In fact this practice is not new at all. Advanced economies today were forerunners of this kind of public entrepreneurship in their catch-up/development processes in the past. To promote international competitiveness of their national firms, OECD countries have used initial subsidies to establish a market presence and develop brand recognition and technical standards that could actually be a profitable investment in winning subsequent commercial competitions. The primary motivation is not merely to aid ailing industries to secure contracts (that is only a secondary) but rather to cultivate new markets to enable their national firms to advance up their competitiveness curve and then to wean off public support and win in open international competition.

This strategic role of public finance in promoting competitive exporting capacity of traditional capital-intensive industries has gradually faded away as they have entered into new service-based sectors. But levelling the playing field among the old players in sectors such as aircraft is still an unfinished journey. In the absence of credible "exit" strategies from such competition on financing packages, policy makers had abused their fiduciary duties, sustaining excessive subsidies to politically connected firms despite heavy contingent fiscal burdens. Consequently, the initial healthy public-private synergies were trumped by corruption and profligacy, irrupting sometimes into highly public scandals. To address such wrongdoing, the Helsinki Disciplines and the Tied Aid disciplines became the order of the day.[97]

In today's transforming world economy, this discipline among old players encounters new players – as emerging economies embark on "going abroad" strategies, they follow in the footprints of the earlier practices of developed countries using trade finance to advance competitiveness of their national enterprises in the global market. Thus, export credits are gaining renewed strategic importance in world economy. Unconstrained by the agreements among the OECD Export Credits Agreement Participants and among DAC donors, emerging economies pragmatically adapt their financing terms based on the risk/return profile of specific projects which enables them to occupy a "niche" between these two traditional options of commercial loans and ODA. [98]

While competition is a normal and positive process, the opaque nature of export credits has heightened fears that new players have been undercutting old players who are constrained by compliance with the established disciplines pact. In the face of increasingly compelling pressures from emerging economies, old players face four choices: (a) complying with existing rules (at the cost of exports, jobs and growth), (b) matching more generous terms of new players unilaterally

or collectively (in danger of undercutting their own rules), (c) litigating in the WTO and (d) negotiating a set of multilateral disciplines which include the new players. The first is not a real option, for it is essentially "slow economic suicide."[99] The third option is a risky one because it may engender counteraction by emerging economies. The fourth option is the most attractive and indeed the US and China agreed in 2012 to launch such negotiations.[100] But no quick breakthrough to a broad multilateral agreement seems to be on the cards. Thus, the option *(b)* could become a most-likely outcome.

This raises the question of how to ensure that the big push for frontier investments does not fall into the pitfall of a new round of financial arms races.

On the one hand, healthy competition among creditors can bring benefits to borrowers in terms of greater access to more favourable terms. For instance, the US Ex-Im Bank has boosted its lending to Sub-Saharan African countries[101] to take up critical challenges from the growing commercial presence of emerging economies in the region.[102] China committed a credit line of US$20 billion to African countries for the next three years (up from US$10 billion from the previous three years) to mainly support the development of infrastructure, agriculture, manufacturing, and development of small and medium-sized enterprises in Africa in the fifth Forum of China Africa Cooperation held in Beijing in July 2012.[103] The UK Government has now set an ambitious goal to make effective use of export finance to increase exports worldwide to £1 trillion per annum by 2020.[104] The big growth markets will be in developing countries.

This renewed strategic focus on export credits can potentially enable public finance to play a more proactive role in correcting for misperceived risks that intimidate private investors in developing countries.[105] But it also creates tremendous competitive pressures on the established

frameworks among old players. One angle from a prominent export credit agency is that export credit agencies in advanced economies have been "absorbed in combating subsidies and competition" resulting in "complex and inflexible" procedures for official support that have not well adapted to the changes occurring in the outside world.[106] Old players "cannot allow themselves to be stuck in their own world, admiring the achievements of the past and ignoring the present."[107]

On the other hand, there is a real risk that competition might spin out of control leading to self-inflicted wounds across all credit providers. While it is desirable to redress unintended consequences of creditor-centred rules by stressing the importance of sensitivity to market trends and flexibility in providing financing packages for export industries, this should not legitimize unjustified subsidies not subject to public scrutiny. Yet delineating legitimate subsidies from illegitimate ones is not clear-cut on *a priori* basis, for there is an expanding grey area where *ad hoc* practices have not yet consolidated into rules. For instance, recently, explicit support has been encouraged to provide subsidies to encourage renewable energy.[108] Some praise this trend as a step in the right direction to contribute to climate change mitigation,[109] but others warn against using the Arrangement as a policy tool for it would seriously threaten its function as "a model for subsidy-free support."[110] Such kind of policy tools, if not well managed, can result in uneconomic expansion of capacity – a waste of taxpayers' money.[111]

Going forward, the key strategic policy issue is how to strike a right balance between promoting investment frontiers and avoiding irrational crass competition.

The key challenges and opportunities ahead are as follows:

(1) **"Fairness" between first-movers and late-comers.** First-movers argue that everyone should comply with collective discipline to "level the playing field" and avoid "trade distortions." But late-comers contend that it is legitimate to support their enterprises at their early stage of becoming global athletes as developed countries did in the 1970s and 1980s. They further argue that advanced economies should not "kick away the ladder."[112] Yet the question is to what point late-comers will be mature enough to be full-fledged players.

(2) **Insurmountable "harmonization" negotiation cost in a diverse poly-centric world.** As the historical experience among old players has shown that *disparities* in national capacity of providing trade finance instruments have entailed prolonged negotiation processes to reach consensus on *harmonized* standards for voluntary implementation of soft laws[113] among sovereigns. In short, effective and harmonized rules are not built in a day. As the players become more and more diverse with distinct national financial systems (e.g., some emerging economies have interest rate control, interest rate differentials are substantial, etc.) at different development stages, anticipated negotiation costs would be much larger than before, if not insurmountable.

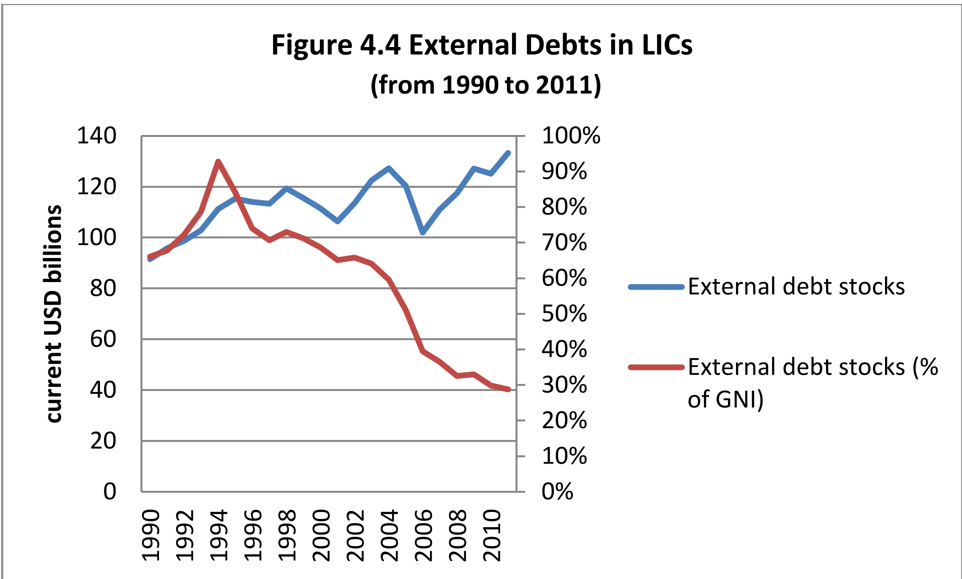
(3) **Consolidation of shared practices among peers might be a way forward.** One potential way of achieving multilateral cooperation in a polycentric world is to consolidate practices through mutual recognition (as opposed to harmonization)[114] in a pragmatic and gradual manner. For instance, a Global Network of Ex-Im Banks and

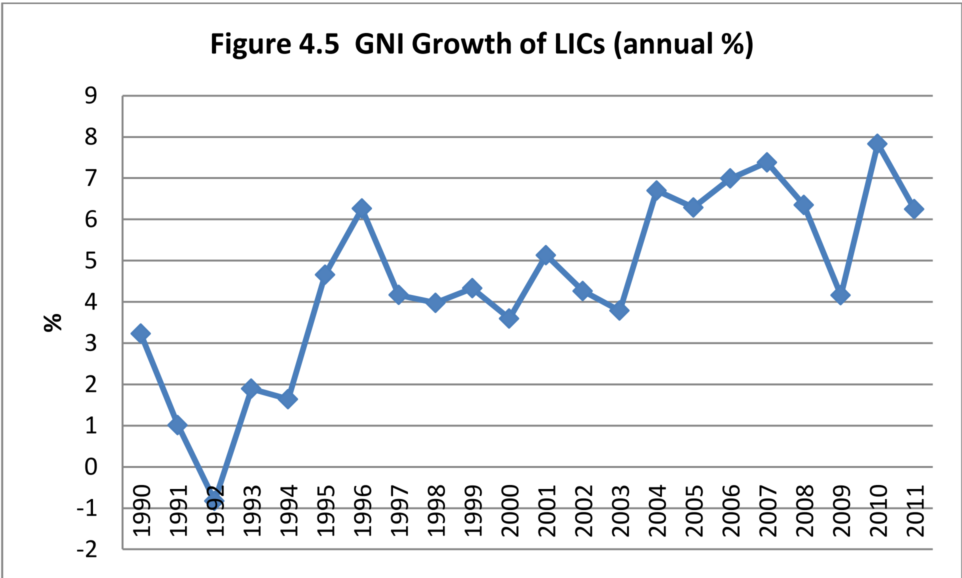
Development Finance Institutions (G-NEXID) has been set up to promoting trade, investment and project financing between developing countries. G-NEXID now has 24 members aimed at deepening mutual cooperation and expanding the technical capacity development programmes of the network.[115]

c) Transformative Investments and Debt Sustainability

Historical mistakes combined with episodes of imprudent lending and borrowing have engendered the necessity of a multilateral debt surveillance policy, exemplified in the IMF's *debt limits policy*. This multilateral surveillance function has gained more salience in the wake of unprecedented debt relief initiatives, which led to the introduction of IDA's *Non-Concessional Borrowing Policy*.[116] Stakes are high in making sure the hard-won gains from debt forgiveness are preserved and new borrowings do not fall into pitfalls leading to a new round of debt crises.

However, the rigid rule that countries subject to this policy cannot borrow non-concessional credits[117] has been challenged by the expansion of new financing options available to LICs. Figure 4.4 shows that since 2006 external debts have grown rapidly yet at a slower pace than GNI, which is in sharp contrast to the pattern in the early 1990s. Figure 4.5 shows that LICs have maintained a growth momentum at about 4% annually in the past decade despite a slowdown due to the recent global financial crisis.





Source: World Bank, World Development Indicators 2013.

This new wave of borrowings has been driven by several forces: (a) Ex-Im Banks and Development Banks from emerging economies,[118] (b) officially-supported OECD export credits, and (c) commercial credits and bonds. This has created heated debates on the impact of these new borrowings on debt sustainability.

Optimists maintain that limited concessional finance and grants are too meagre to fill huge financing gaps [119] and that new borrowings finance much-needed infrastructure vital for addressing growth bottlenecks, which would ultimately contribute to long-term debt sustainability by initiating a virtuous circle of investment, growth and poverty reduction.[120]

Sceptics contend that overoptimistic growth projections have been a leading cause of unsustainable debts in the past.[121] Moreover, the recent boost in external borrowings has partly resulted from increasingly more intensive competition for export promotion which would erode the gains of debt reliefs if it runs out of control.

As economies in more and more low-income countries have taken off requiring an expanding array of financing, optimists believe that the IMF's debt limits policy had not kept up with the times. This has contributed to a subtle shift in the discourse of the debt limits policy. In the past it was viewed as protecting LICs' access to concessional loans. However, nowadays it is considered as measures taken by the Bretton Woods Institutions to "curtail the right of countries to seek alternative sources of financing."[122]

To shape the rules, emerging economies and African leaders came together to call for more flexibility of the IMF's rule. In 2008, an international conference on the *Role of Nontraditional Development Partners in Financing Development in Africa* was organized by the Africa Caucus of the IMF and the World Bank. This conference produced the *Nouakchott Declaration* where African Governors urged "the Bretton Woods Institutions to introduce more flexibility in the application of the concessionality thresholds to reflect the development financing needs of African countries especially as it relates to infrastructure, and also take into account the profitability of each project."[123]

As a result, the IMF's debt limit policy and IDA's NCBP were reformed to adapt to the changing landscape of development finance in 2009 and in 2010 respectively.[124] The framework moved away from the previous single design for concessionality requirements towards a menu of options that took into account the diversity of borrowing country circumstances. As a result, within a sustainable borrowing envelope, borrowers should be able—when appropriate—to tap the new sources of financing that are available to them, including "non-concessional financing" for projects with high rates of return.

Yet in view of huge infrastructure deficits, emerging economies have continued to push for a much bolder reform in the IMF's debt limits policy and IDA's NCBP *via* the G20. The G-20 High Level Panel on Infrastructure proposed a step further to systematically take into account "the efficiency of public investment" with a special emphasis on "transformational regional projects" in setting debt limits so that eligible countries and projects could benefit from the more flexible options.[125]

This has led to frontier policy debates in the Bretton Woods Institutions – how to strike an appropriate balance between debt sustainability and borrowing space for growth-generating productive investments. In the most recent IMF's debt limits policy review in April 2013, the conventional wisdom of making a distinction between "concessional" and "non-concessional" debts to form the analytical basis for which loans should be subject to surveillance was challenged on two grounds:

First, due to volatile market conditions the benchmark is fluctuating so frequently that it fails to ensure a basic sense of predictability in the borrowing space. For instance, a loan that is

concessional when negotiated may turn out to be non-concessional later on. An unpredictable rule is hard to implement in practice.

Second, a rigid enforcement of the rule can unduly constrain the ability of borrowers to use external finance productively, for "non-concessional" finance if well managed can spur growth. While the built-in flexibility allows granting exceptions to the rule, too many exceptions would question the wisdom of the rule itself.

Thus, it is now proposed to broaden the scope of the IMF's debt limits policy to encompass all borrowing, regardless of its terms. This unified debt limits framework is expected to provide stronger safeguards for debt sustainability without *unduly* constraining countries' ability to secure adequate external financing to support their development agenda.[126]

However, this proposal comes with a cost. While it is generally agreed that the existing concessionality benchmark is losing its effectiveness as a policy lever for the purpose of multilateral debt surveillance, some are concerned that the breakdown of this distinction would make it harder to preserve incentives for lenders to provide the LICs with financing on concessional terms.

Given the limitations of a multilateral debt surveillance approach, there is a call for complementary approaches to achieve the policy goal of long-term debt sustainability.

First, many LICs are vulnerable to debt crises due to structural factors beyond their own control. The existing debt limits policy only takes into account the *volume* and *terms* of external debt, but it leaves out foreign exchange rate risk that is related to currency *composition* of these debts.

Second, public financial and debt management capacity is also crucial to help LICs to harness external debts for the development agenda. Lack of capacity (as compared with willingness) is a key obstacle to debt sustainability. Several international institutions supply technical assistance in this area of capacity building. Debt management capacity assessments can help supplement other indicators in judging debt sustainability.[127]

In a nutshell, the IMF's debt limits policy and IDA's NCBP are at the crossroads. Historical lessons due to lack of financial integrity on the sides of both lenders and borrowers have warranted a multilateral surveillance approach to debt sustainability. Its effectiveness entails at least two key factors: (a) information and knowledge to discern "bad loans" from "good loans," and (b) leverage to deter misbehaviours once identified. However, in reality clear-cut distinctions are far from simple.

Going forward, the compelling challenge is **how to help developing countries to manage *risks* of external borrowings to enable their economic transformation**. This entails a holistic approach to harness strengths of policy levers at different levels. Key pillars are as follows:

(1) **Undertake a comprehensive risk diagnosis of debt sustainability that goes beyond the existing focus on *volume*, *terms*, debt ratios of external borrowings.** While simple and standardized criteria intend to meet the purpose of equal treatment among membership in performing the surveillance function, they need to be complemented by a nuanced and differentiated diagnosis of potential risks tailored to special country circumstances. To better perform their role as policy *advisors*, multilateral financial institutions can help developing countries to make better use of *policy levers* for risk management and mitigation.

(2) **Take advantage of the intangible reputational capital (e.g., creditworthiness, expertise, etc.) of international development institutions to act as "enablers" to help developing countries better manage financial and operational risks of large-scale transformative projects.** Transformative development projects help developing countries to establish successful track records to enable them to embark on a virtuous circle of investment, growth and enhanced creditworthiness. But they often fall prey to complex financial and operational risks especially when developing countries are still in the process of building their own expertise and capacity. To make this happen, internal incentives in international development institutions have to be reformed in order to "move from a *lending* culture to an *enabling* culture" and "from an emphasis on balance sheet growth to one on 'crowding in' private sector capital."[128]

(3) Foster better coordination among projects at national, sub-regional and regional levels to increase future income streams for medium- / long- term debt sustainability. There are no good projects if they are constructed in silos. But local politics often hinders positive-sum coordination within and among borrowing countries. As a result, "missing links" among separate projects undermine the potential for generating higher rate of returns. Yet both macro-economic analysis and project-level investment assessment tend to overlook this intermediate step of value-creation. To address this problem, regional and sub-regional organizations can play an important coordinating role in forging these missing links by prior planning and creditor/borrowing coordination.

V. Conclusion: Governing Development Finance as a Transformative Agenda

A transformative agenda is taking place with public entrepreneurship at the centre.[129] The thread of this new narrative set out in this paper is the renaissance of the *public entrepreneur*, standing for the revival of inclusive national projects of development based on *forward-looking* and *outward-looking* collaboration between the state and private (or public-owned) enterprises, driven and legitimated by sustainability-sensitive performance objectives, and with multiplying centres of initiative and learning opportunities. This narrative is changing dynamically as it generates an evolving and *self-reinforcing* process that shapes new realities and perceptions.[130]

The historical perspective of the transformation narrative, from Hamilton through Asia's experience now reaching to Africa and beyond, has created a global agenda in a polycentric world. This new narrative validates the wide range of *unorthodox* strategies that have led to economic miracles in emerging countries, even as they still face enormous development challenges and course corrections. Now African leaders and institutions have explicitly adopted the transformation narrative as the way forward for their continent, for which they have been seeking prosperity and unity for half a century.

Furthermore, the developmental transformation agenda intertwine with global environmental challenges calling for a much more active and stimulating role of public entrepreneurs to accelerate the green energy transformation.[131] Business-as-usual scenarios send a clarion call for action to avoid irreversibly crossing planetary boundaries.[132] To bend the curve, forward-looking investment decisions are needed to take into account environmental sustainability and inclusive economic and social development to achieve resilient and sustainable value creation. Public entrepreneurs (e.g., development cooperation agencies, development banks,

export credit agencies, foundations, etc.) can work with developing countries to leverage private entrepreneurs, creating a wave of new business models and generating dynamic synergies between economic growth and environmental sustainability.[133] Globally and locally, the transformation process brings the new global growth vector of a dynamically expanding middle class with sustainable production and consumption. And globally and locally, the transformation story has to be integrated with the green growth story as climate change constructs new planetary and local boundaries within which better lives must become possible for nearly 9 billion people in 2030.[134]

Whether this renaissance of public entrepreneurship, equipped with rising public finance, is a portent of disaster or a herald of hope ultimately depends on how *governance* responds to this changing landscape of development finance. Governance of development finance is more important than ever before as public financial institutions are venturing abroad by deploying public finance at an increasing scale and pace. Thus, the key challenge ahead is how to govern the expanding envelope of international public finance in an effective and prudential manner: *effective* in a sense that governance offers institutional space for public entrepreneurship to flourish to beat risks and conquer uncharted investment frontiers; *prudential* in a sense that governance puts safeguards in place to avoid abuse of unconstrained public power on a road to self-destruction and crass competition.

Established governance frameworks for development finance are experiencing "creative destruction," as public entrepreneurship from emerging economies are scaling commanding heights in world economy.[135] The reporting systems for official development assistance are under stress and entering into a phase of renovation and possible extension as the dividing lines between "pure aid" and "pure commercial lending" and between development

finance and climate finance are blurring.[136] Correspondingly, export credit disciplines among established players confront the new wave of official lending from emerging countries challenging creditor-centred rules of the game. Debt sustainability frameworks are pushing their limits as they confront the agenda for a transformative scaling-up of infrastructure investment as an essential component of the development agenda. These trends have sparked on-going debates on rule-making processes:

- OECD – DAC is working to propose a comprehensive information system for reporting on external development finance by the end of 2014;[137]
- China and the United States have initiated talks on export-credit financing as a basis for a new multilateral framework to govern export credits;[138]
- and the debt sustainability policy frameworks of the IMF and World Bank are currently under review in their respective Executive Boards.

Looking forward, how can the governance of development finance be updated and innovated to enable the transformative development agenda to be realized?

The present paper does not aim to give definite answers to this question. We seek to raise this question to stimulate wider intellectual and policy debates in the post-2015 development agenda.

Key challenges in each governance issue area include, but are not limited to, the following aspects:

(i) Definition and reporting rules of official development assistance (ODA)

- How to give credit to financial instruments/schemes that contribute to the capacity for independent development in developing countries?
- How to offer space to alternative types of development finance to widen the choice menu at the disposal of receiving countries?
- How to focus more on a wider set of policy-relevant official financing to promote more public scrutiny and accountability mechanisms?

(ii) Collective self-discipline of export credits

- How to solve the "fairness" issue between first-movers and late-comers?
- How to deal with the transactions costs of "harmonization" among a burgeoning number of new players in a diverse poly-centric world?
- Might consolidation of shared practices among peers through mutual recognition be a way forward?

(iii) multilateral debt surveillance system

- How to undertake a comprehensive risk diagnosis of debt sustainability in a context of transformational growth to help developing countries to make better use of *policy levers* for risk management and mitigation?
- How to take advantage of the intangible reputational capital of international development institutions to act as "enablers" to help to better manage financial and operational risks of large-scale transformative projects?
- How to foster better coordination among projects at national, sub-regional and regional levels to forge "missing links" as necessary step of value-creation, and realising the economic benefits of regionally integrated approaches?

In addition to these development finance governance agendas, there are other complementary and interlinked governance issues of central importance:

- How to inject green growth into financial decision-making so that the social value and social costs of climate change shapes investment thinking and action?[139]
- How to discipline illicit flows, *via* transparence on resource revenues, taxation, stolen assets and profit-shifting?[140]

History tells us that the existing governance frameworks have been formed through an *evolutionary* process imbued with a spirit of *problem-solving*, but also full of *political contestation*. Going forward, trust, collective strategic thinking and mutual accountability would be the basis for generating inclusive political space for durable and essential international cooperation and collective action.

Transformation changes the game for everyone in the global economy. It is economic transformation that has generated the massive poverty reduction in China and India, so achieving the early fulfillment of MDG One, to half the incidence of extreme poverty rate five years ahead of the 2015 deadline. It is economic and social transformation that will be the process for meeting the new ambitions for 2030.

The purpose of the present paper is not to chart a clear path to the future, but to place the present challenges into a historical context in an effort to better understand the *nature* of the challenges to seek solutions for a better future we all want.

The Public Entrepreneur, who in John Maynard Keynes' thought generates the animal spirits that drive investors to create social value over the longer term, has much work to do.

Appendix: New Emerging Frameworks in Global Development Governance

New emerging frameworks have created momentum to move beyond the post-World War II development architecture – a trend accelerated by the recent financial crisis.

The G20 has served on the development front to renew the development agenda, bringing in issues, debates and vocabulary closely associated with the transformation narrative, influenced by the emerging members of the G20 with their own striking transformation experiences. Around the G20 are supporting processes which mobilize international institutions, think tanks and business, labour and civil society forums.

The BRICS, founded just before the financial crisis, are committed members of the G20, and are also developing surrounding processes for strategic thinking contributed by think tanks and other consultative processes. At their Fifth Summit in Durban in March 2013, the BRICS launched work to explore new models and approaches towards more equitable development and inclusive global growth.[141] In addition to the BRICS Development Bank proposal, the BRICS have agreed to engage in co-financing among their development banks in support of the green economy and African regional integration.[142]

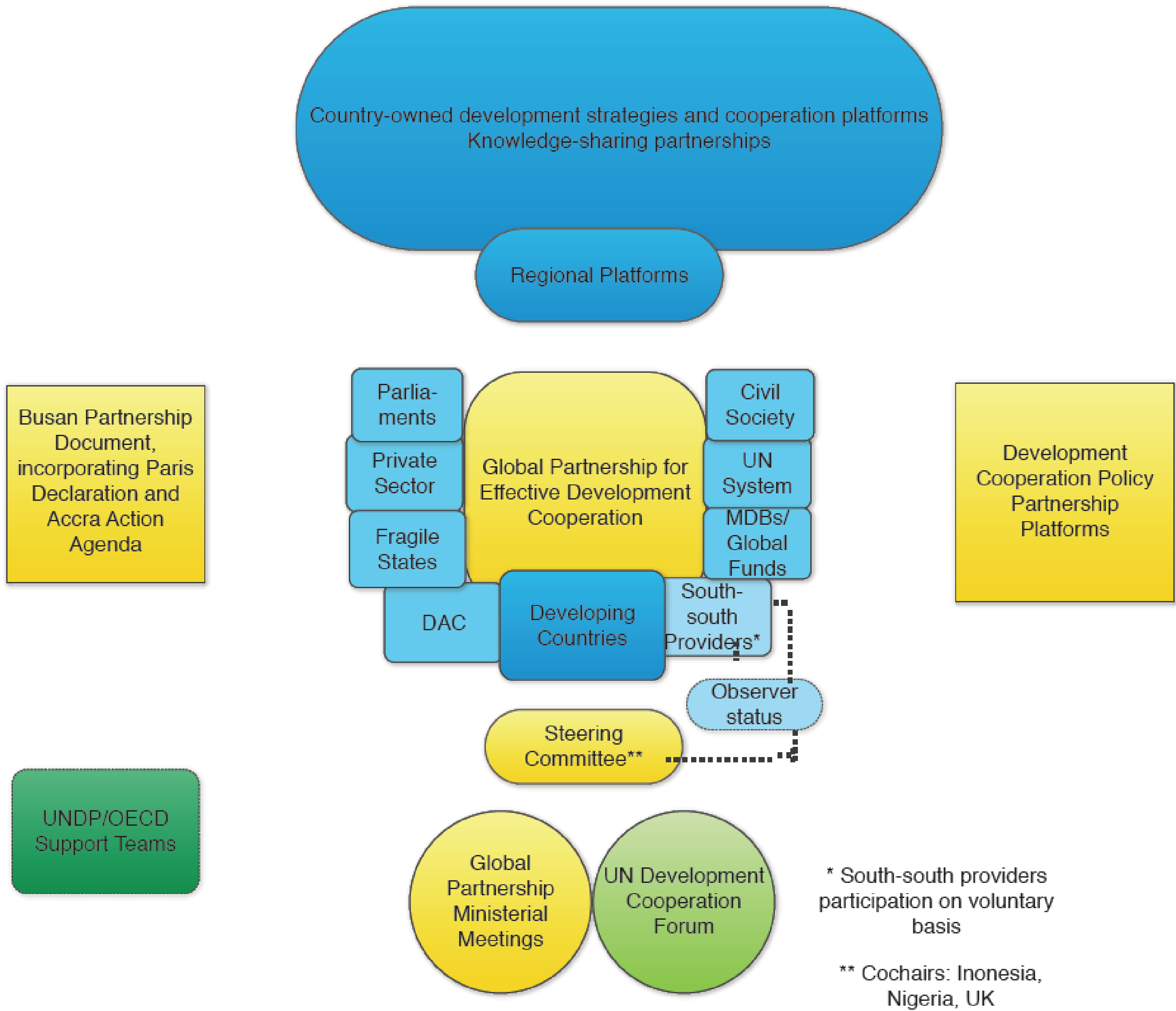
On the multilateral front, a new **Global Partnership for Effective Development Cooperation** has been generated in the Fourth High Level Forum on Aid Effectiveness in Busan, in which emerging countries participate as providers of development assistance on a voluntary basis. Ideally it will be built around the leadership of developing countries and their strategic country-level processes and provide a meeting place for the wide community involved in the "hyper-collective action" development effort of today.[143] There is still a long way down the road to realize this vision, but the Global Partnership does constitute one of fora, including the United

Nations' Development Cooperation Forum, reflecting the search for new development architecture.

Moreover, **multilateral aid windows** are already reacting to the prospects of accelerating graduation of their clients and the new geography of poverty which finds large numbers of poor people in middle income countries.[144] **Multilateral hard windows** are reacting to the competitive forces from lending modalities of emerging countries, and the prospects for a BRICS Bank and a Green Climate Fund, by looking to better package their political risk, private sector and public sector businesses, and investigating techniques such as infrastructure lending backed by resource revenues[145] and green funding partnerships. The Green Climate Fund constitutes a potentially significant new multilateral financial institution, with a steep learning curve to achieve the scaling up ambitions set at Copenhagen.

In addition, the OECD has established a high level official **Global Strategy Group** including participation from the BRICS and Indonesia. **The World Bank and the UNDP** are injecting future-oriented work into their research.[146]

In this *polycentric*, *multilayered* and *interactive* system (see the figure below for an illustration of the current state of play),[147] the strategic overview and connecting up capacity are especially important and will need to be further developed. **On the international level**, a forward-looking and horizon-scanning work stream would provide a potential forum to play a significant integrating and leadership role across the international development system. G20 is currently best positioned to act as an "agenda-setter" and "orchestrator" of global governance,[148] but its strength has been constrained by the trade-off between representation[149] and effectiveness.[150] **On the local, sub-national, and regional levels**, the scope for self-organizing groups of providers of public goods should be preserved to foster bottom-up initiatives and solutions.



Source: Authors' illustration.

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The Institute of Development Studies at Sussex did early work on industrialization in East Asia published in a series of Working Papers, Books and dedicated editions of the IDS Bulletin.

[2] According to Paul Krugman the insights of "high development theory" contributed by Paul Rosenstein-Rodan, Ragnar Nurkse and Albert Hirschman on the first mover problem and hence the need for a "big-push" did not enter into mainstream economic theory because they were not incorporated into a simple model which could have been absorbed widely across the economics profession. See Paul Krugman, "The Fall and Rise of Development Economics," in Lloyd Rodwin and Donald A. Schon, eds., *Rethinking the Development Experience: essays provoked by the work of Albert O. Hirschman*, Brookings Institution, 1994.

[3] The Seoul-Busan Highway, a transformative infrastructure investment, was directly inspired by German autobahns and surrounding afforestation.

[4] African Centre for Economic Transformation (ACET), *Look East: China's Engagement with Africa-Benefits and Key Challenges*, 2009; ACET, *African Transformation Report*, 2013 forthcoming. Also see ACET, *African Transformation Report*: *briefing note*.

[5] African Union and UN Economic Commission for Africa, Economic Reports on Africa *Governing Development in Africa-the role of the state in economic transformation*, 2011; *Unleashing Africa's Potential as a Pole of Global Growth*, 2012; *Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation*, 2013.

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[6] On the theory of the State underpinning the developmental state, a reading of Machiavelli's Prince is that a successful ruler creates an inclusive social contract with the people, based on a well-functioning economy, which enables the state to function with a minimum of violence, restraining the role of existing elites who might compete for power or wealth. See George Allen and Unwin Chapter Seven, "Machiavelli: Politics and the Economy of Violence," from Sheldon S. Wolin, *Politics and Vision: Continuity and Innovation in Western Political Thought*, Princeton University Press, 1960. This insight remains helpful in understanding how developmental states overcome internal divisions.

[7] UNDP, *Human Development Report 2013*, Chapter 3, "Drivers of Development Transformation." See also Evans, "In Search of the 21st Century Developmental State," 2008.

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[9] See Lim, Wonhyuk (2012) Chaebol and Industrial Policy in Korea, Asian Economic Policy Review, 7

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[11] Public entrepreneurship in this paper is used in a generic sense. While our analysis in this paper mainly focuses on public policy actors, it does not rule out the possibility that actors outside public sectors (such as foundation, philanthropy, and social enterprises) cannot play the similar role.

[12] For a reading of the political economy of African transformation strategies, see Kelsall, Tim, *Business, Politics and the State: Challenging the Orthodoxies on Growth and Transformation*, Zed Books Ltd (Kindle Edition), 2013.

[13] Bates, Robert H., *When Things Fall Apart: State Failure in Late Century Africa*, Cambridge University Press, 2008.

[14] See notes 4 and 5 above.

[15] World Bank, *Global Development Horizons 2013: Capital for the Future: Saving and Investment in an Interdependent World*, 2013.

[16] OECD Development Co-operation Directorate, *A Post-2015 Information System for International Development and Climate Finance*, Background Research Paper Submitted to the High Level Panel on the Post-2015 Development Agenda, May 2013.

[17] Sheng, Andrew, *Outlook for Global Development Finance – Excess or Shortage?* HLP Research Paper, 2013.

[18] Ibid.

[19] Roland Berger Strategy Consultants, *Report to the G20 on Infrastructure Financing*, 2012.

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[20] For recent initiatives in advanced economies, see the US *National Infrastructure Reinvestment Bank* and the new *Europe 2020 Project Bond Initiative*. Both initiatives contemplate the use of public guarantees for private sector financing.

[21] See MIT Task Force on Innovation and Production http://web.mit.edu/press/images/documents/pie-report.pdf.

[22] Jones, Charles I., and Paul M. Romer, "The New Kaldor Facts: Ideas, Institutions, Population and Human Capital;" *American Economic Journal: Macroeconomics* 2 (1), 2010.

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[24] For example, the Prime Minister of Malaysia chairs a weekly meeting to track progress with Malaysia's transformation strategy. Other examples abound to suggest that real-time performance review and adaptation at the level of national and local public entrepreneurs is a continuous process in developmental states.

[25] See OECD Development Centre, *Perspectives on Global Development: Industrial Policies in a Changing World – Shifting Up A Gear*, 2013.

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[26] See Pitelis, 2007 on European industrial policy and competition

[27] Rodrik, 2011 doubts that the circle can be squared. The WTO focussed thin tank ICSTD has a process underway to discuss a range of relevant themes ahead of the WTO Ministerialnmeeting in Bali at the end of 2013; see http://e15initiative.org/

[28] Commission on Growth and Development, *Special Report on Post Crisis Growth in Developing Countries*, 2009.

[29] Chandy, Laurence, Akio Hosono, Homi Kharas and Johannes Linn, eds., *Getting to Scale: How to bring development solutions to Millions of Poor People; Brookings Institution in collaboration with the Japan*, Brookings Institution Press, 2013.

[30] See http://www.ecx.com.et/

[31] https://en.wikipedia.org/wiki/Ecobank

[32] http://fr.wikipedia.org/wiki/Fondation_2ie

[33] Studwell, *How Asia Works, Success and Failure in the World's Most Dynamic Region*, 2013.

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[35] Juma, Calestous, *The New Harvest: Agricultural Innovation in Africa*. Oxford University Press, 2011.

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[39] Caruso, Randy and Jane Ellis, *Comparing Different Definitions and Methods to Estimate Mobilised Climate Finance*, OECD/IEA Project for the Climate Change Export Group, forthcoming.

[40] Public finance is defined as explicit or implicit governmental support – subsidy or guarantee by using tangible taxpayer money or intangible sovereign creditworthiness.

[41] OECD, *The Export Credits Agreement: 1978-2008*, OECD, 2008.

[42] While this decline was partly due to the heavy burden of accumulating government debts in Eastern Europe and developing countries, the discipline played an indispensable role in constraining Japan's trade finance with no governmental subsidies. From Hoshi, Fumio, Deputy President, JBIC, Japan, "Past achievements of the Arrangement and future challenges," from *Smart Rules for Fair Trade: 50 Years of Export Credits*, OECD, 2011, p. 72.

[43] Moravcsik, Andrew, "Disciplining Trade Finance: the OECD Export Credit Arrangement," *International Organization* 43, no.1, 1989, pp. 187-190.

[44] The export credit discipline is structured to ensure that "no finance zone" is "developmentally sound" Via a Low-Income Countries exemption – i.e., financing to LICs is not subject to the discipline that commercially viable projects cannot be funded with credits with more than 35% grant element. The rationale here is the limited access of

the LICs to financing due to their development level and poverty. Thus, to ensure the discipline is developmentally sound the required welfare transfer is maximised, without prohibiting any concessional financing flows to LICs.

[45] This measure was viewed as extremely effective in keeping ODA from being diverted into "buying contracts." See Manning, Richard, "The Future of International Concessional Flows*," OECD Development Co-operation Report 2011: 50th Anniversary Edition*, OECD Publishing, 2011, p. 114.

[46] Berg, David and Marc Verspyck, "The 2011 Aircraft Agreement: A turning point?," from *Smart Rules for Fair Trade: 50 Years of Export Credits*, OECD, 2011, p. 202.

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[50] Ibid., p. 15.

[51] "The complete prohibition of new indebtedness, whether or not accompanied by the possibility of providing for exceptions in certain cases, can be onerous and should be considered as *an exceptional debt control procedure* to be reserved for *extreme cases*." [emphasis by author] See IMF, Limitations on Foreign Credits: Fund Experience, 1967, p. 12.

[52] IMF, External Debt Management Policies, 1979, p. 7.

[53] IMF, The Use of Limits on External Debt in Fund Arrangements, EBS/88/51, 2 March 1988, p. 1.

[54] IMF, External Debt Management Policies, 1979, p. 10.

[55] IMF initially adopted the DAC standard on concessionality (25% grant element at a flat 10 *per cent* discount rate), and later in 1995 it shifted to OECD Export Credit Group's definition (35% grant element at market-based commercial interest reference rates).

[56] Kornai, J., *Economics of Shortage*, Amsterdam: North Holland Press, 1980; Dewatripont, M., and E. Maskin, "Credit and Efficiency in Centralized and Decen-tralized Economies," *Review of Economic Studies*, 62(4), 1995, pp. 541–555.

[57] Ndikumana, Léonce and James K. Boyce, *Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent*, Zed Books, 2011.

[58] For instance, in the export credit industry, manufacturers in exporting countries desire to stimulate sales, importers/consumers in importing countries (esp. 'fully creditworthy businesses in politically stable countries') are beneficiaries, and ECAs have institutional interests in having large programs. They will fight hard to retain the status quo.

[59] https://www.gov.uk/government/news/the-uks-g8-agenda-increasing-trade-fairer-taxes-and-greater-transparency

[60] There is no minimum agreement on 'what counts as illicit financial flows (IFFs)' in both policy and academic circles. In fact, divergent views on definition are an important source of controversy in the study of this phenomenon on what the problem is and how to tackle it. Conceptually, there are three approaches to the conceptualization of IFFs: (a) procedure-based (illegal vs. legal), (b) incentive-based (immoral vs. moral), and (c) consequence-based (with or without developmental damage). While it is problematic to equal illegal flows with illicit flows, the procedure-based perspective is most conductive to quantitative estimations. According to Global Financial Integrity (GFI)'s latest report, it is estimated that the developing world lost a minimum of US$859 billion and as much as US$1,138 billion in illicit outflows in 2010, an increase of 11% over 2009 and that from 2001 to 2010, developing countries lost US$5.86 trillion to illicit outflows. Although GFI has made the most systematic efforts to estimate the scale of problem. it has not yet made any judgment as to its accuracy due to compelling methodological challenges. See Dev Kar and Sarah Freitas, *Illicit Financial Flows from Developing Countries: 2001-2010*, Global Financial Integrity, December 2012.

[61] See Bates R., Biais B, Azam J-P. "Political Predation and Economic Development," *Economics and Politics*, Vol. 21, No. 2, 2009, pp. 255-77.

[62] On New Deal, see http://www.pbsbdialogue.org/.

[63] See Carey, Richard, "Aid, Effective States and Development in the Busan Agenda and Beyond," in Korea Development Institute *Pre-HLF4 Conference: Toward a Global Compact for Development Effectiveness*, November 28, 2011.

[64] OECD Development Centre, "Supporting Myanmar's Rapid Transformation," *Development Centre Newsletter*, March 2013, see http://www.oecd.org/dev/developmentcentrenewslettermarch.htm. Also see http://www.president-office.gov.mm/en/briefing-room/speeches-and-remarks/2013/01/21/id-1440.

[65] Collier, Paul, "How to Spend it: The organisation of public spending and aid effectiveness," UNU-WIDER Working Paper, 2012; Collier, Paul, "Savings and Investment Decisions in Low-Income Resource-Rich Countries," Centre for the Study of African Economies, Department of Economics, Oxford University, 2011.

See also Ghani, Ashraf and Lockhart, Clare, *Fixing Fragile States*, Oxford University Press, 2008.

[66] www.cabri-sbo.org

[67] http://www.ataftax.net/fr/

[68] Homi Kharas, *The Emerging Middle Class in Developing Countries*, OECD Development Centre Working Paper No. 285, January 2010.

[69] Rodrik, Dani, *The Globalization Paradox : Why Global Markets, States and Democracy can't Coexist*, W. W. Norton & Company, 2011;

Pettis, Michael, *The Great Rebalancing: Trade, Conflict, and the Road Ahead for the World Economy*, Princeton University Press, 2013.

[70] Xinhua, "China's 12th Five-Year Plan Signifies a New Phase in Growth," *China Daily*, 27 October 2010, http://www.chinadaily.com.cn/bizchina/2010-10/27/content_11463985.htm.

[71] Lant Pritchett, *Folk and the Formula: Fact and Fiction in Development*, UNU-WIDER Annual Lecture 16, 2013.

[72] Mahbubani, Kishore, *The Great Convergence: Asia, The West, and the Logic of One World*. Public Affairs, Perseus Book Group, 2013.

Spence, Michael, *The Next Convergence: The Future of Economic Growth in a Multispeed World*, Farrar, Straus and Giroux: New York, 2011.

[73] OECD, *Measuring OECD Responses to Illicit Financial Flows*, DCD/DAC(2013)13, 2013.

[74] For example, in February 2012, the China Banking Regulatory Commission issued a new Directive to the Green Credit Policy, which specifically instructs Chinese banks to adhere to international environmental and social financing standards in overseas transactions. This has been followed in March 2013 by a joint Ministry of Commerce and Ministry of Environment Guidance Note on environmental protection in Foreign Investment and Cooperation to regulate and guide all Chinese enterprises in their investment overseas. The guidance extends to environmental protection, social standards and labour rights. http://english.mofcom.gov.cn/article/newsrelease/significantnews/201303/20130300043146.shtml.

[75] Bracho, Gerardo, "The Origins of the Development Assistance Group (and the OECD): the Western emerging donors and the aid burden sharing agenda," OECD Symposium on the DAC's 50th birthday, 15 December 2011, p. 1.

[76] The international reference point on aid commitment is that donor governments committed to deliver 0.7% of their GNI as ODA in 1970 at the United Nations.

[77] China's Information Office of the State Council, *China's Foreign Aid*, 21 April 2011.

[78] This focus is misplaced and misleading at the risk of triggering backlash from Southern development finance providers. Although traditional donors regard the fulfilment of the UN "0.7 ODA/GNI" target as a badge of honour, this diplomatic asset would incur huge political cost for emerging economies for the huge absolute number of people living in extreme poverty would generate tremendous domestic political pressure to label their public finance as "aid." For a further analysis, see Jiajun XU, "China's Rise as Development Financer: Exploring Its Implications for International Development Cooperation," from Scott Kennedy, ed. *The Dragon's Learning Curve: Global Governance and China*, Global Institutions Series published by Routledge, forthcoming.

[79] It is estimated that 36 out of 67 current IDA-eligible countries are likely to graduate from low-income countries status by 2030. See Moss, Todd and Benjamin Leo, "IDA at 65: Heading Toward Retirement or a Fragile Lease on Life?," Center for Global Development Working Paper 246, March 2011.

[80] While multilateral aid institutions (such as IDA) often use an operational income per capita cut-off as a key eligibility criterion, motivations of aid-giving for bilateral donors are mixed – their aid allocation decision may not always be driven by poverty reduction. Thus, aid is sometimes disbursed to strategically important countries even though they graduate from LICs status.

[81] For the critique on "short-termism" of financial markets, see Kay, John, "The Kay Review of UK Equity Markets and Long-term Decision Making," July 2012. For long-term finance, see G20, *Long-Term Investment Financing for Growth and Development: Umbrella Paper*, February 2013. For a reflection on the function of international financial system, see Global Economic Governance Programme and Blavatnik School of Government, *Financing Globalization: Lessons from Economic History*, 28 June 2012.

[82] For the argument that ODA should continue to be important and necessary to fund post-2015 goals, see Greenhill, Romilly and Ahmed Ali, "Paying for progress: how will emerging post-2015 goals be financed in the new aid landscape?," Overseas Development Institute Working Paper No. 366, April 2013.

[83] The Paris Declaration on Aid Effectiveness of 2005 and the Accra Action Agenda of 2008, subsumed into the Busan Partnership for Development of 2011, now the Global Partnership for Effective Development Co-operation.

[84] The opportunity cost formula for measuring donor effort assumes a fixed 10% discount rate for all donors. This politically convenient criterion has lost its robustness nowadays due to the exceptionally low interest rate environment.

[85] France, Germany and European Investment Bank have exemplified this practice. For instance, in 2009, 92% of commitments and 95% of disbursements of EIB flows were of this kind. See OECD Development Co-operation Directorate, "Statistical Reporting Issues," DCD/DAC(2012)22, 2 May 2012.

[86] OECD Development Co-operation Directorate, "Loan Concessionality in DAC Statistics," DCD/DAC(2013)2, 7 February 2013, p 6.

[87] Letter from Jon LomØy, Director of OECD-DCD to Mr. Koos Richelle, Director General of European Commission EuropeAid Cooperation Office, on 6 August 2010. EIB insisted that these loans be counted as ODA. See OECD DCD, "Loan Concessionality in DAC Statistics," 2 May 2012.

[88] The difference between gross ODA and net ODA is significant for DAC members with loan programmes as an important element in their activities.

[89] Schirl, Nina and Simone Sieler, "Official Development Assistance (ODA) – is the concept still in step with the times?," KfW Development Research No. 7, 29 October 2012, p. 3.

[90] This originally loose concept was tightened in 1972 by introducing minimal concessionality level on the individual transaction level. A major motivation for tightening the ODA concept by introducing the minimum grant element was to avoid deploying 'hard aid' as a 'weapon' in the credit race (especially, match terms to subsidize export credits to level playing field with 'rivals') One way of achieving this goal of avoiding using aid for trade promotion was to introduce a minimal concessionality test. While the DAC Statistics Group concluded that it was impossible to find a universal benchmark given the diversity in donors' financial market, borrowers' creditworthiness, and financial instruments. In the end, a deal was cut (the 25% minimal grant element) as a political compromise, for some countries (US and Scandinavians) were willing to go as high as 50 *per cent*, while some countries were unable to go beyond 25 *per cent* level (e.g., the UK conditioned its acceptance of this compromise upon the promise of qualifying transactions by the Commonwealth Development Corporation as ODA). Yet in fact the CDC-type development finance institutions are fundamentally different from grant-delivery ones, for the CDC aims to create market by helping developing countries manage risks and establish track record of success. See Development Assistance Committee Working Group on the Financial Aspects of Development Assistance, "The Definition of Official Development Assistance," DAC/FA (71) 10, Paris, 31 August 1971, p. 5. Source: OECD archives.

[91] France and Japan voiced their resistance. See Development Assistance Committee Working Group on the Financial Aspects of Development Assistance, *Summary Record of the 53rd Session held at the Chateau de la Muette, Paris on the 26th and 27th January 1972*, DAC/FA/M (72) 1 (1st Rev.), 2 March 1972. Source: OECD archives.

[92] While in theory donors should be able to predict the pace and amount of the reflows, in practice the possibility of defaults has made such prediction unreliable. This has complicated the aid planning process if donors aim to maintain a stable profile of "donor effort."

[93] A proposal for "Development Impact Bonds" has recently been launched by the Center for Global Development. The Development Impact Bonds Working Group aims to establish a new business model provides upfront funding for development programs by private investors, who would be remunerated by donors or host-country governments—and earn a return—if evidence shows that programs achieve pre-agreed outcomes. See http://www.cgdev.org/page/development-impact-bonds-working-group, accessed 20 May 2013.

[94] It would also raise the possibility that the mutual accountability system applying to export credit loans might be strengthened by a linkage with such an updated official development loans governance system, perhaps in a form of a mutual information process which could attract the participation of all providers of official loans and export credits.

[95] Subsidy cannot be tolerated only if it is justified on the development ground (e.g., financing to LDCs are not subject to the discipline that concessional export credits should not finance commercially viable projects).

[96] Brynildsen, Øygunn, "Exporting Goods or Exporting Debts? Export Credit Agencies and the Roots of Developing Country Debt," Brussels: Eurodad, 2012.

[97] OECD Export Credits Group, *Helsinki Package*, OECD, 1991; OECD, "DAC Recommendation On Untying Official Development Assistance," DCD/DAC(2001)12/FINAL, 2001.

[98] Foster, Vivien, et al. *Building Bridges Updates: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa*, Washington, DC: The International Bank for Reconstruction and Development, 2012, p. 7.

[99] Tvardek, Steve, Head of Export Credits Division, OECD, "Future challenges," from *Smart Rules for Fair Trade: 50 Years of Export Credits*, OECD, 2011, p. 233.

[100] Reuters, 'U.S., China agree to negotiate export credit deal,' 14 February 2012, http://www.reuters.com/article/2012/02/14/us-usa-china-exportcredits-idUSTRE81D1YV20120214.

[101] "U.S. Export-Import Bank support to projects in sub-Saharan Africa has gone up from an average of $455 million annually (FY2006-FY2009) to $800 million (FY2010), and $1.4 billion (FY2011). At this rate of growth, we may stand a chance of catching up to China Eximbank," from Deborah Braudigam, US Ex-Im Bank versus China Ex-im Bank, December 7, 2011, http://www.chinaafricarealstory.com/2011/12/us-eximbank-versus-china-eximbank.html.

[102] US Ex-Im Bank, "Growing China Commercial Presence in Africa, and U.S. Absence, Presents New Challenges," October 17, 2007, http://www.exim.gov/newsandevents/releases/2007/growing-china-commercial-presence-in-africa-and-u-s-absence-presents-new-challenges.cfm, accessed 14 May 2013.

[103] FOCAC, *The Fifth Ministerial Conference of the Forum on China-Africa Cooperation Action Plan (2013-2015)*, 23 July 2012.

[104] UK Export Finance Annual Report and Accounts 2011-12, p. 5.

[105] G20, *Misperception of Risk and Return in Low Income Countries – Innovative Finance Serving Infrastructure Development: a Win-Win Deal, Los Cabos (Mexico)*, June 2012.

[106] Hoshi, "Past achievements of the Arrangement and future challenges," pp. 74-5.

[107] Ibid., p. 76.

[108] See OECD Export Credits Group, Understanding on Export Credits for Renewable Energies and Water Projects, 2005.

[109] Mattoo, Aditya and Arvind Subramanian, "Four Changes to Trade Rules to Facilitate Climate Change Action," Center for Global Development Policy Paper 21, May 2013.

[110] Janus, Hans, Member of the Board, Euler Hermes, Germany, "A German perspective of export credits in the OECD," from *Smart Rules for Fair Trade: 50 Years of Export Credits*, OECD, 2011, p. 82.

[111] For instance, the solar panel industry has been supported by official credits that leads to over-production and ends in bankruptcy. See Economist, *Sunset for Suntech: The troubling bankruptcy in a troubled business*, 30 March 2013.

[112] Chang, Ha-Joon, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, 2002.

[113] For the role of soft law in international governance, see Abbott, Kenneth W. and Duncan Snidal, "Hard and Soft Law in International Governance," *International Organization*, Vol. 54, No. 3, 2000, pp. 421-456.

[114] For mutual recognition, see Nicolaidis, Kalypso, and Gregory Shaffer, "Transnational Mutual Recognition Regimes: Governance without Global Government," *Michigan Review of International Law*, Vol. 68, 2005, pp. 267-322.

[115] The Global Network of Export-Import Banks and Development Finance Institutions, By-laws, July 2006, http://www.gnexid.org/stat-eng.pdf.

[116] The NCBP was put into place in 2006 after the introduction of IDA's grants and Multilateral Debt Relief Initiatives (MDRI) aimed to avoid debt re-accumulation by fostering creditor coordination on the one hand and using IDA's financial leverage to deter imprudent borrowing and building debt management capacity on the other hand. The NCBP was initially phrased as an anti-free riding policy framework. The term "free rider" is used as shorthand to refer to situations in which "IDA's debt relief or grants could potentially cross-subsidize lenders that offer non-concessional loans to recipient countries." See World Bank, *IDA Countries and Non-concessional Debt: Dealing with 'free rider' problem in IDA14 grant-recipient and post-MDRI countries*, Washington DC: World Bank, 2006.

[117] Unlike the DAC standard using a fixed 10% discount rate, the IMF adopts market-based and currency-specific CIRRs (commercial interest reference rates). Countries subject to the IMF's debt limit policies prior to the recent change in 2010 should only receive loans with minimum grant element of 35 *per cent* or higher.

[118] Sender, Henny, "Finance: The path to power," *Financial Times*, 20 August 2012.

[119] From this perspective, the new wave of borrowing is in large part a result of the insufficient amounts of concessional aid that traditional donors are providing. See Oddone, Francesco, *Debt Sustainability or Defensive Deterrence? The rise of new lenders and the response of the old*, the European Network on Debt and Development, January 2007.

[120] Li, Ruogu, President of China's Ex-Im Bank, "A Proper Understanding of Debt Sustainability Issue in Developing Countries," *World Economics and Politics*, vol. 4, 2007.

[121] Leo, Ben, Seth Searls and Lukas Kohler, *Achieving Debt Sustainability in Low-Income Countries: Past Practices, Outstanding Risks, and Possible Approaches*, US Department of Treasury Occasional Paper No. 5, November 2006.

[122] Tan, Celine, "Who's Free Riding? A critique of the World Bank's Approach to Non-Concessional Borrowing by Low Income Countries," Centre for the Study of Globalization and Regionalisation, University of Warwick (UK), June 2006.

[123] Africa Caucus of the IMF and the World Bank, *Nouakchott Declaration on Financing for Development in Africa: The role of nontraditional donors*, 1 August 2008.

[124] IMF's debt limits policy is applied to countries with Fund-supported programs with a primary focus on LICs. IDA's NCBP is applied to countries eligible for IDA grants and to recipients of assistance under the Multilateral Debt Relief Initiative (MDRI). The World Bank and IMF coordinate their respective policies. For recent reforms, see IMF, *Debt limits in Fund-Supported Programs: Proposed New Guidelines*, 5 August 2009; World Bank IDA Resource Mobilization Department (CFPIR), *IDA's Non-Concessional Borrowing Policy: Progress Update*, April 2010.

[125] G20 High-Level Panel on Infrastructure Final Report, October 2011, p. 9.

[126] IMF, "IMF Executive Board Reviews the Policy on Debt Limits in Fund-Supported Programs," Public Information Notice (PIN) No. 13/43, 8 April 2013.

[127] The World Bank has help developing countries to enhance capacity to manage their debts, such Debt Management Performance Assessment (DeMPA) and Medium-Term Debt Management Strategies (MTDS).

[128] G20 High-Level Panel on Infrastructure Final Report, October 2011, p. iii.

[129] Spence, *The Next Convergence*.

[130] Evans, "In Search of the 21st Century Developmental State."

[131] UNDESA, *The Great Green Technological Transformation*, World Economic and Social Survey, 2011.

[132] Evans, Alex and David Steven, *The Future is Not Good Enough: Business as Usual After 2015*, Background Research Paper for the High-Level Panel on the Post-2015 Development Agenda, May 2013.

[133] United Nations Sustainable Development Solutions Network (SDSN), *An Action Agenda for Sustainable Development (draft for public consultation)*, 7 May 2013.

[134] Based on the UN projection, in 2030 the world population will grow to the level of as high as 8.8 billion. http://esa.un.org/unpd/wpp/unpp/p2k0data.asp.

[135] Kharas, Homi and Andrew Rogerson, *Horizon 2025: creative destruction in the aid industry*, Overseas Development Institute Working Paper, July 2012.

[136] OECD Development Cooperation Directorate*, International Development and Climate Finance: The Emerging Post-2015 Information System*, High-Level Panel Research Paper Series, May 2013.

[137] OECD, *Initial Roadmap for Improved DAC Measurement and Monitoring of External Development Finance*, DAC Senior High Level Meeting 2013, DCD/DAC(2013)12, 2013.

[138] Reuters news report op. cit.

[139] For related initiatives, see Global Impact Investing Network (GIIN), http://www.thegiin.org/cgi-bin/iowa/investing/index.html. For related research, see O'Donohoe, Nick, Christina Leijonhufvud, and Yasemin Saltuk, *Impact Investments: An emerging asset class*, J.P. Morgan Global Research, 29 November 2010; Saltuk, Yasemin et al., *Perspectives on Progress: The Impact Investor Survey*, J.P. Morgan Global Social Finance, 7 January 2013.

[140] For related initiatives, see the *Stolen Asset Recovery Initiative (StAR)*, www.star.worldbank.org. For related research on illicit financial flows, see Peter Reuter, ed. *Draining Development?: Controlling Flows of Illicit Funds from Developing Countries*, Washington D.C.: World Bank, 2012; Leading Group on Solidarity Levies to Fund Development, *The Final Report from Task Force on the Development Impact of Illicit Financial Flows*, 2008; UNDP, Illicit Financial Flows from the Least Developed Countries: 1990–2008, UNDP Discussion Paper, UNDP, New York, 2011; OECD, Addressing Base Erosion and Profit Shifting, 2013, http://DOI: 10.1787/9789264192744-en.

[141] Fifth BRICS Summit Declaration and Action Plan, *BRICS and Africa: Partnership for Development, Integration and Industrialisation*, eThekwini Declaration, Durban, 27 March 2013.

[142] http://www.brics5.co.za/fifth-brics-summit-declaration-and-action-plan/

[143] Kharas, Homi, "How a New Global Partnership on Development Cooperation was forged at the Busan High Level Forum on Aid Effectiveness," Brookings Institution, 2011,

http://www.brookings.edu/research/articles/2011/12/20-development-cooperation-kharas.

[144] Kanbur, Ravi and Andy Sumner, "Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty," Cornell University Working Paper, February 2011.

[145] For instance, the World Bank has recently launched research and stakeholder dialogues on "Resource for Infrastructure Deals," frequently associated with Chinese companies, to consider possible World Bank guidance to policy makers, relevant public institutions, other parties to such transactions and civil society. See World Bank, *Terms of Reference for Preparation of an Issues Paper on Resource for Infrastructure Deals*, 2013.

[146] The World Bank has published the second volume in a series of biennial World Development Horizons reports. And the UN tracks global trends through the UNDP Human Development Report and other prospective publications. See World Bank, *Global Development Horizons 2011 - Multipolarity: The New Global Economy*, 2011.

[147] Bremmer, Ian, *Every Nation for Itself: Winners and Losers in a G-Zero World*, Portfolio Hardcover, 2012.

[148] Woods, Ngaire, "The G20 Leaders and Global Governance," Global Economic Governance Programme Working Paper 2010/59, 2010.

[149] For a critique of underrepresentation of G20, see Andrew F. Cooper, "The G20 and Its Regional Critics: The Search for Inclusion," Global Policy, Volume 2, Issue 2, pp. 203–209, May 2011.

[150] Bremmer, Ian, *Every Nation for Itself: Winners and Losers in a G-Zero World*, Portfolio Hardcover, 2012.