

# COVID-19: A Stress Test for International Development Cooperation

by Stefano Manservisi

As the Coronavirus pandemic expands, and peak contagion remains uncertain, policy responses are gradually emerging, being implemented in a number of domains.

The crisis has several important implications, but two are currently dominating the headlines: individual health and the sustainability of national healthcare systems, and the economic fallout from the pandemic.

Unprecedented financial interventions are being decided in the EU, US and elsewhere to obviate the expected socio-economic fallout. The role of the state and increased public spending, in particular, are deemed crucial. Public debt, meanwhile, must not stand in the way, as recently underscored by former European Central Bank President, Mario Draghi.<sup>1</sup>

<sup>1</sup> Mario Draghi, "We Face a War Against Coronavirus and Must Mobilise Accordingly", in

Not everybody can afford this approach, however. As noted by Ethiopia's Prime Minister, Abiy Ahmed in a recent *Financial Times* op-ed "African countries, [...] lack the wherewithal to make similarly meaningful interventions. Yet if the virus is not defeated in Africa, it will only bounce back to the rest of the world. [...] The strategy to tackle the human and economic cost of this global scourge must be global in design and application."<sup>2</sup>

These almost simultaneous interventions complement each other and are reflective of the extent of the challenges that lie ahead. Rich and

*Financial Times*, 25 March 2020, <https://www.ft.com/content/c6d2de3a-6ec5-11ea-89df-41bea055720b>.

<sup>2</sup> Abiy Ahmed, "If Covid-19 Is Not Beaten in Africa It Will Return to Haunt Us All", in *Financial Times*, 25 March 2020, <https://www.ft.com/content/c12a09c8-6db6-11ea-89df-41bea055720b>.

*Stefano Manservisi is a IAI member and former Director-General for International Cooperation and Development at the European Commission, Distinguished Fellow at the Center for Global Development (CGD) and the Overseas Development Institute (ODI), and a member of the Scientific Board of the Elcano Foundation.*

poor are on the same boat and moving to different cabins will not make a difference.

International cooperation, backed by substantial financial means, is therefore indispensable not only to help developing states, but also to make sure that actions decided by the rich for themselves are effective and sustainable.

This stands in the common interest and is further evidence for the importance and urgency to achieve the United Nations' 2030 Agenda for Sustainable Development. The five "Ps" of the agenda – People, Planet, Prosperity, Peace and Partnerships – are today more relevant than ever.

One may now add "Pandemic" to the list, should the above "Ps" appear too abstract. All and all, partnerships, the only effective way to address the present crisis and promote effective international cooperation initiatives, must quickly be strengthened, moving beyond polite debates and statements.

This calls for enhanced *coordination* – via new rules, or at the very least new governance practices for international cooperation – and increased *public spending* for development, building on the principle of "leaving no one behind".

Such needs were already pressing to address climate change, but the urgency of this challenge has not fully penetrated the minds and actions of many. Perhaps the current pandemic will be different, jolting people into action and increasing awareness about the need for common approaches.

The COVID-19 crisis will likely represent the biggest ever stress test for development cooperation and its ability to address shared global challenges, including in their political dimension.

The long-lasting agenda of aid effectiveness and donor coordination has so far produced important but limited results, disproportionately small compared to the bureaucratic machinery it has produced.

The club of traditional donors should quickly review their ceremonies and alchemies. But new donors, notably China, cannot credibly claim leadership while skirting its responsibilities and lacking in coordination with others.

China has for years now brought important contributions to development, with large sums of money and the sharing of its own experience of development. Yet, if China does not participate in any serious international coordination mechanism, its efforts will be weak and even controversial.

Now is time for all actors to sit around a table and agree on a number of pragmatic rules to govern international development cooperation and emergency reactions. Based on the principles of transparency, traceability and impact assessment, this dialogue must actively engage key partners, such as the African Union for example, listening to their prerogatives while identifying priorities and assessing results.

Innovative forms of collaboration should be explored, combining different skills and capacities. Nobody

should be required to abandon individual principles, but everybody should accept to be transparent and cooperate in good faith. This should hold true in any circumstances, but the present global pandemic is particularly urgent, requiring concerted action now.

The UN has an essential role to play to facilitate coordination. In this context, the reform the UN development machine – bravely launched by the UN Secretary General and his Deputy – should be embraced and accelerated.

Present events require tough choices to set up a leaner system based on a visible specialised division of labour, reducing overlaps and costs. Here, consideration should be given to create operational, mission-based clusters under one authority, to decide orientations and actions, not just to exchange views. The United Nations Development Programme could serve as a platform for these clusters.

Strong leadership for effectiveness and coherence is needed. It would be useful for everybody to seek inspiration from the spirit of post WWII, when the whole multilateral system was created to make peace and prosperity possible.

This is also true for the Bretton Wood institutions and regional development banks. They are not only financial arms, but powerful platforms of coordination among members that can be better utilised. The International Monetary Fund and World Bank complement each other in a remarkable way.

Both have gone through important reforms to become more inclusive

and better representative of the new distribution of wealth in the world. This places them in a very favourable position to actively contribute to build new forms of inclusive governance for international development cooperation.

If successful, such efforts may also provide concrete contributions to a much more complex political challenge, that of identifying effective forms of multilateral governance for the present multipolar system. This too is part of the stress test which international development cooperation must overcome.

With regards to development funding, improvements in this domain are very much linked to the success of initiatives outlined above. In the present pandemic, there is an urgent need to mobilise funding, shorten disbursement times and allow for better long-term budgetary planning.

Developing countries require urgent support to finance interventions along similar lines of rich countries, starting from the healthcare sector.

At the same time, this support is needed to limit the medium-to-long term impact of the crisis, which may well wipe out years of work to foster growth, jobs and social transformations if left unaddressed.

The case of Africa is particularly telling, but similar challenges also face many middle-income countries, notably in Latin America and the Caribbean, where huge inequalities make the risk of backsliding into poverty a reality for many.

It is therefore necessary to intervene quickly and inject liquidity and to support borrowing capacities today. Masood Ahmed, president of the Center for Global Development, illustrated this point well, outlining what international financial institutions (IFIs) should do.<sup>3</sup>

Such funding is absolutely necessary, but will not be enough. Long-term predictability of aid flows is needed. Substantial parts of the economic activity of these countries are linked to the international demand of commodities and raw materials and are part of global or regional supply chains.

A slowing and/or fragmentation of international trade and the foreseeable fall of foreign direct investments will hit these countries hard. These will be further marginalised in the global economy as a result, and there is a real risk of generating new forms of dependency and instability.

This is why schemes decided in today's rich countries also must be linked to increased support for developing countries. In turn, these countries must accelerate domestic resource mobilisation, formulate credible public policies and put in place a business-friendly environment to support existing jobs and facilitate the creation of new ones.

Prime Minister Abiy put the issue straight: "All of Africa's development partners must ensure that their development aid budgets remain

<sup>3</sup> Masood Ahmed, "Spend What It Takes to Fight COVID-19 in Poor Countries, Too", in *Devex Global Views*, 25 March 2020, <https://www.devex.com/news/96852>.

ringfenced and are not diverted to domestic priorities. [...] If such aid were ever necessary in Africa, it is now more than ever before."<sup>4</sup>

This call must be answered positively and decisively. In particular, it is necessary to mobilise important resources for tailor made budgetary support to alleviate fiscal constraints and support the formulation of public policies ensuring financing continuity over time.

IFIs will have to quickly put in place extraordinary programmes and facilities, setting aside debt eligibility obstacles. A dramatic increase of grants will be necessary since many countries will not be able to repay loans.

Innovative schemes to mutualise risks at the global level must also be designed. The World Bank's "From billions to trillions" initiative, aimed at increasing funding to achieve the Sustainable Development Goals was not easy, but was built on several positive economic trends in developing countries.<sup>5</sup>

This effort will not be possible without a strong political consensus among donors on the need to increase development resources to address the effects of the pandemic as well as the broader sustainable development goals.

<sup>4</sup> Abiy Ahmed, "If Covid-19 Is Not Beaten in Africa It Will Return to Haunt Us All", cit.

<sup>5</sup> African Development Bank et al., *From Billions to Trillions: Transforming Development Finance*, April 2015, <http://pubdocs.worldbank.org/en/622841485963735448/DC2015-0002-E-FinancingforDevelopment.pdf>.

Hard hit by the pandemic, the EU and its member states are struggling to put in place immediate policies to limit the health effects of the crisis as well as its economic impact.

This is not the place to elaborate on the complex issue of the institutional setting and distribution of competences in the EU, but it is clear the whole construction is under severe stress.

The values of solidarity and mutual responsibility, fundamental pillars of European integration and external action, are presently at stake. Approaches that further consolidate the EU are necessary, as otherwise the whole project may be at serious risk.

Any outcome of these EU-wide debates will also have an impact beyond Europe. The EU should play an important role in leading efforts to build more effective and inclusive international development platforms.

This is the case not only because of the EU's economic weight and position as major aid donor in the world. But also because any weakening of the EU project will directly undermine Europe's role in any effort to foster a new multilateral agenda for international development. Clearly, fragmented responses by individual member states will hardly do the trick.

The EU therefore should quickly outline initiatives and signal its active role in addressing present global challenges. The EU should first of all immediately mobilise existing resources to strengthen support for the healthcare sectors in third countries.

Secondly, it must quickly adopt the new multiannual financial framework for 2021-2027, confirming funding for international cooperation to be implemented through the Neighbourhood, Development and International Cooperation Instrument (NDICI).

Thirdly, the EU should set up a platform with all European IFIs (the European Investment Bank, the European Bank for Reconstruction and Development and member states' agencies like France's Agence Française de Développement, the German Development Bank – KfW and Italy's Cassa Depositi e Prestiti, etc.) to jointly implement and further scale up de-risking guarantee schemes.

This can mobilise hundreds of billions of euro in a coordinated way to finance access to credit, job creation schemes and digitalisation, for example.

Fourthly, to facilitate the ringfencing or even the scaling up of development funding, excluding these budgets from the EU's Stability and Growth Pact should be considered. The Stability Pact has already been suspended to allow flexibility for public spending by member states to address the consequences of the pandemic.

Explicitly stating that this measure can cover not only internal solidarity, but also international solidarity would send a strong, unprecedented political message.

Finally, the European Central Bank could discuss with the central banks of third countries ways to facilitate access to liquidity in euro to eligible partners,

via enhanced coordination over monetary policies and swap operations.

Africa should be a top priority for the EU. The EU has started an important process to reset and enhance its partnership with Africa, an alliance among equals to do more and better together. Fighting the pandemic and its effects requires extraordinary actions and it will constitute a concrete test for this partnership. Ubuntu, to use an African concept: I am because you are.

*8 April 2020*

## Istituto Affari Internazionali (IAI)

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), three book series (*Global Politics and Security*, *Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via Angelo Brunetti, 9 - I-00186 Rome, Italy

T +39 06 3224360

F + 39 06 3224363

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

## Latest IAI COMMENTARIES

Director: Andrea Dessì ([a.dessi@iai.it](mailto:a.dessi@iai.it))

- 20 | 21 Stefano Manservigi, *COVID-19: A Stress Test for International Development Cooperation*
- 20 | 20 Daniele Fattibene, *Time for a European Climate and Sustainable Development Bank*
- 20 | 19 Alessandro Marrone, *The COVID-19 Pandemic and European Security: Between Damages and Crises*
- 20 | 18 Giuliano Garavini, *This Time is Different. The "COVID-Shock" and Future of the Global Oil Market*
- 20 | 17 Nicola Bilotta and Alissa Siara, *From Strategic Autonomy to the Internationalization of the Euro: Europe's Challenges and the Impact of the COVID-19 Crisis*
- 20 | 16 Elisa Murgese, *Illegal Trafficking of Plastic Waste: The Italy–Malaysia Connection*
- 20 | 15 Alessandro Marrone, *Italian Military Operations: Coping with Rising Threats and Declining US Leadership*
- 20 | 14 Francesca Ghiretti, *China, Italy and COVID-19: Benevolent Support or Strategic Surge?*
- 20 | 13 Luca Franza, *Is Coronavirus Good for Our Sick Planet?*
- 20 | 12 Carolina Polito, *Beyond Europe's AI Strategy: Global Governance for the Fourth Industrial Revolution*