Development through Economic Growth

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Starting from the premise that growth is essential for some of the poorest countries, this note suggests some less obvious investments complementary to the usual approaches that encourage capital transfers and technical assistance in specific areas (e.g., by private foundations or the World Bank). It uses a framing that places a key reason for lagging growth in the agency of those with power and influence — the elite — and the coalition among them — their elite-bargain — that is not conducive to growth. Proposals are articulated that try to increase the upside of growth and reduce downside risks from a commitment to growth, that make power coalitions that go against growth harder, and that foster the formation and sustainment of growth coalitions.

Introduction

Economic growth remains the largest driving force of transformation of the lives of people living in poverty. It is a necessary condition: no large-scale poverty reduction in a sustainable way has ever been achieved without it, anywhere in the world.

In recent decades, poverty reduction of a scale unique in history has taken place: from about 2 billion people living below the most extreme poverty line in 1990 to around 700 million people in 2022, despite the world's population having increased from about 5.3 billion to 8 billion people in the same period.[1] At the global level, it was a period of fast economic growth in low- and middle-income countries, with GDP per capita growing at 3.3% per year, doubling every 22 years.

Still, it was uneven, with some countries staying behind. From 1992–2022, mean yearly per capita growth in Nigeria was a modest 1.4.% while the DRC went down by 0.6% per year. Ghana and Ethiopia had more than doubled at 2.8% and 4.7% growth; Pakistan grew by 1.76% per year, but Bangladesh was at 4.2%, all in per capita terms.

In this proposal, I will outline some novel or less self-evident routes to boost growth in countries that are staying behind, not least in Africa. They are meant to be *complementary* to standard approaches that focus on advice of "what" to do (from the broad common-sense approach as in The Growth Report (2008) by the Growth Commission to the detailed specific small steps with impact, in line with the boom in micro-development research based on experiments, like those promoted by J-PAL and other organisations). They are also meant to be complementary to those who try to increase the *finance* available to fund growth inputs, such as building human capital or providing concessional loans and grants for public and private investment, as practised by the multilateral development banks. Building human and physical capital remains at the core of much work by development agencies, and is the focus of many foundations. My proposals start from a diagnosis that what goes wrong in some countries is not simply technical knowledge of good policies or the data and evidence to act on it. Plenty of progress has been achieved historically without much data, while plenty of countries in recent decades, previously extremely poor, have found ways to grow their economies. *It is not ignorance that holds some developing countries back.* The question is more *why* apparently poor decisions about the economy are being made — why some developing countries persist in unreasonable economic policies, while others appear to have found ways of progressing using seemingly more reasonable policies.

[1] This uses a poverty line of $2.15 per day per person, expressed in so-called "international dollars", i.e., expressed in comparable purchasing power, using prices of 2017. Data source is the World Bank, (2022). Note the global fallout of COVID increased poverty, bringing it back to levels of 2018.

The diagnosis here puts the causes of failures of some and of successes in other countries in the institutional and political economy space. This is in common with institutional economic approaches. However, rather than focusing on “what” institutions need to be built, or their historical roots, the focus is more on “why” the actions and behaviours of those with power and influence are not conducive for growth, and “how” interventions and investments could be designed to allow “outsiders” to create better incentives so that those with power and influence act in ways more conducive to growth.

The starting point here is a view that several of the poorest countries are stuck in low-growth equilibria linked to these political economy factors. As will be developed further in the next section, the focus will be on activities and interventions that increase the likelihood that better equilibria emerge, and that stimulate the collective action needed in these localities to move to these better, higher-growth equilibria. None of these will be a panacea. It will still involve the actions and behaviours of coalitions across influential and powerful groups to make this shift, which for them would be a gamble with substantial downside. Some of the proposals aim to improve the return to these growth gambles and lower the downside risk when the growth gambles are taken; others will increase the cost of the status quo for those intent to keep the low-level equilibria that they presently benefit from.

Note that the focus here will be on economic growth. Of course, economic growth is never sufficient to deliver poverty reduction and broad-based progress in living standards. No doubt, it will matter how the gains from growth are distributed and whether there is equality of opportunity across the population, whether and how public goods are provided, and whether growth is taking place in the presence of a reasonably functioning state offering peace and security, protecting economic gains, as well as providing essential public services. And whether economic growth is appropriately measured will matter for judging progress, such as its costs to climate or biodiversity, and therefore for future generations. And as a monetary measure, it may miss important dimensions of living standards that people have reason to value, including: access to opportunities, life satisfaction, and indeed freedom.

Still, these qualifications would appear to be secondary or at best instrumental for many of the poorest countries and their populations. Without economic growth, the outcome — discernible, persistent improvements in living conditions — could simply not be attained. There would be no benefits to be distributed, no economic gains to be protected from predation or injustice, no tax receipts to pay for a functioning state, and more. All these are important and likely “causal” factors in themselves, but if they do not *lead* to growth, living standards will not improve.

The framework

Let us first consider the key “players” in an economy and society: those with power and influence. They are key politicians (even those not in power), top civil servants, military leaders, traditional or religious leaders, civil society or leaders who can make choices on disruption, and key journalists and academics who help to frame dominant narratives. As a shortcut, this is referred to as the "elite". Within each functioning society there is an implicit deal — an elite bargain — among a dominant coalition of these elite groups. Obviously, institutions (understood as the formal and historical informal rules of the game) matter. But at least as important will be the way they are currently interpreted, followed, used, or abused. Elite groups have substantial agency, which significantly impacts present outcomes. The starting point is then to view the prevalent or dominant set of actions and behaviours by key players in an economy as a collective action equilibrium, whereby some places seem to be stuck in low-level equilibria and others in better ones.

These equilibria are expectations equilibria: the actions of each player can be understood as rational in view of what they expect others to do (or what they expect a dominant coalition of others to do). A "better" equilibrium in terms of growth and development is present if there is a consensus that other influential players will behave broadly consistent with such an outcome. In other words, there is an elite bargain for growth.

What could this "better equilibrium" look like? At the political level, decision-making would have a relatively long-term horizon and is not just focused on trying to get short-term rents. Politicians may seek legitimacy from some form of a national development project. The private sector engages in long-term investments, in productive sectors and not simply in rent-seeking from connections and privileges. Bad norms of behaviour, e.g., corruption in the public and private sector, may be present but restrained enough that key public investments such as infrastructure still take place, natural resource rents are reasonably well managed, and key laws and rules are consistent with growth. In such a context, those who could disrupt this — military leaders, opposition, civil society leaders, journalists, and intellectuals — broadly buy into this direction, keeping an underlying consensus, at least on basic stability and on growth and development. Outside actors — from geopolitical forces to international businesses that work with those internal forces — cannot be ignored, as they could strengthen or weaken any consensus for growth and development through their behaviour.

Low-level equilibria would then be characterised by the lack of consensus among the elite in terms of growth and development, with equilibria only focused on rent-seeking by all parties involved, or even very fragile equilibria, with substantial disruption and fragmentation in the elite, leading to conflict. If outside actors are motivated by geopolitical or rent-seeking interests, they can also contribute to this disruption or low-level equilibria.

I see economic decision-making as the *consequence* of the kind of expectations equilibrium one is in within the existing elite bargain, and not as an independent force that can in itself shift equilibria. A policy change or reform may be announced, but it will only be properly implemented and succeed if it is consistent with the prevalent dominant consensus in society. It also means that too much attention is often paid to political promises, policy announcements, or even legal changes or reforms taking place. The actual outcome will be strongly dependent on whether it is consistent with the prevalent elite bargain, and the actions and behaviours it implies. For example, as long as the Nigerian elite bargain seems to be based around the control of the rents from controlling the state, especially from oil, and not around long-term growth, any announcement of reform or policy change is simply an attempt to keep the existing elite bargain.

So where does this fit in with more standard considerations of growth? Standard economics has a simple, but clear and reasonable description of economic growth in the form of a standard relationship: value added is driven by various production factors, such as physical or human capital, transformed using some "technology" (the way inputs are transformed into value-added); growth in value added (economic growth) is driven by changes (or accumulation) of inputs (production factors), for a given technology, or changes in the effectiveness of transforming these inputs into value-added (total factor productivity growth). The underlying nature of the "technology" matters for the returns to factors of production, as well as for its accumulation.

The kind of consideration focused on in this set of ideas then relates to the societal/political economy "technology", affecting total productivity and the related forces for accumulation and attraction of labour and capital. It is often said that we don't know much about achieving growth. As part of his work for the Growth Commission, Robert Solow famously said that we know the ingredients of growth but not the recipe. Think of the recipe as this "technology". Here, we suggest that there are common political economy factors that play a key role, and the way they do so is context-specific. Understanding that technology — especially that context-specific societal/political economy "technology" — is key. The dominant "technology" will then determine what equilibrium we may be experiencing.

How can a better collective action or expectations equilibrium be achieved? It is common in the presence of multiple expectations equilibria to suggest the need for a "big push", something big enough to shock the system into moving from one equilibrium to another (as small changes would inevitably settle again on the previous equilibrium). This is conceptually right, but it begs the question: where would this "big push" come from?

It will only happen deliberately if it is consistent with the existing elite bargain. That is a big ask. Indeed, one of the common features of the prevalent elite bargain in a country is an attractive status quo for the dominant coalition — think of Nigeria. Change is uncertain, a gamble, and it rarely follows from the enlightened choice by leading groups. The most commonly observed changes in the elite bargain toward growth tend to come as the result of unintended consequences from other forces, usually a deep economic or political crisis. In Indonesia, the 1997 Asian financial crisis led to the removal of President Suharto, and a necessary shift in the prevalent attitudes towards political capture of rents. In China, it was the crisis of legitimacy in the Chinese Communist Party (CPP) after the Cultural Revolution and the vacuum left by the death of Mao that allowed reformers led by Deng Xiaoping — keen to keep the CPP alive — to build a new pragmatic consensus inside the Party that focused on securing legitimacy from food security and economic growth. In Ethiopia, when legitimacy from elections in 2005 failed for the leading Tigrayan People's Liberation Front, legitimacy-seeking behaviour led to a strong and deliberate focus on growth and poverty reduction. And in India, despite longstanding opposition toward liberalisation from leading political forces, the balance of payments crisis in 1991 gave a window of opportunity to begin the shift of the main political centre in Indian politics to a stronger focus on growth, which persists across leading parties and the business community today. In some cases, such as Bangladesh, the need to seriously deliver after conflict despite its initial failings in the 1970s no doubt contributed to a shift in the elite consensus in the 1980s and 1990s. This started a remarkable period of growth that was relatively broad-based.

Outsiders can hardly be encouraged to engineer such crises, even though it has proven an effective way to reset economies towards growth: there is too much uncertainty around the unintended consequences of outside intervention. Indeed, most crises of this nature are usually "wasted". The route taken here is to see how one can help "better" elite bargains to emerge and be sustained, and make it harder to sustain "bad" elite bargains. In particular, how can those inclined towards behaviour against progress be hindered, and those inclined towards behaviour in favour of progress through growth be supported?

The interventions: an overview

We will consider programmes that work on three levels:

(1) **Incentives for growth: increasing upside and reducing risks.** This would be done by improving the incentives for forming and sustaining growth coalitions by trying to increase the upside or reduce the risks of elite bargains that are more productive for growth-orientation.
(2) **Make alternatives to growth more costly.** Increase the costs of "anti-growth" political economy by trying to increase the downside (or increase the risks) of elite coalitions that hinder growth-orientation.
(3) **Foster coalitions for growth within countries.** Strengthen the brokers and facilitators of such elite bargains for growth.

Within these, several proposals are being explored, each with answers to: What is the specific problem statement, and how does it link to the overall problem statement? What could be done now (including geographical coverage)? What could the success of such an investment look like? Who could do this type of work?

The following proposals have been explored:

(1) **Incentives for growth: increasing upside and reducing risks**

a. **Reduce risks of growth gambles through financial instrument innovation** such as state-contingent debt, LMIC debt-based safe asset, and development insurers**.**

(2) **Make "bad" alternatives to a growth-focused political economy more costly**

a. **Bring illicit finance more in the open** to interrupt rent-seeking politics funded through it.
b. Bring down the costs of responding to illicit finance through **stronger asset recovery incentives.**
c. **Political economy-informed work on pushing for improved procurement systems** for infrastructure and other sectors**.**

(3) **Foster coalitions for growth within countries**

a. **Quality economic advisory capacity building and support** within selected countries.
b. **Creation of globalization v2 narrative focusing on tradable growth within countries.**

All this work could be supported by an overarching platform for initiatives that broadly use a political economy framework as a key lens for stimulating growth and development in lagging countries. While the actions may have to be technical (i.e., a sensible exchange rate policy or better advisory quality), a dominant coalition driving a growth-focused elite bargain is required for these actions to take place and be successfully implemented. In turn, this requires a deep understanding of the existing and alternative elite bargains.

Relatedly, more analytical work would be required to develop better data and measurement tools for assessing whether countries are moving towards growth-focused elite-bargains. This work would be used to signal to the global public and private investors of the country's potential shifting risk-return profile. This could inform ways of addressing the biases in current risk ratings work, as well as guide investors.

1. Incentives for growth: increasing upside and reducing risks

1a. Reduce risks of growth gambles through financial instrument innovation

I. What is the specific problem statement and how does it link to the problem of the political economy of low growth in certain poor countries?

There is no simple, certain path to growth. It will involve governments creating reasonable private investment climates including through sensible policymaking, and making public investments that will foster or complement growth. All investments are risky, so finance terms will include risk premia, which are typically quite high for countries that have yet to enter into a cycle of growth.

However, it is helpful to decompose risk. Some relate to the projects themselves, while other sources of risk stem from the overall economic conditions in a country, linked to economic policymaking by governments. There is also plenty of risk unrelated to the country itself, and more linked to international circumstances.

Examples are:

- Shocks to the local economy due to circumstances outside the control of governments and their policies. For example, natural disasters such as earthquakes or agro-climatic crises arising from storms, floods, or droughts (which are likely to increase due to climate change);
- Commodity price shocks for import and export prices, driven by shocks to international demand or supply conditions;
- Interest rate changes due to global conditions, especially in the US, such as those linked to monetary policy (including quantitative easing);
- Supply chain shocks due to global events such as COVID or geopolitical events such as the Russian invasion of Ukraine, or the West's changing perception of China's international economic activities.
- Global uncertainty linked to economic or geopolitical conditions leading to capital flows "to safety" in dollar-dominated and similar low-risk assets.

These are all forms of "states of the world" that decision-makers in developing countries cannot control. However, when countries make "gambles on development", facing these types of changing conditions could well lead to failure and challenges with debt. For example, countries that were in an attempted growth acceleration between 2010–2020 ended up facing serious headwinds in the seemingly perfect storm of COVID, China supply chain disruption, flight towards the dollar, and then commodity price shocks linked to the Ukraine conflict. Indeed, on the back of this, out of 70 countries eligible for IMF support as part of the Poverty Reduction and Growth Trust, 9 countries were in debt distress and 27 were at high risk of moving into debt distress by February 2023.[2] Not all of these countries could blame this solely on external factors; countries like Ghana and Zambia clearly had mismanaged their economies prior to COVID. But there is no doubt that the changing conditions in the world made a manageable debt or liquidity crisis far harder to handle.

[2] https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

These risks will undermine governments that are keen to try to take development and growth bets: it will strengthen policymakers trying to be risk averse, but also, within a political economy framework, those that argue for the status quo and stability over attempts to engage in growth. In short, those keen to push for ambitious growth-related policies in sensible (even if risky) directions may find their positions weakened, as failure could prove costly for those in power. Those in power can refer to situations like those since 2020 as good reasons not to take "bets" on development and growth, but argue for choosing stability — including with the explicit purpose of retaining both the economic and political status quo.

A high risk-premium linked to factors unrelated to the nature of spending and policy behaviour will encourage adverse selection among those considering borrowing (including a move towards those not really concerned whether the spending of borrowed resources pays off[3]). Arguments are then made for a different global financial infrastructure, with cheaper and more concessional loans to stimulate growth by poorer countries, as well as systematic debt cancellation programmes. The problems with this will include moral hazard, as these schemes reward both those genuinely affected by factors out of their control and those not taking the correct actions to ensure their borrowing achieves the returns to allow them to pay back.

It suggests that schemes that can create a separating equilibrium should be sought: in the context of public investment and public finance, can one have debt or other instruments that retain the incentives that will make sure that factors under control of sovereigns are kept, but reduce those factors ("states of the world") that cannot be controlled? This is the realm of other instruments that remove or reduce risks one cannot control but keep the incentives to create a local policy environment supportive of higher returns to investment (and therefore growth).

Some of these instruments are in the form of "insurance". Taking out insurance against extreme events can be a powerful tool to signal that one will want to make sure growth-oriented investments are not going to be derailed during a crisis — such as fiscal indiscipline during a crisis to keep political support but undermine long-term development investments in the process. This was Chile's rationale for its recent CAT bond in 2018, but they paid a high price for signalling behaviour. It had a risk multiple of 4.75x, i.e., Chile pays $4.75 USD in premiums for every $1 they expect to receive in payouts. The logic was very powerful, but it would be hard for a low-income country to use such instruments.

Insurance or CAT bond markets are well developed, though probably used less than would be optimal by countries keen to signal growth and a commitment to sustain it even after a crisis. Other instruments that are less well developed include "state-contingent" debt, and this is the focus of the rest of the proposal.

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[3] Ghana springs to mind, when going for an international loan to pay for a wage increase for civil servants before several recent elections.

II. *What could be done now to resolve the problem?*

The proof for the existence of a market-based general equilibrium theory and the resulting statements of the efficiency of the market mechanism — the Arrow-Debreu model — depend on state-contingent goods. It is striking that in actual markets, there are few state-contingent goods and services. There is of course trade in states of the world (insurance) and trade in time (debt) but its combination is rare (e.g., debt that includes risk-sharing, so loans whose terms change with the state of the world). Sovereigns can buy insurance against specific events and engage in debt. But state-contingent debt instruments (SCDIs) — whereby the contract terms are linked to a state variable — remain more limited, despite their conceptual appeal.

Recently, there has been a reemergence of the discussion on state-contingent debt instruments and some countries have tried to issue them. However, the attempts have involved linking bonds to GDP, i.e., trying to make them countercyclical relative to the state of GDP. This clearly would mix risk from poor policy choices and risk from external factors. A recent review by Igan et al. (2022) discussing state-contingent bonds from Argentina, Greece, and Ukraine showed that the risk premiums for such State-Contingent Debt Instruments (SCDIs) were very high and persistent, pro-cyclical, and much higher than plain vanilla bonds. Clearly this is not the solution, or it needs a particular type of supporter willing to pay for this risk (i.e., make it concessional). An earlier discussion by the IMF (2017) in a high-level policy paper for its Board concluded similarly, that bonds linked to GDP were unlikely something markets would have appetite for, even though they have been a common feature in restructurings such as in Argentina and Greece, offering a form of risk-sharing.

A more appropriate design would suggest a clearer separation of risks under direct or indirect control of the debtor, and those exogenous to the contract. The IMF (2017) alludes to this, suggesting that debt instruments with contingencies linked to natural disasters or commodity prices may have more potential. The IMF (2017) proposes three benchmark designs for SCDIs for issuers and investors to consider. These include "linkers" (bonds with principal and coupon linked to the level of a state variable), "floaters" (variable rate bonds with fixed principal and coupon linked to the state variable), and "extendibles" (bonds whose maturity is pushed out if a predefined trigger is breached), and offer design principles.

There is a series of problems related to these contracts that cannot be ignored. First, incentives. The trigger ought to be demonstrably exogenous. Second, the data ought to be able to properly quantify the risk so it can be priced, while the trigger has to be clearly measurable in a timely way, so the contract can be implemented. Third, the contract has to be enforceable. In practice, this is difficult — it makes it harder to link such contracts to harder-to-quantify costs and risks, such as those linked to global macroeconomic or geopolitical events. And with limited experience also comes a limited market appetite to test how well these products will work.

One design has gained traction: an extendible debt linked to natural disaster risk — specifically linked to climate shocks — often referred to as a debt-pause clause. This particular one is NPV-neutral: i.e., it is a pause rather than a redemption, and thus a useful form of extendible, with the only risk-sharing related repayment timing.[4] Three countries (Grenada, Barbados and the Bahamas) already have such bonds, and two creditors (the Inter-American Development Bank and UK Export Finance) are already issuing these as standard. The World Bank has just announced they may want to use these too for some of their lending.

The way these contracts are being rolled out is offering a useful first step to getting a finance infrastructure that offers a larger range of SCDIs. The Centre for Disaster Protection (2023) discusses the challenges but also how this can be done at scale. This experience should allow further designs to be tested, including linking to commodity prices and possibly even other global events.

Going beyond debt-pause clause contract types and more embedded risk-sharing will need further work. This is a good moment to push experimentation in this area for other reasons:

- <u>There is a window of opportunity</u>: There is a commitment to be better prepared for global pandemics after COVID as well as a commitment to create financial instruments that acknowledge increased disaster risks through climate change;
- <u>Financial resources are being committed but are rarely incentive-compatible.</u> There is an increased commitment from richer economies to “compensate” for some of these risks or at least “invest” in making poorer economies more resilient in the face of these risks. Using incentive-compatible products, such as SCDIs, may result in far better use of resources. Note the incentive compatibility extends to policymaking in countries as well as the political economy that a “just” compensation solution would not offer.
- <u>Public finance for development is typically not countercyclical at present.</u> In a global development finance environment, that is distinctly not countercyclical (i.e., funding tends to decrease when there is a global downturn, such as now[5]), exacerbating debt pressures in poor economies, such instruments could provide contractual commitment devices to continue support, not least when debt burdens increase (as is now the case) in ways that are not the fault of the developing countries involved.

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[4] As designed here, with fixed contractual terms, NPV neutrality will depend on the discount rate applied. The constant NPV feature means in any case that risk-sharing is limited, and they are not quite linkers and floaters that have capital and interest linked to the state of the world. To be precise, the NPV is kept constant and only *when* one needs to pay is linked to the state variable, not how much. The latter would be required to expand the risk-sharing features: linking principal and/or coupon payments required to the state of the world, which could mean that ex ante the NPV would still be constant, but ex post it would not necessarily be, e.g., repaying less of the principal or paying less of the coupon in extreme circumstances.

[5] Annual Official development assistance (ODA) as reported by the OECD reached $211 billion in 2022, the highest ever level,, but in practice has been stagnant for the last decade, as simply more of these resources are spent domestically (such as on costs related to refugees from Ukraine in Europe including in the UK).

Finally, there is a broader set of products beyond SCDIs that ought to be investigated and that may provide better protection against risks unrelated to the actions and behaviours of governments trying to push growth. Brunnermeier et al. (2020) provide a framework that should limit capital flight into safe dollar-denominated assets during downturns, by suggesting the creation of safe assets in local currencies among groups of developing and emerging countries. This would help avoid further pressure on the balance of payments and the currency, which often exacerbates the local effects of global crises.

III. Who could take this type of work forward?

Given its combined expertise, London's [Centre for Disaster Protection] (CDP) is well-placed to provide a link between private financial markets in London, global financial institutions, and developing countries. They are funded in part by the UK's development aid ministry, (FCDO), which also has an excellent unit with close links to London's financial centre, and is involved in launching new products that are more suitable to developing countries. What is needed in this space:

- Starting from progressing the work on debt-pause clauses related to natural disasters
- Further design of products and features, including related to triggers, pricing, and legal risk (including the required data to facilitate this)
- Stakeholder work to test design and appetite
- Market testing

IV. What would success of an early investment into this look like?

A number of new instruments which provide better incentive-compatible contracts, support growth-oriented policy and political economy, and are designed and taken up by a number of countries.

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2. Make "bad" alternatives to a growth-focused political economy more costly

2a. Bringing illicit finance more in the open to interrupt rent-seeking politics funded through it.

I. Problem statement: What is the specific problem statement and how does it link to the problem of (the political economy) of low growth in certain poor countries?

Globalization has made it easier to move money around the world, but much harder to crack down on tax evasion, corruption, and financial crime. Much of this behaviour is enabled by the fact that local elites — who are more likely to engage in it — can evade detection at home and abroad, using a variety of mechanisms (money laundering, shell companies, and other forms of obscure ownership) to do so.

This hurts developing countries the most, as they largely lack the capacity, institutional restraints, and political will to stop these illicit financial flows (IFFs) from leaving the country and making their way to other countries' markets. This is bad for global welfare, as the marginal impact of a dollar lost in a developing country is greater than one lost in a richer country. But it also hurts growth in developing countries for a number of reasons.

The classical reason is that it deprives already cash-strapped governments of revenue they need to fund growth-enabling activities (such as human capital investment or infrastructure). This in turn can have deleterious effects on tax morale, as ordinary citizens may baulk at the idea of paying taxes when elite tax evasion and corruption are pervasive, fueling a self-reinforcing cycle of low revenue and low growth.

The ability of elites to enrich themselves at the expense of their countries and get away with it also has a second, perhaps more profound effect on growth. Recent work has highlighted the degree to which growth hinges on elite "bargains", where local actors commit to investing in the long-run development of their country, which is more likely to occur when their own power, survival, and well-being are closely tied to this goal (through generating legitimacy or personal rents) and they expect that others in similarly privileged positions will behave similarly (so that it becomes a collective action equilibrium to broadly follow the "rules"). By contrast, elites often collude not to generate growth and stability, but instead to steal and control resources that can be used to maintain their power (through patronage) or set themselves up for a life of luxury either at home or abroad. This is more likely if they believe that others in the elite behave similarly (contributing to a low-investment, low-growth local equilibrium), and even leading to citizens who cannot launder money less committed to basic tax collection (breakdown of fiscal contract). Reversing this is hard: countries like Pakistan, Nigeria, and more recently Sri Lanka have now reached tax revenue collection as a share of GDP of about 6–8% per year compared to reasonable minimum levels of 20%.

Making it harder for elites to engage in illicit activity ultimately should raise the cost of engaging in this type of behaviour. It should reduce the attractiveness of collusion towards a low-growth equilibrium, and instead make elite development bargains more attractive.

I. What can be done now to resolve the problem?

(Reasonably well-meaning) governments are already engaging in many efforts to fight illicit flows, from enacting new transparency policies, regulations, and law enforcement powers at home to developing new standards in international fora to ensure other countries do the same, with the goal of making the global financial system more inhospitable to illicit flows. But both research and investigative journalism suggest that these efforts have not been very successful.

The lack of success is partly related to a lack of clear evidence as to which policies work best, or what modifications are necessary to make these policies work better. Instead, new laws and policies are passed without a sense of whether they are leading to any change in behaviour. As a result, rich and powerful countries push through new policies which may or may not work, often punishing developing countries — through international fora — for not doing the same.

As a result, better, higher-quality research on the effectiveness of anti-IFF policies would help in resolving this problem. It would both guide rich country policies to make them more effective in deterring illicit flows and poor country policies to the extent that they adopt the same. It would also help international bodies target countries that are the biggest hotspots for hosting IFFs.

Asking for more research is the usual response of a researcher, but in this case, investigative research on what efforts are paying off and what is harming emerging economies is key as well as calling out rich countries that design their policies to minimise the harm on them without regard to how these policies affect source countries. Activists could use this research, but inside some of these activist organisations there is not enough interest in the findings. This contributes further to noisy actions without much hope for impact.

It also means that if any of this work were to be taken forward, an insistence has to be made that the focus will be on actions that can positively affect poorer developing countries — especially in Africa — but also on those places that are increasingly helping to hide the wealth of these developing countries' elites such Dubai or Singapore, and not only the classic "'havens".

II. Who could take this type of work forward?

The EU Tax Observatory (EUTO) is well-placed to further this agenda. Directed by Gabriel Zucman at the Paris School of Economics, the Observatory is a research centre dedicated to the study of tax evasion, avoidance, and illicit flows. Its experts — including its affiliated scholars — already have substantial research experience studying and evaluating policies aimed at cracking down on cross-border tax evasion and corruption. The Observatory also has a track record of policy engagement around its independent work.

EUTO, along with its Norwegian partner organisation Skatteforsk - Centre for Tax Research, is currently expanding its work on developing countries, including building a global repository of offshore wealth and real estate, to build evidence on where illicit flows originate and end up. This existing structure would house a new "illicit flow" research lab dedicated to deepening and strengthening EUTO's work on evaluating anti-IFF policies.

Other organisations might include think tanks such as Global Financial Integrity, RUSI, or even investigative outlets such as the ICIJ. While all of these organisations plan an important role, none of them explicitly focused on building a high-quality, empirical evidence base for what works in fighting IFFs — nor do they have the capacity to.

Those working on this could do well to become much better informed politically on the targeted countries such as Nigeria, Angola, the DRC, and other resource-rich nations. At the University of Oxford, Ricardo Soares de Oliveira, is working on the implications of illicit financial flows for elite politics in Africa — collaboration between Soares de Oliveira's group and EUTO could be fruitful to ensure the local dynamic consequences essential for better "elite bargains" could emerge.

EUTO has a further complete proposal in this respect.[6]

III. What would success of an early investment into this look like?

Short-term success of an early investment would be several high-quality studies bringing new evidence to bear on recent anti-IFF reforms, combined with outreach to get this information onto the desks of both policymakers and journalists. Note that it would require a pre-planned, careful campaign to use findings from this research.

Medium-term success would be if governments of rich countries or international standard-setters altered one of its policies/standards as a result of both the outreach around and attention drawn to the work of EUTO's illicit flow lab.

[6] It could be requested from mattcollin@gmail.com.

Long-term success would be an increase in the amount of illicit wealth that is detected, seized, and repatriated — or deterred from ever leaving its origin country as a result of these new policies and standards.

Displacement effects are a criticism that could cause some to question the likely return of this investment. This is addressed in the final section.

IV. Further considerations: Solving the whack-a-mole problem

A persistent problem in the global fight against IFFs is displacement, which occurs when jurisdictions introduce new policies to counter and detect illicit flows, but only end up redirecting illicit wealth to new jurisdictions without those policies in place. These effects have been observed in academic work, such as evidence that deposits in tax havens flee to less transparent jurisdictions or assets whenever they are threatened by new information exchange agreements, or anecdotal stories about Russian money pouring into Dubai following recent international sanctions.

Displacement reflects an uncomfortable truth about IFFs: while governments can unilaterally take action against them, these actions will do little to raise the cost of tax evasion, corruption, or crime when illicit actors can easily switch between jurisdictions. Yet while this "whack-a-mole problem" that policymakers face can be daunting, there are several reasons why efforts to improve anti-IFF policy can still have significant payoffs.

The first is that evidence of displacement effects does not mean that a well-designed anti-IFF policy has not had a positive impact on the world. For example, even though automatic cross-border tax information exchange agreements clearly displaced wealth, some countries also successfully convinced taxpayers to come clean during this time, combining the carrot of voluntary disclosure programs with the threat of detection. Not every illicit actor faces the same set of switching costs or risk appetite.

The second is that while illicit investment can react quite quickly to changes in the probability of detection, invariably some bad actors are still caught when new policies come into place. This is in part driven by the fact that some offshore assets are sticky: it is much easier to move a bank account between tax havens than it is to sell a high-value apartment. It is also driven by the fact that some bad actors still hold incorrect or outdated beliefs about their probability of detection, even after a new policy is introduced (such as when unexplained wealth orders were used to seize property in London connected to an Azerbaijani state banker). New policies can also be designed to reduce the scope for relocation by requiring the owners of assets to verify their identity.

Third, as countries enact better policies, it will become easier to identify the hotspots that remain hospitable to illicit flows and target them with sanctions, blacklists, or political pressure. This kind of pressure is more feasible when there is already a large coalition of countries that have adopted effective measures. Currently, this takes the form of organisations like the Financial Action Task Force or the European Union assessing other countries and putting pressure on them. Better evidence around what the real illicit risk factors are and where the money is going could help efforts like these be better targeted.

Finally, some anti-IFF frameworks and bodies already have a near-global reach, which means that improving them can make it substantially more difficult to place illicit money in most countries. For example, ensuring that higher-quality policies are endorsed by anti-money laundering or tax standard-setters like the Financial Action Task Force or the OECD can ensure that their member countries more swiftly adopt them (for FATF countries, this occurs on a roughly five-year cycle; for the OECD, new policies can be pushed out in roughly the same timeframe). Despite its limitations, ensuring that over 100 countries adopted “automatic exchange of information” policies almost simultaneously had a significantly bigger impact on illicit flows than targeting any one jurisdiction would have accomplished.

2b Kérberos: acting on illicit financial flows that harm elite bargains for development: incentives for asset recovery.[7]

I. Problem statement - What is the specific problem statement and how does it link to the problem of (the political economy) of low growth in certain poor countries?

Corruption is arguably most harmful for growth when it is part of collective action equilibrium where all expect to act in this particular way with impunity, irrespective of the consequences for growth and investment. Breaking this cycle and encouraging other collective action equilibria where growth and profiting from growth become more powerful incentives is a key objective to reach growth and development in countries.

Anyone trying to change this domestically (or internationally) is faced with a hard task. Illicit finance is a key contributor to impunity: it is hard to detect, and if detected, it is hard to act on. Senior officials abuse their positions through graft, theft, accepting bribes, or other types of diversion; if at a large scale, illicit finance systems allow these to remain hard to detect once they have left the country. Large-scale embezzlement, often committed by senior government, administration, or military leaders, tends to be referred to as "grand corruption".

How does this so-called "grand corruption" happen? Mechanisms vary but the pattern is well established: for example, an official in a Ministry of Mines and Petroleum might have the power to award lucrative oil exploration contracts. Firms or foreign governments might offer the official a bribe to sway her decision. They facilitate the bribery by securing legal and financial services to hide the bribe offshore.

There are many striking examples. In Equatorial Guinea, officials issued public procurement contracts at artificially high prices, then pocketed the difference by invoicing the company using a shell corporation. In Malawi, civil servants co-opted the Ministry of Finance's computer system to issue payments for nonexistent goods and services, then deleted the transactions (the "Cashgate" scandal). In Kyrgyzstan, customs officials allowed companies to smuggle goods duty-free in exchange for kickbacks. In Tunisia, firms connected to the president were not subject to the same degree of customs checks as other firms, thereby avoiding customs fees. In Nigeria, one recent example centres on a court case that government officials may have deliberately lost in collusion with the litigating firm to secure (and share out) damages.

The direct cost activity is lost government revenue. Precise estimates of this cost are hard to pin down and statistics in this area are generally not from rigorous (causal) studies. The IMF estimated in 2016 that the global cost of bribery and corruption alone was somewhere between $1.5–2 trillion annually. Global Financial Integrity, a think tank

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[7] For more information on Kérberos, please contact Theo Talbot (theodore.talbot@gmail.com) or Matt Collin (mattcollin@gmail.com).

focused on these issues, estimates that from 2006–2015, illicit financial flows from developing countries attributable to trade misinvoicing averaged between $20–27 billion per year.[8] Most of this wealth is not returned. The World Bank's Stolen Assets Recovery Initiative (StAR) notes that even conservative estimates of losses are very large, in the order of $20–40 billion stolen annually by public officials in developing countries.

Nevertheless, there is an order of magnitude difference between any measure of IFFs and the value of money returned. For example, the World Bank's Stolen Asset Recovery Initiative estimates that from 1995–2010 just $5 billion of stolen funds were recovered and returned; an OECD report indicates that from 2010–2012, OECD countries returned $147 million in assets created by illicit financial flows; the World Bank's StAR reports the figure was $276.3 million from 2006–2009 for the same group. By any reasonable measure, poor countries are losing billions of dollars a year.

The indirect cost of this kind of corruption is that it creates perverse incentives for investors, officials, and leaders, pushing them towards rent-seeking and away from pursuing long-term growth. A substantial body of research suggests corruption is bad for growth, political-administrative systems with embedded corruption deter foreign investment, and grand corruption especially is often a sign of an elite bargain less interested in growth. While successful countries may well have started with considerable embedded grand corruption, over time, finding effective ways to address these is central to unseating elites whose profits come not from growth but from rents. Illicit financial flows are not the same as corruption, but they are a clear symptom of it — particularly large-scale graft or crime — and one uniquely enabled by the existence of safe-haven jurisdictions.

II. What could be done now to resolve the problem?

Increasing the share of stolen money returned to poor countries is a key margin for change. Tackling the proceeds of IFFs is only part of the important, longer-term work of addressing their root causes and the facilitating architecture (like opaque beneficial ownership rules) that enables them. But seeking out and returning many more stolen assets offers two payoffs:

- **Increasing resources for developing country governments today**: Returning stolen funds would provide more funding for governments, precisely when tax bases in poor countries feel the strain of the COVID pandemic. Returning funding that has been stolen directly benefits public services and, ultimately, people in developing countries affected by the underlying crime.
- **Reducing the incentive to engage in corruption**: Seizing and returning funds can have a chilling effect on corruption. Prosecuting and returning stolen assets would send a clear signal that the returns to corruption are lower and less certain than they were before. Raising the risk and lowering the expected value of an activity typically reduces that activity. Increasing the likelihood of being found out,

[8] Global Financial Integrity. "Illicit financial flows to and from 148 developing countries: 2006–2015". Washington, DC: Global Financial Integrity. Accessed May 12 (2019).

reducing the extent to which kleptocrats and corrupt officials can enjoy the proceeds of crime, and reducing the level of protection available to stolen assets all lower the incentive for public officials to steal. This will reinforce political leaders' incentives to participate in pro-development coalitions rather than kleptocratic rent-seeking.

Asset recovery is not a new idea. Public prosecutors in affected countries can ask public prosecutors in recipient countries for help in tracking down and/or repatriating assets, known as "Mutual Legal Assistance". But despite some notable successes, MLA is not facilitating large-scale return of stolen funds.

There are several constraints at play. Affected governments still need considerable technical expertise to navigate the MLA process, which is slow and conducted one request, one country at a time. Some countries that have received illicit flows follow up on MLA requests more assiduously than others. And even with active support in the receiving country, assets can be moved quickly to new jurisdictions. MLA is a valuable tool, but it needs to be complemented with other approaches.

There is another route for affected countries to recover stolen assets. In many jurisdictions, civil forfeiture and analogous processes allow assets themselves to be prosecuted and returned if you can prove they were stolen or obtained with the proceeds of crime. This allows a wronged party (in this case, a government that is the victim of corruption or graft that generates the IFF) to press a claim against the proceeds of crimes rather than the criminals *per se*. This is a lower bar for evidence and successful prosecution than criminal proceedings — but a successful prosecution of stolen assets can then result in money being repatriated.

Why aren't more proceeds of crime returned to poor countries by this approach?

- **Cost:** stolen assets are hidden behind layers of commercial secrecy and shell corporations across different jurisdictions. Asset tracing and legal work are expensive and can take a long time.
- **Uncertainty:** even if there is local political will to spend millions on foreign litigation, there is no guarantee of a payoff. Risk-averse civil servants and politicians may be reluctant to take the gamble.
- **Politics:** for countries with political cycles, it might be difficult to sustain a commitment to pursuing stolen assets across years and administrations.
- **Information:** where political will and funding are not constraints, it still requires technical know-how and confidence to procure the right services from the right lawyers and investigators, for the right price.

Litigation finance is the general term for funding solutions that help to bridge the gap between the costs of prosecution and available funding. These solutions effectively take on the risk of failed prosecution by sharing in the upside of successful recovery, economically analogous to bounty hunting or ocean salvage. Lawyers working on contingency ("no win, no fee") is one familiar type of litigation finance. More broadly, specialist finance providers can fund the cost of litigation by legal firms on behalf of a counterparty (the victim) under the agreement they share in the damages if the case succeeds. Litigation financing approaches therefore shift the risk of a court case failing from the victims to the financing partner. The industry is now well established, with an estimated $11 billion in assets under management in the US alone in 2020.

Why hasn't litigation finance closed the gap between the demand for legal services targeting IFFs and affected countries' budgets and risk appetite to pursue expensive litigation? Affected governments need to be confident that giving up part of the proceeds of the litigation in exchange for a financing partner paying the legal costs is worth it. Governments also need to be assured that the contracting is legitimate and that the profits will be repatriated. And they may need technical support to choose the right financing solution.

III. Who could take this type of work forward (organisations, etc.)

There are a number of existing organisations in this space, ranging from publicly funded civil society organisations focused on policy influence and capacity building in affected countries (like the International Centre for Asset Recovery), think tanks focused on issues related to illicit financial flows (like Global Financial Integrity), and some litigation financing firms that are seeking deals with affected governments (Buford, Restitution Impact). Additionally, some deals for asset recovery using simple (and often opaque) litigation financing arrangements (mainly legal firms working on contingency) have been concluded. For example, a reported $1.2 billion in Nigerian funds stolen under Sani Abacha have been repatriated to Nigeria from a series of safe haven destinations, including Switzerland and Lichtenstein.

We believe that a fundamentally new type of public-private partnership can prove out a litigation finance model for sustainable, transparent, and large-scale asset recovery for affected countries.

Such a PPP would have a single purpose: to connect demand for legal services from poor countries victimised by IFFs with the supply of legal services and litigation funding. Specifically, the intermediary could be an independent, publicly capitalised nonprofit corporation with an explicit corporate international development objective.

Through close coordination with affected governments, it would generate a pipeline of legal claims from victimised countries. Helping these governments structure the financing for these claims will generate a stream of assets over time. Successful legal action will repatriate these assets, creating a powerful development dividend. The intermediary could be designed to be self-financing: it would subsidise the cost of legal prosecution in exchange for a low, likely fixed cost. Governments would only take part if they wanted to and on transparent terms; contracts for asset recovery would be published to ensure scrutiny by civil society groups.[9]

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[9] In a recent case, a litigation financing partner supported asset recovery for Nigeria but secured a payout that civil society groups concluded was too high.

Critically, the intermediary would be able to help affected governments bring private risk-taking finance to the table: governments that need funding to prosecute their court cases can tap litigation finance, with the intermediary providing the transparency and procurement expertise to help the government ensure contracts are priced fairly. This would share out risk and ensure that governments of poor countries see the upside of successful cases without paying out large legal bills for failure. This approach turns an initial injection of public capital into a sustainable, ongoing concern that increases the return of stolen assets to poor countries by helping them select, structure, and secure litigation finance.

A range of safeguards would need to be in place, including potentially limiting the types of countries whose recovery is supported, ensuring transparency over the use of repatriated funds through public financial management controls (as the World Bank has done for funds repatriated from Switzerland to Nigeria), and contracting transparency to build confidence that the cost of asset recovery paid to the litigation financing providers is subject to appropriate scrutiny.

IV. What would success of an early investment into this look like?

An initial scoping grant will support the design work, financial modelling, and stakeholder engagement required to fully articulate a PPP model for litigation finance focused on tackling the effects of grand corruption and increasing asset return to affected low-income countries. The novelty of this approach lies in its explicit structure as a nonprofit focused on intermediating these transactions for the benefit of affected countries. As such, it would build on and extend existing approaches.

The goal of the scoping grant would be to develop the concept into an investable proposition and operational blueprint, including recommended institutional structure and governance arrangements. The ultimate aim will be to use this operational blueprint to facilitate fundraising for the concept, principally from philanthropies active in the space and from aid donors seeking new and high-impact approaches to target both the proceeds of corruption and crime and reduce incentives to engage in these activities.

2. Make "bad" alternatives to a growth-focused political economy more costly

2c. Bad Politics and Public Procurement (Political-economy informed work on pushing for improved procurement systems for infrastructure and other sectors).[10]

I. What is the specific problem statement and how does it link to the problem of the political economy of low growth in certain poor countries?

Political capture and corruption in public procurement perpetuate the conditions for low growth, and also fuel the systemic grip of predatory elites and bad politics.

Public procurement is the "world's largest marketplace" and "one in every three dollars spent by government is on a contract with a company… $13 trillion every year" (Open Contracting 2018). The average proportion of government budgets spent through procurement is 30%, but reaches 50% in some countries. All development outcomes depend on public procurement.

As was argued in *Gambling on Development*, many of the successful elite bargains are underpinned by procurement systems that are imperfect, but good enough (Dercon, 2022). They deliver sensible, cost-effective policy choices; award contracts to more or less capable firms; and discipline contractors to deliver more or less within budget and time — even when they are part of the same self-interested elite. Public procurement broadly achieves its intended purposes in service delivery and human capital, and builds infrastructure that creates positive conditions for growth. Undue rents are no doubt extracted, but these power a broadly developmental political machine.

This contrasts with public procurement in countries without a development bargain. Public policy (e.g., where to build a road) and procurement choices (at what budget and specification) are shaped by elite self-interest with no interest in the growth externalities from delivering these contracts. Politically connected bidders manipulate calls to suit their own strengths, form cartels, and take turns to win (inflating prices), or simply scare off competitors. Consequences include absent infrastructure (no road), low-quality delivery (incomplete, not to specification), massive time and cost overruns, scarce budgets squandered (whether from revenue or aid), development targets unrealized, and meagre growth opportunities lost. Where growth is low and stuck, public procurement and mineral rents may be *the* major loot for elites to fight over. This perpetuates systems of bad politics — criminality, election war chests, political violence, and IFFs to secrecy jurisdictions, for overseas property, and luxury goods. Corrupt procurement hobbles growth and strengthens the grip of predatory elites.

It is hard to shift this. This is a case of a bad collective action equilibrium, with no elite

[10] This proposal was mainly developed by Peter Evans, currently in charge of the U4 programme in Norway, and formerly at FCDO-DFID.

players having much incentive to shift behaviour individually, as the others will continue to act in predatory ways and grab rents left on the table. Single investigations and prosecutions often have limited impacts, and indeed often end up being used for political purposes such as investigations of previous incumbents in senior positions after regime change, to isolate them from competitive politics and step into their previous rent-capture positions. The means to shift equilibria are limited, but pressure from below or within the system (and occasionally, from outside) can make the returns to stay in the current predatory equilibrium lower or the costs and risks higher. Indeed, historical moves to clean up procurement fraud, regulatory capture, and other clientelist policies in the Western world took time but broadly succeeded in the end, if never entirely.

II. What could be done now to resolve the problem?

Despite its omnipresence, public procurement is neglected by the development mainstream.

Seen as a specialist niche, responsibility is often discharged to technical experts. Public procurement is a major “gaming table” for political bargains and elite deals at every level (national, regional, city) and sector (transport, water, health, etc.), yet serious, applied political economy research and policy engagement are scarce. When this type of highly applied political economy work is funded, other actors — donors, media, civil society — use the outputs, but few are willing to fund it.

Procurement has been the focus of decades of Technical Assistance (TA), but this has proven insufficient to shift the “bad equilibria” that waste money and fuel predatory politics. TA has, usefully, rolled out a standardised “procurement cycle” approach, and enabled the creation of global data transparency initiatives such as Open Contracting. These increase the *potential* for reform, and have facilitated the development of big data tools that identify indicators for corruption risk. One of the best known is “red flags”, scaled up under DFID/FCDO’s Anti-Corruption Evidence (“ACE”) programme, adopted by the World Bank, and winner of an IMF grand challenge.[11] Red flags research empirically demonstrates a range of effects: single-bidder contracts increase the likelihood of cost overruns; some reforms do reduce corruption risk, but political elites respond in time to circumvent new rules, and this reduces market share for international bidders. The research team also developed open-access tools to track the financial impacts and growth costs of procurement risks at the micro and macro levels.

However, data and tools need people to use them, ideally on their own priority problems. This means moving beyond “general hygiene” approaches to tackling specific problems and critical constraints to growth at the country level. Interested actors — researchers, think tanks, CSOs, citizens — also need the skills, incentives, and risk appetite to use data and tools to shine a light on systemic political corruption. Alone, greater transparency in procurement has a limited effect on “catch-up growth”. However,

[11] “Public procurement corruption risks: Harnessing Big Data for better fiscal governance and growth”

another part of ACE – SOAS ACE – has demonstrated the impact and potential Return on Investment (ROI), of relatively small-budget political economy research on procurement constraints in very large, growth-critical sectors — such as energy generation and skills training — and developed politically feasible policy options to unlock these.

Our proposal is further development, adaptation, and application of this type of practical, problem-focused, context-specific political economy research and policy engagement. This will combine the newly available data with sector expertise to identify critical public procurement problems that constrain growth and reproduce bad politics, and — through capacity building as part of delivery — also expand the pool of political economy expertise in the focal countries.

To have impact, a solution cannot simply focus on applied research and dissemination. A key part will have to be to build a community of practice across the world with some of the countries most affected at its core, a peer network supplemented with support in terms of coaching and advice from both within and outside the network. A number of target countries would have to be identified with targeted local influencers and bureaucrats keen to make a difference.

III. Who could take this type of work forward (organisations, etc.)

Prospective partners will depend on the countries selected and will include international and national researchers, think tanks, and CSOs.

The proposed route will be to build on existing experience in this kind of politically informed procurement work that goes beyond the approaches that see it simply as a technocratic or bureaucratic problem. We will seek partnership via recent and ongoing political economy and public procurement research and policy initiatives, building out from strong networks[12] established during a decade of DFID/FCDO research investment such as:

- SOAS ACE in Tanzania, Nigeria, and Bangladesh plus grantees in other countries.
- Effective States and Inclusive Development (ESID) on political constraints to growth and service delivery in a range of African and Asian countries.
- African Cities Research Consortium (ACRC) which extends ESID's "political settlements" approach to urban development in 12 cities.[13] ACRC takes a "city as system" approach and was designed so that additional components could be added to the city-level research.

[12] In DFID Peter Evans designed and led ACE, led ESID, created the concept for ACRC, was DFID lead for TTI, seed-funded Southern Voice, and oversaw the graduation of PASGR from DFID funded project to independent entity. The Directors of African Cities and SOAS ACE are, in principle, interested in collaborating in this proposed investment.

[13] Accra, Addis Ababa, Bukavu, Dar es Salaam, Freetown, Harare, Kampala, Lagos, Maiduguri, Lilongwe, Mogadishu, and Nairobi.

- ACE red flags research on public procurement which teams international and local researchers with procurement agencies, CSOs, local media, and master's students (via the African Maths Initiative) for data hackathons in Tanzania, Ghana, and Uganda.
- Partnership for African Social and Governance Research (PASGR – instigated by DFID) and the Southern Voice think tank network (spun out of the Think Tank Initiative).

It also makes sense to use a respected platform such as (for example) the Blavatnik School of Government to help convene a peer network in a number of target countries, providing further coaching by and networking with experienced practitioners in this field.

IV. What would success of an early investment into this look like?

- Identify procurement problems that are critical constraints to growth, and fuel bad politics.
- A peer network of committed practitioners in a number of key countries, probably operating discretely but with mutual support and access to advice and coaching from experienced practitioners.
- Deliver practical political economy research (with public outputs), and policy engagement for uptake of politically feasible reform options to tackle constraints and help unlock growth. Targets would include country governments and international Financial institutions.
- ROI estimates to demonstrate value of political economy investment, and potential for scaling.
- Demonstrate value of philanthropic investment in the neglected areas of political economy, institutions, and governance.

The focus on procurement and growth would ideally be the start of a bigger initiative to unlock the benefits of large philanthropic investments in health, education, livelihoods, and climate change; through public good, practical, political economy research, and policy engagement; and hosting and promoting this for wider use across philanthropy.

Appendix A1 gives a sense of what the pathways to impact could be for this type of work, with examples from past experience and how they worked through some of the relevant countries. Appendix A2 provides a fuller worked-out proposal with some more information.

Appendix A1: Pathways to impact, and indicative examples of the types of outputs and outcomes

In simple terms, the intended pathway to impact is that:

Output 1: In growth-critical areas, bad public procurement is exposed, and averted (e.g., contracts terminated, competition increased, contract management improved). Output 2: Bad procurement is replaced by more open, competitive public procurement for these priority investments in growth-critical areas.	Researchers and policy actors identify priority areas of public procurement. They deliver new research setting out the political economy risks, and define feasible reform options.
Outcome: Higher quality, more cost-effective, more efficient, procurement and contract implementation contributes to unlocking growth and development.	Active policy engagement through peer networks and other means in support of researchers, other interested parties, policymakers, and public agencies. (In existing research, funding and time allocated for this is limited, constraining the effort needed to drive uptake and impact.)
Impact: These examples contribute to a shift of the procurement equilibrium towards an elite bargain that delivers, and benefits from, growth and development.	This depends on the demonstration effect of the outputs and outcome.

Examples exist for parts of this pathway, but existing strategies are not designed or supported to deliver along the whole pathway.

A major challenge — and the key thrust of this proposal — is to fund research that examines public procurement scandals "in the making" and averts them through political economy research and policy engagement, and defines and influences the uptake of alternative procurement that better delivers the conditions for growth.

Examples of activity relevant to parts of the pathway include the following:

1. **Examples relevant to proposed Outputs and Outcomes**:

Existing analysis and some research examine the political economy of historical examples of procurement corruption, interventions, and the effects on the public procurement equilibrium. These give an idea of what the outputs and outcomes of the proposed investment could look like — but also the likely threats, risks of backsliding, and the type of problems and timescales needed for outcomes and impact. While some relate to growth-related infrastructure, the best-examined examples are from health, partly reflecting the interest of international partners such as IFIs and the Global Fund.

- Uganda: The Katosi road construction scam in 2014 prompted public demands for more accountability in government contracting. The $44 million road contract was intended to reduce pressure on a critical trade route to Kenya, but it was let to a bogus company. President Museveni was reportedly motivated to support reform following public pressure resulting from a scandal and fallout led to changed power dynamics among external and internal actors. Internally, the Ministry of Finance (MoF) gained considerable power after being tasked to deal with the scandal, while the Prime Minister's office lost authority because it was implicated. The MoF was able to push reforms which would otherwise have been difficult, aided by donors that halted funding to Uganda, creating fiscal pressure and requiring the country to rely more on its own resources while also creating an incentive to signal that it was undertaking reform (to regain international support). The scandal created a window of opportunity, weakening vested interests that might normally have blocked reform and increasing the power of reformers.

- Zambia: In 1998 the government awarded a contract for reforming its Central Medical Stores to a South African company called GMR (named after founder Giovanni Mario Ricci). GMR also provided "logistics" to criminal groups in the region, and used the Medical Stores' distribution network to support illegal trade in diamonds, gold, and guns in parts of north and west Zambia (abutting DRC and Angola), and to support coups. By 2003, Zambia was a highly indebted poor country seeking debt relief; the IMF made relief conditional on implementation of public administration reforms, including terminating GMR's contract and reletting the contract in an open, international tender.

  An international firm won the tender and instigated a range of reforms. However, its remit was limited to national warehousing and distribution, with the Ministry of Health (MoH) retaining control of procurement itself. The procurement unit ignored calls for better forward planning and often let supplies deteriorate to a critical level, so that — by law — it could invoke emergency provisions and suspend the need for open and competitive tenders.

- Bangladesh: The Padma Bridge scandal involved the Bangladesh government and ruling party (Awami League) and concerned a new, 6km road-rail bridge across the Padma River, which would be Bangladesh's longest bridge. The new bridge would be an infrastructure flagship, and was projected to increase Bangladesh's GDP by 1.2% a year.

  The World Bank was to have financed the project with $1.2 billion in credit, but pulled out in 2011/2012, citing corruption concerns, specifically that Canadian company SNC-Lavalin had bribed Bangladeshi officials in exchange for the construction contract. The World Bank justified withdrawal on the basis that it was not satisfied with the Government's response to concerns raised. Two SNC-Lavalin executives were charged in Canada, but after the court excluded wiretap evidence the prosecution withdrew and the case was dismissed. Bangladesh's government went ahead and financed the Padma Bridge itself, awarding the construction contract to a Chinese firm. The budget reportedly increased by over $1 billion, completion was delayed by several years, and there are reports of more corrupt payments being made as a result of the World Bank's withdrawal. The Padma Bridge was opened in 2022 and has continued to impact Bangladeshi politics and foreign relations, not least as Prime Minister Sheikh Hasina blamed Muhammad Yunus for the World Bank's withdrawal, alleging that Yunus lobbied US Secretary of State Hillary Clinton to persuade the World Bank to terminate the loan.

Despite this (and other) extremely high-profile cases dominating media attention, Bangladesh has seen progress on lower-level public procurement using technocratic and digital reforms, such as the introduction of e-procurement for small infrastructure contracts under the guise of efficiency and state modernization as part of a political strategy to demonstrate readiness for "Middle-Income Country" status. This proceeded with World Bank technical support, and reflected the national elite's need to reimpose more central control and reduce violence between local-level contractor politicians.

- Ukraine: Before the 2014 revolution, pharmaceutical procurement was fundamentally corrupt and failing. Government maintained infrastructure, including inefficient hospitals, but people subsidised the system through informal personal payments for "free" services. Patients barely received any medicines from the state. Out-of-pocket payments were estimated to be 42% of total healthcare expenditure in 2012, of which 80% were for pharmaceuticals. A World Bank study (2010) found that, for a patient with three or more chronic conditions, out-of-pocket payments per visit were $1.30 for transport, $3.30 for gratuities, and $30.60 for medicines.

  Reform was driven by two patient groups funded by international donors (including the Global Fund) helping them to actively monitor and criticise government delivery. They were helped by a clear benchmark against which to judge state provision: Ukraine had two buyers of HIV medicines at the time, the Ministry of Health (MoH) and the All-Ukrainian Network, supported by the Global Fund. MoH prices for particular medicines were 150–300% higher (2012) and research estimated that $4.9 of $21.9 million was wasted on overinflated prices in 2012. Government auditors then estimated that Ukraine overpaid for medicines by 40%.

  The root cause was a lack of competition, underpinned by collusion. Despite adequate budget allocation, the Ministry bought too few medicines because it purchased at inflated prices from a tiny network of companies that won contracts through kickbacks and political connections. Tenders were "staged", such that they appeared open and competitive, but in fact, bidders were either multiple companies controlled by one beneficial owner or multiple companies operating as a cartel. Research revealed that multiple bids — supposedly from different suppliers — were often prepared on the same computer. The Ministry failed to

> hold suppliers to account if they delivered late or if products were substandard. Even when medicines reached hospitals, some staff sold them on the black market, telling patients that they needed to pay for medicines. These individuals were vested in maintaining the status quo and opposing change. Other staff were distraught but lacked the power to change things. The state pharmaceutical factory Indar had become a shell company that purchased pharmaceuticals offshore and sold them to the MoH at an excessive margin.
>
> Ultimately, the solution was radical — and, in time, successful — a new law that specified outsourcing medicine procurement to international agencies, with strong advocacy by patients' groups, and a political and media strategy by the new government to overcome resistance and out-and-out sabotage by vested interests both inside and outside government. By 2020, the MoH had laid the foundations for a new medicines procurement agency. Ukraine had also developed a world-renowned auction-based system, proZorro, and brought some medical procurement (simple products with price as the prime consideration) into proZorro.

The limitation is that these examples were not necessarily exposed by research, but have been researched after the event. The proposed investment would seek similar outputs and outcomes, but through targeted research and policy engagement.

2. **Research on live procurement problems**:

There is a new and growing body of political economy–framed research on contemporary public procurement, and focusing on specific problems prioritised because they are critical to growth and service delivery. For example, SOAS ACE research includes a focus on procurement for power generation, climate adaptation infrastructure, manufacturing skills training (Bangladesh), electricity supply (Lebanon), and energy transition (Tanzania). This research is intended to directly inform policy change to tackle these problems. A constraint is that the ACE investment — through research funding channels — does not prioritise funds, time, or the skills needed for the type of sustained policy engagement needed to influence research uptake and impact by power holders such as government and IFIs such as the World Bank, ADB, etc. There is active interest but (as yet) not quite adoption.

2. **Research on the political economy of procurement systems**:

There is a growing body of research on the political economy environment of different countries' public procurement regimes, with recommendations for strategies that are most likely to be useful in accelerating change in each context — for example, public communication focusing on anti-corruption versus messaging around efficiency, modernization, and saving money (not corruption). This includes consideration of how subnational strategies (such as in Nigeria) may be more effective than national strategies in federal states, and how "windows of opportunity" may be attached to particular individuals and particular moments in the election cycle.

3. **Case studies of procurement reform advocacy**:

There is a growing collection of examples and impact case studies of how civil society organisations and the media use public procurement data, particularly via the Open Contracting Partnership, to examine particular contracts and highlight risks and failures. However, these are not generally rigorously researched and do not necessarily focus on areas of public procurement that are critical constraints to growth.

Appendix A2: Bad politics and public procurement (dull, dirty, political big business).

Background:

Public procurement is the "world's largest marketplace" with estimates that "one in every three dollars spent by government is on a contract with a company… [$13 trillion of spending every year]" (Open Contracting 2018). Yet (at least until COVID PPE exposures), public procurement has been underexamined by the development mainstream, both in its relationship with growth, and in sectors such as health, education, and climate change.

The World Bank (2018) estimates that public procurement accounts for [12% of global GDP]. This is relatively consistent across countries, though varies within income groups.[14] Fragile states tend to have a small share of public procurement to GDP, reflecting the limited ability of governments to deliver services (in 2018, Yemen, Niger, Cameroon, DRC, Sudan, and South Sudan spent less than 5% of GDP through general procurement procedures). However, the proportion of total government budgets spent through procurement is high — 30% on average, reaching 50% in some countries. Much of the rest is spent on public sector wages.[15]

Procurement and payroll constitute a massive part of the activity of any government. Understanding political economy and systems — of a country, its growth constraints and opportunities, and of any sector (health, education, climate) will be limited without an understanding of how the system of "buying stuff and paying people" works in that place.

The problem:

In *Gambling on Development*, the analytical narrative for successful elite bargains can be read as being underpinned by public procurement systems that are imperfect, but good enough. They support broadly sensible and cost-effective policy choices, award contracts to more or less capable bidders, and discipline contractors and service providers to deliver more or less within budget and time — even when these contractors are part of the same self-interested elite. This equilibrium is imperfect but functional, and the balance of public funding achieves desired outcomes and so supports public service delivery, grows human capital, builds appropriate and useful infrastructure, and creates positive conditions for growth. Undue rents are no doubt extracted, but these fuel a broadly developmental political machine.

This contrasts sharply with public procurement in countries without a development bargain. Public policy choices (e.g., where to build a road) and procurement choices (at what budget and specification) are shaped by elite self-interest. Politically connected bidders may manipulate the shape of government calls to suit their own strengths,

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[14] Within middle-income countries, Botswana procures 28% of GDP whereas Sri Lanka only 6%. Kenya (a low-income country) procures 26% of GDP, Madagascar only 5%.

[15] "Throughout Europe, the share of government spending that is devoted to the compensation of government employees ranges between 5–15%. In contrast, throughout most of Africa the available figures range between 3050%". [Our World In Data (2020)]

operate in cartels and take turns to win (and so inflate prices), or simply threaten competitors to prevent them from bidding. Consequences range from absent infrastructure (no road) or low-quality delivery (incomplete, not to specification), and crippling time and cost overruns. The range of effects includes massive losses to scarce public finances (whether from own revenues or aid), unrealized development targets, and (already meagre) growth opportunities lost.

Often overlooked is the fact that the "loot" from procurement corruption perpetuates systems of bad politics — such as local and national election war chests, violence, and Serious and Organised Crime (for examples, see ethnographies of "contractor politicians" here), and IFFs to support unproductive "investment" elsewhere (including in secrecy jurisdictions, in overseas property, services, and luxury goods). Corrupt public procurement fails to deliver, and also makes the grip of bad politicians stronger.

In countries where growth — beyond extractives — is low and stuck, public procurement may be *the* major source of loot for predatory elites. This includes the donor funded purchase and delivery of humanitarian aid. Such rents are central to the "political marketplace" that may sustain fragile peace — or be fought over and thus fuel conflict.

Much of this procurement-related activity could be classified as corruption, though includes policy influence that in OECD countries is legitimate lobbying. Bad procurement is still often regarded as reflecting low capacity in government. However, it is notable that many "capacity gaps" have proven resilient to decades of external investment (e.g., donor Technical Assistance projects). For example, despite more than two decades of external support to Malawi for drug procurement and supply logistics, losses to theft are still estimated at 29% of the total value,[16] and this is regarded as normal across a range of LMICs. A less patient analysis is that there are strong political economy incentives to ensure that effectiveness remains low.

Moreover, when external partners such as the World Bank directly impose their own procurement standards as a condition for loans, minimum standards are often met by the same government agencies. Technical approaches to public procurement reform have proven to be insufficient to shift the "bad equilibria" that fail to deliver and fuel bad politics and IFFs. International firms and investors also face great uncertainty in such markets and may choose to stay away. Conversely, while political economy research may highlight specific Politically Exposed Persons (PEPs) who perpetuate such political corruption systems, these may be exactly the well-connected advisers, fixers, and joint venture partners that some international firms engage to "risk-proof" their own shorter-term activities. This is a conundrum at the heart of moving from individual deals into unlocking longer-term growth. What is good for a deal may be bad for growth.

What to do about it?

[16] Ryan Jablonski, Brigitte Seim, Mariana Carvalho Barbosa, and Clark Gibson (2022). Using Mobile Tracking Technologies to Audit Medicine Theft

Public procurement has been the focus of decades of Technical Assistance, rolling out normative approaches based on a standard "procurement cycle" model. Such standardisation has (usefully) enabled very large data transparency initiatives (Open Contracting, etc.) which have greatly increased the *potential* for action against inefficient, secretive, and corrupt public procurement. Transparency initiatives have, in turn, enabled analytical tools that identify common indicators for corruption risk.

One of the best known is the "red flags" toolkit[17], now adopted by the World Bank for its own risk management, winner of an IMF grand challenge prize[18] for using big data to tackle corruption, and supported by the FCDO-funded Anti Corruption Evidence (ACE) research project. The red flags research empirically demonstrates a range of corruption effects, such as the increased likelihood of cost overruns if there is only one bidder, and the positive effects of procurement reform on corruption risks, but also how political elites respond in time to circumvent new rules (such as switching to noncompetitive procedures) and how this can reduce the market share for international bidders. The team describes the need to keep "whacking moles" to displace corruption. Red flags have also developed tools for policymakers to track the financial impacts and growth costs of corruption risks on the micro and macro levels. For example, overpricing in public infrastructure projects can be traced back to identified corruption risks.

However, big data transparency has limits. Challenges include the vast, theoretically standardised, but in reality messy data sets now available; a need to move from "general hygiene" to tackling specific problems (in any focus country, which particular sectors and procurement-related problems merit priority attention?); and an implicit assumption that interested actors — government officials, researchers, policy think tanks, CSOs, active citizens — will have the skills, time, and incentives to use the data to address specific problems, binding constraints, or investigate corruption cases. Alone, greater transparency will mean little for public procurement to help support "catch-up growth".

These constraints are typical of transparency and accountability initiatives more generally. Transparency is probably necessary but by no means sufficient to elicit change, and a deep understanding of context and the social accountability "system" is required if they are to have the "teeth" to "bite" (Fox 2015[19]). In short, transparency

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[17] Eight red flags for corruption risk in public procurement

1. Single-bidding, i.e., where only one bid is received
2. Use of non-open procedures
3. Spending on consultancy, which is more difficult to scrutinise
4. Signature period longer than 14 days, which may signal negotiations over kickbacks
5. Advertisement period less than 14 days, which can exclude bidders without advance warning
6. Share of contract awards that are published, an indicator of transparency
7. Cost overruns: final spend higher than original budget
8. Supplier being registered in a tax haven

[18] "Public procurement corruption risks: Harnessing Big Data for better fiscal governance and growth"

[19] Fox, Jonathan (2015) "Social Accountability: What Does the Evidence Really Say?", World Development, Volume 72, 2015, Pages 346–361,ISSN 0305-750X, https://doi.org/10.1016/j.worlddev.2015.03.011.

efforts tend to treat public procurement as a technical pursuit, not a dirty political game. Transparency sceptics also note that the "real deals" are rarely visible in public procurement data, and that big data ordered by individual contracts will struggle to reveal the underlying equilibria — whether elite bargains, political settlements, or corruption systems — at play.

The benefits of applied political economy research and policy engagement

Applied political economy research and policy engagement are still relatively rare and neglected — both related to development challenges in general, and public procurement and government contracting in particular. Few funders support it in a strategic way (e.g., for a specific sector or context). Government research councils may fund it by chance in general grant competition, though these favour academic research over applied activity or policy priorities. Some large development actors are happy to use political economy research, but their mandate means they struggle to fund it (e.g., the World Bank). Sector-focused funders — including foundations working in health and education — may be oblivious to it, or consider it too messy and politically sensitive to engage with. It could be a critical component of scaling, solving "last mile" delivery constraints, and "long-termism" in settings where growth and development are most "stuck".

ACE was specifically intended to have a demonstration effect and produced a range of rigorous, political economy–informed research and policy engagement on policy and procurement constraints in wide-ranging contexts and sectors, with a particular focus on Nigeria, Tanzania, and Bangladesh. One example is power generation in Bangladesh. Research by SOAS ACE found that policy capture by politically connected firms sustained a government preference for the "emergency" purchase of electricity from "temporary" power generators at high cost which burnt furnace oil, one of the dirtiest possible fuels. This "captured market" is heavily subsidised, and deters more dynamic and innovative firms — national and international — from longer-term investment in cleaner power generation. SOAS ACE has also developed a practical framework for identifying and mobilising interest groups and entry points for "horizontal accountability" initiatives that can shift equilibria, unlock political capture, and spur growth. It is important to note that the focus of such policy engagement might not need to, or may actively avoid, any mention of corruption or bad politics at all. In several ACE projects, arguments are made in terms of greater efficiency, state modernization, and better sector outcomes in both growth and service delivery.

Risks and returns:

ACE has helped demonstrate the benefit of such research and policy investment. Each problem-focused sector research project was relatively cheap but aimed to unlock the fuller benefits of extremely large investments and procurements. For example, ACE research on corruption in performance-based contracts for training providers in Bangladesh's readymade garment industry had an input cost of £130,000 to help unlock the benefits in a sector with external investment alone by ADB and WB of $1 billion. Even a marginal reduction in corruption would prompt a good return on research investment.

In general, despite the scale of public procurement spending, overall, and within any specific sector, little funding is allocated to problem-focused, political economy–framed research and policy engagement. The little current investment that exists comes from "governance and anti-corruption" research funds, rather than from the large-sector budgets themselves. This is a critical limiting factor and also constrains the supply of researchers and policy experts who are experienced and equipped to deliver this type of work, particularly in LMICS.

It is reasonable to contend that such research and policy engagement has a relatively low input cost, but the potential returns on investment are very large, and so a good focus for marginal funding from philanthropic and other funders (at least for further "proof of concept" testing).

However, research and policy engagement on corruption and political risks in specific public procurement processes is clearly sensitive. Individuals and organisations pursuing it risk personal or institutional sanction, harassment, even violence and death. Despite its relatively low input cost, it is therefore potentially "high risk, but high return". Some mitigation is provided by collaboration between international researchers at globally renowned universities and national researchers, but ideally, researchers from any country lead research on the priority political economy problems of their own country.

Proposed Model:

The proposed approach would be to:

- Demonstrate the value of this approach in a few target countries — further proof of concept, demonstrate potential ROI, and indicate pathways to impact.
- Seek out and support researchers and policy actors in those countries to identify domestic priorities and develop applied research and policy initiatives, ideally paired with researchers and policy actors in Oxford and globally, to help develop methods and strategies, help amplify messages, and manage risks.
- Build relationships with and aim to persuade other funders — philanthropic and aid — that there is a clear and proven model to designing, funding, and utilising this type of research and policy engagement. And persuade them to try it.

Political economy of public procurement in a wider context:

The proposed focus on public procurement and growth is part of a broader interest in extending practical, problem–solving, political economy–framed research and policy engagement in major growth and development sectors such as health, education, and climate. This includes, but is by no means limited to, anti-corruption. Experience indicates an unmet, indeed neglected, need to take a more systemic approach that also considers institutional, technical, and technological constraints; public sector management (recruitment, training, motivation, and management); and use of evidence, but with all exposed to a rigorous political economy, as well as more typical technical analysis.

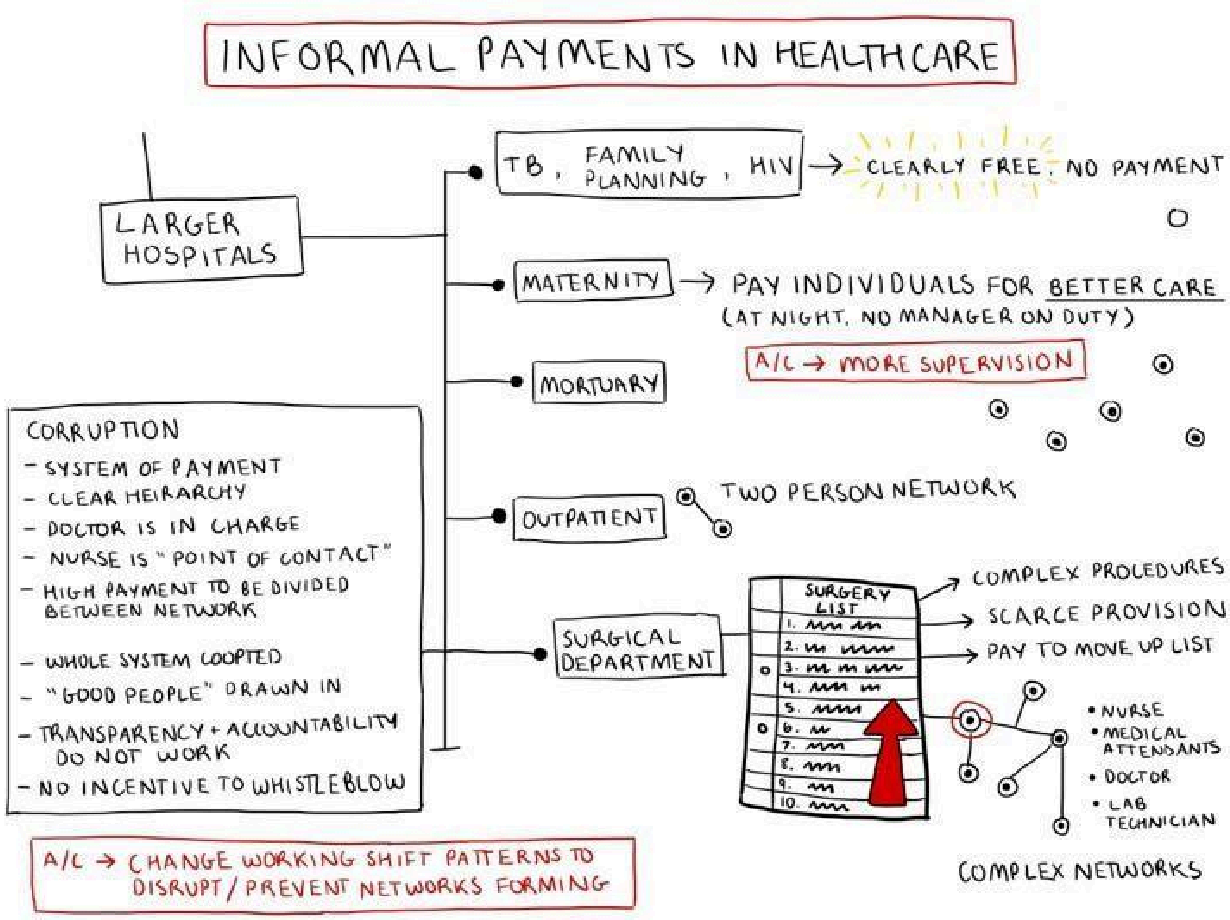
A priority focus for this approach are the enduring major challenges in development such as:

- Health: specific procurement challenges such as drug procurement and logistics, cartels and drug pricing, and the chronic and enduring problem of absenteeism in health services;
- Education: corruption systems, including political capture of access to teacher training, posting, and promotion; ghost teachers and abuse of payroll; absenteeism; impunity for school governance failures that may extend to impunity for violence and sexual violence against women and children and systemic undermining of accountability systems;
- Climate: policy capture in climate adaptation including contractors driving a preference for "concrete over ecosystems" — regardless of the evidence; how to square the reality of the electoral cycle with the inherent "long-termism" required for climate adaptation.

There is also a persistent failure of development specialists — such as those in growth and health — to find, understand, and use political economy–framed research and policy advice, such that repeated investments in specific sectors and contexts replicate the same technical approaches that have underdelivered or failed in the past. *Gambling on Development* has provided a major new platform for making this thinking accessible to the development mainstream, though this needs to be sustained and amplified, particularly in more settings and sectors.

There is a clear "access gap" to fill, both by better compiling, curating, and summarising existing political economy research by sector and setting, ideally on a suitable public access platform, and actively promoting its use, including by targeting major investors by country and sector (e.g., Malawi health). This could also be used to identify and highlight research and policy gaps, and ideally motivate and support researchers and policy actors from those countries to develop; secure funds; and deliver new research, analysis, and policy engagement. "Normalising" such approaches could also help to reduce political sensitivity and risk.

There is also a need to better communicate how the politics of such "sector systems" operate and affect development investments, whether by governments, IFIs, aid donors, or philanthropists. There is nascent work by U4 on this in education and health aimed at using system diagrams (summarising research) to explain political corruption systems to bilateral donors and their partners. Reactions from workshops in Helsinki, Ottawa, Vienna, and Dhaka have been positive, with requests for further development.



Based on
https://ace.soas.ac.uk/publication/networks-incentives-and-informal-payments-in-the-tanzanian-health-system-a-qualitative-study/

3. Foster coalitions for growth within countries

3a. Globalization v2: evidence, narrative, and consensus.

I. ***What is the specific problem statement and how does it link to the problem of the political economy of low growth in certain poor countries?***

Of all the factors that tend to be associated with success in growth across the world in the last half-century or so, export orientation has long been found to have a strong correlation. In particular, countries that manage to break into exporting in some form of processed goods are typically found to be faster growers.[20] The standard arguments are overcoming foreign exchange constraints, the opportunity to exploit economies of scale due to the elastic demand curve faced, as well as learning to compete in the world, with productivity effects offering externalities to the broader economy.

I would suggest a further political economy channel: export orientation creates an elite group with a vested interest in keeping the exchange rate competitive — at the market rate or undervalued — and a domestic economy stable in terms of inflationary pressures. All this requires careful macroeconomic management, locking in reasonable policies, and implementing corrections when required. It also means that rent-seeking behaviour and rent capture by those connected will hardly work, as this would impose further costs. In short, export orientation tends to offer some lock-in of a commitment to reasonable economic behaviour on the part of governments.

Countries in East and Southeast Asia, and later also Bangladesh and others went this route, including locking in reasonable macroeconomic policies with well-known results. The challenge is that there has been a backlash against export orientation, which has been seen as part of "globalization" that created many of the ills of our time. The narratives could have been considered more relevant in richer countries such as the US and Europe, where rising inequality and stagnant real wages were attributed to the rise of China and then offshoring in general. There is some evidence for that, but definitely not in an unqualified way. COVID further encourages onshoring again, linked to the insecurity of value chains.

The costs cannot be underestimated. Sri Lanka's debt crisis can be directly linked to the emergence of (populist) inward-looking policies after 2010, with a strong focus on import substitution and non-tradables that have led to ever-growing trade and BOP deficits. Ethiopia's emerging debt crisis before the conflict was importantly linked to a failure to get exports going to the extent required (even though this was not intentional, as in Sri Lanka). Nigeria dropped any pretence for a focus on exports beyond raw oil, and moved in the last decade or so ever further into a systematic overvaluation of exchange rate and growing protectionism with massive rent capture. Across many other African countries, the inability to encourage firms — especially FDI — to nestle on their shores

[20] This is not the place for an evidence review, but it is a common finding in the correlational studies using cross-country growth regressions by authors from Sachs and Warner, Balassa, Dollar and Pritchett but also the review by the Growth Commission (2008). Note it is not the same as trade liberalisation.

has created much of their current vulnerability, with recurring politically attractive (but economically nonsensical) narratives of self-sufficiency, import substitution, and withdrawal from the world economy, combined with unrealistic (due to scale economies) commitments to process "all" their own natural resources.

Of course, this lack of export orientation has been noticed before. For some, this has been interpreted as a failure of firms to be competitive — and the need to "structurally transform" economies into industrialisation through "industrial policy". This may be part of it, but it suggests that countries in their overall policymaking are committed to making a success of exporting, and all that is missing is a "technical" fix of supporting firms in the right way.

My argument is that this is not quite the right diagnosis: countries' policymakers (and the underlying elite bargain) are not sufficiently committed to trying to make it work at all costs — there is none of the zeal across all levels of government and private sector as was observed, say, in Shenzhen's special economic zone in the 1980s or in the Bangladeshi garment industry in the 1990s tends to be observed in African countries when they talk about industrialisation. Sri Lanka did not need "industrial policy"; it needed a serious commitment by the political class to find the next stage in its export orientation rather than turning inwards and focusing on capturing rents.

The argument by Pritchett (2018) is relevant here, and not misplaced: he argued that relatively small investments in India in the 1980s in a think tank that focused on the benefits of trade liberalisation kept the narrative around these benefits alive amongst senior bureaucrats and spread them to politicians, leading in the end (since the liberalisation of 1991) to massive returns in terms of growth. It was the socialisation of the benefits of trade, through the creation of the narrative around it, that was crucial here, not some specific returns to some research by the think tank.

II. What could be done now to resolve the problem?

There is a need to rebuild a narrative of outward orientation fit for the current global circumstances. I call this globalization v2, given that the external environment, the kind of countries that ought to be targeted, the sectors that may make it possible, and more all are very different.

It will require three levels to have a good shot at impact:

- <u>A careful assessment of what is possible</u>. For India in the 1980s, a realistic goal was trying to get some of the "East Asian Miracle" export boom in a benign global environment for trade. Globalization v2 will not look like this. For example, geopolitics is different, technology is changing, global value chains require more security and resilience, the required actions to mitigate climate change will constrain choices, and more. This would probably require global, large-scale thinking (and not simply Rodrik's premature deindustrialisation pessimism, but also not simply alternative optimism bias towards some industrial policy fixing all).

- <u>Work from day 1 with a focus on specific countries and see what is possible and can be done.</u> This would mean a number of countries where the returns to outward orientation could be high — examples would be Sri Lanka, Ghana, South Africa, and Ethiopia — plus some attention to those where it would be essential but all is stuck now (Nigeria springs to mind). What needs to be done here is not "research" (although probably some is required) but more work on what a local (evidence-consistent) narrative could look like that focuses on outward orientation, and a transparent assessment of who would benefit (beyond the economy as a whole), and who would be allies (and enemies) of such an approach.
- <u>Within these countries and globally, an explicit strategy for influencing and building a strong coalition (local and global) on the benefits of focus on tradables and outward orientation</u>. In other words, forge within existing or emerging elite bargains a stronger commitment to export-oriented growth. This is not simply "putting out the evidence" beloved by academics or "advocacy" around some narrative beloved by think tanks, but genuine involvement in building the coalition amongst those that have the power and influence to change this (and show how they could benefit from this change so they will want to engage on it).

III. Who could take this type of work forward?

In principle, some of this could be done by, e.g., the Centre for Global Development, but their model needs to go beyond influencing G7 governments. It would require such organisations to think more creatively about how consensus around ideas can be built globally as well as locally.

Work should also be done locally with carefully selected local think tanks that share the same mission. An example of a possible partner would be in Sri Lanka's Verité.

IV. What would success of an early investment into this look like?

Increasing efforts to boost export-orientation in selected countries.

3b. Quality economic research and advisory capacity building and support within selected countries.

I. What is the specific problem statement and how does it link to the problem of the political economy of low growth in certain poor countries?

In every country with poor economic performance there are groups of people with economic expertise, connected to the “elite” in politics, business, and public administration who are genuinely committed to growth and development. In countries with elite bargains broadly consistent with development, they provide advice and tend to be highly influential in keeping growth on track. The role of the Berkeley boys in Suharto’s Indonesia in the 1980s is an example; in Ghana, Ethiopia, or Tanzania in the first decade or so of the 21st century, individuals can be identified who played such key roles.[21] Moreover, across sub-Saharan Africa, the improved capability of many of the central bank governors is credited with laying the foundation (not always built upon) for higher growth in several countries. The importance of having such people in place, trusted by those committed to growth and development and with the skills, experience, and support to fulfil these tasks, cannot be underestimated, not least during the early days of choices made towards economic growth.

In countries without an elite bargain for growth, there remain “elite” groups committed to doing the best they can, and looking for ways to strengthen coalitions for growth. They rely on capable individuals who can help to chart out economic paths consistent with local political economy and other constraints, and they try to advocate or influence for the better, sometimes more successfully and sometimes less so. However, even if the right capable individuals are still present, for example working in think tanks or universities, they tend to be marginalised. Often, they get disheartened and end up not working in their own countries, but in second-rate foreign universities or international organisations. Or they focus on countries beyond their own. Nevertheless, they are essential to when reversals and windows of opportunity for a changing political economy of growth emerge. Indeed, they are key for building development bargains as coalitions for growth.

The problem is that such people are rare to start with in many countries, not least the poorer ones. For example, think tanks in countries across the African continent are full of people too poorly trained (or with poor judgement) to give quality advice. Those advisers committed to growth within governments often have too little influence and few opportunities to strengthen their operating skills, beyond training offered by donors within their own agendas. Academics in universities cannot spend their time keeping their skill set up to date or learning from other countries; they’re often forced to make a living writing endless irrelevant consultancy reports for aid agencies. As a result, the best individuals seek their future outside the country, never to return, while the average

[21] In a piece called “In praise of African Bureaucrats” some of these individuals and their role in stabilising and progressing their economies were discussed in more detail. (African Arguments, 2022).

locally trained economists are too poorly trained to improve the stock of advice. This reinforces a downward capability spiral.

Classic scholarship programmes cannot reverse this; even they impose “rules” that students need to return: the global labour market for highly skilled labour is highly flexible, and it would be unfair to deny opportunities for individual progress. Meanwhile, classic capacity building misses a clear understanding of the political economy of growth and reform. It focuses on communications or advocacy, but often not on economic or political economy content, let alone on effectiveness.

The problem to be resolved is then:

How to ensure that the economic advisory quality is high, especially in universities that perform academic training, in think tanks that play their advocacy and advisory role, and across government advisors that need to get their political masters to act within their highly politicised environments.

But also, how to do this in a way to overcome the selection problem that the best will get training overseas but will never return, such that local economic advice is weaker than it could be, and how to do this without trying to enforce unenforceable return requirements?

II. What could be done now to resolve the problem?

We propose a modular but still integrated model targeting a number of specific countries’ governments, think tanks, and universities in sub-Saharan Africa. We would work with existing and new collaborations, including through the networks of Oxford’s Centre for the Study of African Economies. All efforts aim to be complementary to other more common approaches, such as technical training in all aspects of economics offered through standard academic programmes and training courses.

(a) Embed stronger collaborative research capability in sub-Saharan Africa

The model here is to excite, coach, train, motivate, embed and mentor a group of young economists based at African universities, helping the most talented to get opportunities for more advanced study but with active encouragement to come back. We propose to do this with a small number of universities (the University of Ghana in Accra, Ghana and Makerere University in Kampala, Uganda have already shown interest).

- “Excite”: We would run a “**pre-doc” scheme** in which young, smart graduates with an interest in progressing in the field would work largely remotely in their countries, paid at decent rates as RAs on projects, to gain experience and excitement about research on their context. It can be seen as a form of apprenticeship. The target group would be the best locally trained graduates or those returned after standard one-year programmes overseas.
- “Coach”: We would help them with how to approach further research training applications (including references). Depending on their existence, we would fund

students to take local master's programmes to gain stronger coursework experience too.

- "Train": a number of competitive **master's/PhD scholarships** at quality places (such as Oxford, but not exclusively) would be made available.
- "Motivate": a scheme by which continuous contact is kept with the group of advanced students to ensure they find research opportunities in their own context (including fieldwork with opportunities for research papers, with a strong focus on growth or macroeconomic policies, and issues of direct relevance to it).
- "Embed": work with the partner universities to create appropriate but **attractive posts for those who want to return after their PhD**. Here some substantial innovation is being proposed to make these posts attractive:
    - Posts that come with teaching buyouts (as usually they get too quickly burdened with vast teaching loads) in first few years of position;
    - Guaranteed three terms of paid visiting fellowships at Oxford during first three years of the position (paid beyond costs);
    - A significant personal research fund.
- "Mentor": researchers in top universities mentor (and champion) those who returned to their universities, helping them to navigate publications, comment on their work, support them to present at international conferences, and basically support them to be successful and confident researchers.

The intention is not to lock the best African graduates in programmes that make them return. In fact, consistent with evidence on migration, there is a likelihood that such programmes expand the overall supply even if some are offered posts overseas.[22] Furthermore, also seen from top universities, there is a benefit from having more diversity in their appointments. In economics, including development economics, the supply of competitive candidates for positions is still limited.

However, it is hoped that these deeper links set the standards for stronger incentives to also increase the supply of quality economists involved in African countries. The intention is to use a less "extractive" model (based on taking research or people out) and instead invest in the key individuals who need to build the research capability in their own countries.

To put this into practice, the Centre for the Study of African Economies could coordinate this model. We would aim to link up with roughly five African universities to start with. One way of locking in the collaboration would be to host the Centre for the Study of African Economies yearly conference (the largest and most inclusive of African economic academic conferences) at this university, or at least an offshoot conference (CSAE runs a pre-conference already in Africa at which Oxford and local faculty comment on the presentations of a group of approximately 30 papers already selected for the main conference in order to give more in-depth feedback and mentor them to get most out of the conference).

[22] See e.g., Abarcar, Paolo, and Caroline Theoharides. "Medical worker migration and origin-country human capital: Evidence from US visa policy". *Review of Economics and Statistics* (2021): 1-46; Shrestha, S.A., 2017. No man left behind: Effects of emigration prospects on educational and labour outcomes of non-migrants. *The Economic Journal*, *127*(600), pp.495-521.

Note that the research involved in this part of the programme should *not* primarily be policy-oriented. Most capability support programmes try to push for policy-relevant work. However, this is not the right way to go about it. We want to have strong applied economic capability, but allow those coming back to focus also on being academics. While more directly relevant research matters, the aim here is (a) to make sure the smartest individuals have a possible career path at home, also leading to higher quality teaching of future economists, and (b) to have homegrown research capability that is respected internally and externally. Essentially, support a local group of respected, experienced academics that, based on evidence, can speak truth to power.

(b) Foster higher quality economic advisory work, directly and including by think tanks.

This is separate from the above, and the aim here is to strengthen particular individuals in key influential positions outside government. The target group would be experienced tenured academics as well as some working in think tanks, or more informally key "reformers" that are keen on a growth-focused elite bargain.

The aim is to ensure that pragmatic and higher-quality economic advice is offered to those in key positions that could influence the strengthening or emergence of a growth-focused elite bargain. The focus is less on advocacy and definitely not ideology. This is less about academic purity or "the first best" advice, but politically informed, evidence-based advice on which politically connected individuals or groups could act for good for growth.

The current concern is that much of local (as well as non-local) economic advice is weak, not evidence-based, often driven by the agendas of outside funders, and if better founded on research, insufficiently pragmatic and context-relevant.

This is hard, and earlier initiatives (such as the large-scale Think Tank Initiative funded by the Hewlett Foundation, IDRC, UK DFID, and a number of other organisations) found it hard to embed better quality.[23] After ten years, they concluded that the better think tanks became better and the weak think tanks did not improve, but much of this assessment was a judgement on overall organisational capability and not content. Relatedly, much of the effort went into managerial and organisational strengthening. In short, they used an institution-building approach. This may be appropriate, but our suggestion is to be more modest, build individual capability, and focus on the strength-in-depth of some of the individuals combined. This approach to identifying new talent would help ensure that the quality of the most influential advisors improves.

We propose to work at two levels: first, in-depth with a relatively small group, and second, by offering broader opportunities to others as a means of identifying future talent to foster. They are discussed in reverse order. Note that all this will have to be "pro bono" and cannot lead to another outfit doing research-chasing contracts.

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[23] An evaluation report of this programme is available. Phase 1 was evaluated by ODI (2013); Phase 2 was evaluated by Christoplos, I. et al (2019).

(i) Yearly conference of policy-relevant research and advice

The key here is to create a peer network of policy research and advice from key countries, with a focus on the quality of content given context. This group could then be used to select some of those who could be worked with more intensively.

One model could be a yearly event using a model similar to the yearly CSAE conference: competitive submission process of standardised outputs, multiple parallel sessions, etc. This would be complemented by discussion sessions, training workshops and masterclasses, with a number of prizes for the best contributions. The submissions should be of a fixed format: a short description of the policy problem, relevant evidence review, propositions on how to resolve the issue, and discussion of the feasibility of implementation. Other models are possible, but the key is to create a broad peer network within which we can then identify a specific group to work with in more depth. It could be incentivized by a competition or prizes for the most impactful contributions.

(ii) A policy research and advisory network focused on quality economic advice

This work would focus on a group of experienced African researchers and policy advisors who are offered backroom services, focusing on quality improvement of the advice (both focusing on evidence as well as context-relevant implementation experience). A partnership model with some key "think tanks" based in universities[24] in these countries would be the core (e.g., ISER at the University of Ghana, EPRC at Makerere University, etc.). It would be supplemented by talented others to be selected through (i).

The model proposed would be to set up a small backroom function around a number of growth-related issues. The model that could be used would be similar to "Cities that Work" (originally funded by the International Growth Centre at BSG, Oxford).[25]x This involved a group that created accessible evidence reviews and propositional options papers on key issues related to urbanisation (with intellectual support by Ed Glaeser, Tony Venables, Paul Collier, and Vernon Henderson), while working with local teams working on urbanisation issues in particular countries.

A further step is proposed to make this work.

(iii) A "policy lab" to incubate ideas and offer advice

Local policy researchers often find it difficult to gain access to policymakers. Senior politicians and public servants tend to prefer to engage with "brands" of international researchers, think tanks, and universities. It means the latter tend to have far more access, which hinders the emergence of stronger and more influential local capability.

[24] There are few reasons for that. First, it is likely that they will be more evidence-informed. Second, as "think tanks" can be effective vehicles for "policy entrepreneurs" – those who make it a business to advise, irrespective of quality, think tanks or individuals linked to universities seem preferable. However, other criteria will have to be their abilty to be an effective advisor, independent but pragmatic, politically knowledgeable and respected, but not particularly in the pocket of particular parties in power or in opposition.

[25] https://www.theigc.org/initiatives/cities-work.

It is therefore proposed that all the activities above are embedded in a “policy lab” that also gives direct advice and support to governments in key countries on core economic matters in terms of policy and implementation. This should be “pro bono” and not linked to contracts, especially not from international organisations or donor agencies (“no strings attached”). For credibility, this is best linked to a research function as well (but this is not part of this particular proposal).

The advisory model would be that e.g., “Oxford” (or another institution) responds to requests and provides high-level advice, but in the process “opens the door” and tries to involve some of those identified in (ii) for follow-up with the group at “Oxford”, providing quality control in terms of the evidence for the advice. This would be similar to the “Cities that Work” idea.

(c) Strengthen capability of emerging policy peer networks in SSA

The final part of this capability-strengthening proposal envisages working directly with senior policymakers in Africa. The model is not specific advisory work, but the strengthening and supporting of existing peer networks of senior policymakers with the explicit purpose of enhancing the quality of their growth-focused policy advice and decisions.

Working with peer networks has distinct advantages, as those in them tend to be in a more equal position, learning from others’ experiences rather than a top-down advisory relationship (which they tend to have with, e.g., the World Bank and IMF).

We propose to work with two existing networks:

- A peer network of **central bank governors** (CBGs’ network) in Africa, originally curated by Paul Collier and Chris Adam at Oxford. Governors convene each year in Oxford in June, after the meetings of the Bank for International Settlements in Basel, to discuss macrocritical issues on which they have decision-making powers in their countries.
- A peer network of **chief economic advisors of government** in Africa (CEoG network), of which Stefan Dercon is a founding resource person (initially in conjunction with the World Bank). This network brings together the presidential or prime ministerial advisors on economic matters, who are by their nature more politically linked than the central bank governors, and crucial in setting the strategic directions of countries beyond the macroeconomic stability mandate of central banks.

Both networks have been successful. The CBG network has existed for almost two decades, and continues to be a key — and discreet — meeting point for governors. CEoG started just before COVID but led to an intensive online (WhatsApp) network of sharing experiences during COVID, as well as a joint (and sensible) position for Africa in negotiations at the World Bank. In both cases, an unusual and careful approach is taken with these groups: they exist for the benefit and at the demand of participants. Attempts are deliberately not made to “sell” them the latest policy idea or thinking. Instead, it is a space to be used as participants determine.

Each of them has been asking for (non-IMF and non-WB) independent support from Oxford on core issues, such as macroeconomic stabilisation, debt, industrial policy, and more. They have also asked for opportunities for general and targeted advanced training for their own core staff in macroeconomics, growth, and finance issues. Responding to these requests would have a helpful influence on politically well-connected people (mostly) keen on better growth-oriented policies but cognizant of their context. As was highlighted in the introduction, experience in countries that succeeded in take-off showed the central role of these types of individuals.

The proposal here would be to create an independent backroom function (building on what was identified under [b], including the policy lab [iii]), providing evidence reviews, second opinions and feedback on policy plans, and ideas for growth-focused policies that are largely demand-driven, but have a clear focus on growth enhancement. We would also offer masterclasses and other support for the seniors or their own advisory teams.

Some of this would be offered to the whole network, but we would aim to target again a small number of key countries where the return is judged to be highest, e.g., where a window of opportunity exists due to emerging or favourable political and broader elite interest in growth.

III. Who could take this type of work forward?

The set of ideas could be taken on by Oxford's Centre for the Study of African Economies, with this type of work to be based at the Blavatnik School of Government.

Key people there have extensive experience in research in and on Africa, and some of them are among the best-connected individuals on research and policy advice in Africa.

The Blavatnik School has received in the last 12 months requests for aspects of this work from Uganda (both from Government as from the University of Makerere), Nigeria (via a well-connected private foundation), Ethiopia (Government and the University of Addis Ababa) and Ghana (the University of Ghana). The governments of Tanzania and Madagascar have also issued requests for support.

Local collaborations will be key, possibly requiring presence on the ground in many countries, beyond partner institutions. It would be possible to foster local-level collaborations with other broadly like-minded groups that have a base in countries, such as for example the International Growth Centre at LSE. Nevertheless, while IGC has shown strong involvement in research on the continent and some policy advice, it has thus far explicitly not been interested in capacity building. To avoid unnecessary duplication and create economies, we could build on some of their local capacity in key countries. The investment needed would involve setting up a small, dedicated cadre at

Oxford to take all work forward, plus substantial funding to embed the work on the ground and in Oxford. It would need at least a five-year commitment or suitable people could not be attracted. Initial work could focus on three or four countries, with local universities, on top of the work with the networks identified (networks of policy researchers outside government [b] plus those inside government in [c]). $5–8m over six years would seem the minimal order of magnitude. Full costs of each area could be provided.

IV. What would success of an early investment into this look like?

All this would be an innovative, more involved and better locally owned model of engagement by northern institutions in particular countries. Early success would involve:

- Academic: a substantial number of high-quality young academics in local universities that were fostered to work on and in their own countries with joint links supported from outside;
- Advisory network: a number of high-quality evidence-based pieces of work by local advisors across a number of countries that can be shown to have been influential on growth-related issues;
- A stronger peer network of key officials in government that have strengthened the growth focus of policymaking through better advice on key policy areas for growth.

Appendix A3: Precedents and cost-benefit analysis.

To be able to assess the size of the growth effect of any of these investments, endless heroic assumptions have to be made. Recall that we use a multiple political economy equilibria framework: changing incentives and/or inducing new dominant coalitions that make a choice for growth and development. Modelling a switching point between equilibria is of course hard, as many investments may have zero or negative returns until the "push" (or "pull") towards a new equilibrium dominates.

(1) Incentives for growth: increasing upside and reducing risks

a. ***1a - Reduce risks of growth gambles through financial instrument innovation*** *such as state-contingent debt, LMIC debt-based safe asset, and development insurers.*

Precedents?

Arguably the most important precedent is the emergence of global crisis finance via the IMF, as a banker of the last resort during a crisis.

A more specific recent set of instruments that is funded by donors and members is the CCRIF: the Caribbean Catastrophe Risk Insurance Facility.

Several donors are involved, e.g., the EU has given $49m grant support since 2007. It is (parametric) insurance but it is a relevant comparator: during a crisis it pays out fast liquidity, as it uses predefined parametric triggers (as proposed for all state-contingent debt instruments). Since 2007, it has made 59 payouts totalling $261.4 million, crucially within 14 days of a crisis. The EU grant is used to reduce the premium for selected member countries.

To get at the benefits of this financing, the extra quick finance of course helps with recovery of assets and assistance to people, but crucially it neither increases debt nor forces government budgets to be reallocated from other critical spending and investment. It also may mean that debt sustainability and credit ratings would not be as badly affected by the disaster. Given current flows of CCRIF, these additional effects will be minimal, but they could still helpfully signal a commitment to fiscal prudence during crisis. It is the opportunity cost and its externalities that are most relevant for cost-benefit analysis.

Cost-benefit analysis of the proposed instruments?

The way to think about it is that, say, a natural disaster or pandemic clause, even though it is NPV-neutral, will offer at the very moment of the clause kicking in extra liquidity as debt (interest and/or principal) that does not have to be repaid at that moment. The benefit of that extra liquidity during a crisis is likely to be higher than the cost of that liquidity when having to repay later.

That extra liquidity from not having to repay debt at a crisis moment means no costly reallocation from other investments (such as growth-oriented infrastructure) to raise liquidity, a less-deep macroeconomic shock from the disaster, less liquidity stress adding to debt sustainability pressures, and indeed, less risk of political destabilising a growth-focused political economy. The importance of temporary liquidity relief in times of crisis was explicitly recognised by the G20 Debt Service Suspension Initiative which, in response to COVID, provided 48 countries with an NPV-neutral, time-bound suspension of $12.9 billion in debt-service payments owed to official bilateral creditors. The DSSI helped countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. The benefit of debt pause clauses means this sort of liquidity relief can be built into debt contracts and is thus automatic, instead of relying on ad-hoc initiatives that are formulated after the shock like the DSSI. Every day counts for the poorest and most vulnerable when responding to disasters. The advantage over insurance is that insurance tends to be quite expensive and politically harder to handle (spending on preparedness is politically invisible).

How to handle the CBA?

Some useful sources:

Cavallo, Eduardo, Sebastian Galiani, Ilan Noy, and Juan Pantano. “Catastrophic Natural Disasters and Economic Growth”. *The Review of Economics and Statistics* 95, no. 5 (2013): 1549–61.

Gives a good discussion of the growth effects if a natural disaster remains “uninsured”. Note the comment that the main channel of long-term growth effects tends to be political, with the cases of Nicaragua and Iran mentioned. It is consistent with the view that downside risks make existing elite bargains often unstable — and in these two cases triggered long-term stagnant and non-growth-oriented elite bargains (even though the counterfactual in both cases was not quite growth-oriented either).

Eduardo Borensztein, Eduardo Cavallo, Olivier Jeanne, 2017, *The welfare gains from macro-insurance against natural disasters,* Journal of Development Economics, Volume 124, 2017, Pages 142–156.

A good discussion of the gains, and the circumstances in which these gains are substantial from insurance. Note the debt sustainability result they refer to.

Alessandro Cantelmo, Giovanni Melina, Chris Papageorgiou,
Macroeconomic outcomes in disaster-prone countries, Journal of Development Economics, Volume 161, 2023.

“Relative to non-disaster-prone countries, on average, disasters cause a welfare loss equivalent to a permanent fall in consumption of 5.3%”.

(2) Make “bad” alternatives to a growth-focused political economy more costly

a. ***2a - Bringing illicit finance more in the open*** *to interrupt rent-seeking politics funded through it.*

Precedents?

It is worth remembering that what is being proposed for the illicit flow lab and in general for the work on illicit finance is not quite “just” another investment in exposing illicit finance, but arguably more targeted on specific source countries. Furthermore, the proposed work will try to combine more usual investigative approaches with research to identify the impact of different policy approaches on illicit behaviour. The former has some successful precedents.

Investigative approach

- *Impact of highlighting illicit activity: The Sentry* analysed documents from a state-captured bank in the DRC, illustrating examples of money laundering through real estate and Chinese bribes being routed to Kabila-connected entities, leading to the US Financial Intelligence Unit “FINCEN” to pressure the bank into adopting better AML standards under threat of sanctions.
- *Impact of releasing new information to authorities:* the ICIJ’s reporting on the Panama Papers led to at least $1.36 billion in tax revenue to be recouped around the world (the organisation has an annual budget of around $6m, although this does not include its partner newspapers). This is in addition to the large number of corruption investigations that resulted from the reporting around the leak. Not all of this was driven by reporting, as several authorities bought the dataset for their own use, but the use of the data would have been less likely without media attention.
- *How combining data science with investigative work can have a significant impact:* on top of its own investigative work, the Center for Advanced Studies (C4ADS), a DC-based think tank, builds data products that enhance the ability of the financial sector, investigative journalists, and nonprofits to connect the dots on illicit networks. C4ADS claims they’ve disrupted close to $500m in illicit proceeds, which amounts to around $50 for every $1 of funding.

International pressure:

There is evidence that international/economic bloc pressure can lead to policy change on the ground:

- Morse (2019) indicates that FATF greylisting does nudge countries to adopt new policies;
- Collin (2023) shows that EU greylisting can have modest effects on state behaviour. It also shows that current greylisting does not target some of the key

countries where the losses from predatory action with state support may be the largest.

Principles for CBA

Most existing data, such as those collated by ICIJ or C4ADS, provide a good starting point for a CBA. Budgets are available and the likely returned tax revenue and stopped illicit proceeds are vast relative to sums invested.

The impact on the underlying political economy — with more focus on a growth-focused commitment within the elite bargain — is much harder to quantify. The link between illicit finance and kleptocracies is typically more researched as a policy issue, with limited quantification. For example, see this submission in the context of a public enquiry into illicit finance by the UK parliament.

(2) Make “bad” alternatives to a growth-focused political economy more costly

b. 2b - Bring down the costs of responding to illicit finance through ***stronger asset recovery incentives.***

Precedents?

This work is the other side of the illicit finance work mentioned above. It refers to asset recovery as a key issue in enforcing illicit finance detection.

As was discussed earlier, some research on illicit finance can lead to situations (such as leaks) as well as public action (such as through greylisting or legal threats) to be enough of a deterrent.

However, a much more real threat is likely to be asset loss, and for that asset recovery enforcement should be a genuine threat. One identified investment focused on enforcement:

The UK Action Against Corruption Program (UKACT) supported **national law enforcement** efforts to seize illicit assets linked to foreign corruption and tackle foreign bribery. With a budget of around £39m from 2006–2020, over £175m worth of stolen assets were seized or returned during the same period.

The programme aims to leverage any investment to provide incentives for private investment into asset recovery, creating the space for larger scale.

Principles of the CBA

The UKACT programme provides a social return linked to the return of stolen assets to countries, but is paid for by the UK taxpayers, without a return to the taxpayers beyond reputational and other externalities (e.g., for the UK as an unsafe place for illicit finance). This may indirectly increase tax receipts but this is highly uncertain.

This feature will mean that such programmes are unlikely to scale; the willingness of UK taxpayers to pay for or invest in such programmes is likely to be limited.

The proposed programme will create incentives for a private return to asset recovery activities (a commission). So while the social return will be higher than the private return, there will be a private return too, making the scope for a viable self-sustaining business model at scale.

(2) Make “bad” alternatives to a growth-focused political economy more costly

*c. **2c - Political-economy informed work on pushing for improved procurement systems for infrastructure and other sectors**.*

Precedents?

FCDO (when the relevant team was led by Peter Evans) funded a series of programmes that involved systematically, or in the case of the J-PAL work, selectively, which was an approach broadly consistent with the proposal.

- Anti-Corruption Evidence (ACE) programme (£32 million over four phases from 2014, just replenished to 2027);
- J-PAL/IPA Governance, Crime, and Conflict Initiative - extending impact evaluation into new frontiers (£15 million ongoing since 2015–present)

It will be worthwhile to explore their evidence base and investigate whether any of the initiatives or findings should be used as part of a scale-up or new investments specifically focusing on improved procurement systems.

One possible example to build on for “success” is the Bangladesh programme on vocational training or a Bangladesh power sector study as part of ACE.

Bangladesh skills sector: The perceived wisdom of research on vocational training suggests that payment-by-results, based on payment on actual job placement, makes sense for such programmes. However, SOAS ACE has researched large-scale fraud in the performance-based payment system for skills programmes. Training providers are paid i) when trainees are registered, ii) when they complete a course, and iii) when trainees are placed in work, with fraud happening mostly at the last stage. Research demonstrates that otherwise effective training providers engage in fraud because many manufacturers are unable to effectively utilise skilled trainees, preferring cheaper unskilled ones. This blocks the last payment to training providers and induces fraud.

The subsequent advice suggested that to avoid fraud, incentives of the firms receiving apprentices had to be aligned, and contracts involving loans or subsidies to improve firm capacity to absorb new skills with complementary investments in skills would have a profound impact on fraud reduction and achieve significant productivity and employment growth in a sector in which donor investments in Bangladesh exceed $1 billion, with demonstration effects globally. The SOAS ACE research input cost is less than £130,000.

Bangladesh power research: Collusive contracting with private power plants in Bangladesh has resulted in high power prices that cost taxpayers around $1 billion in subsidies. The main driver of collusive contracting is the unwillingness of politically unconnected firms to engage in a high-risk environment. To attract investment, the government has adopted a targeted risk absorption strategy that negotiates mark-ups with interested firms. We argue that this strategy cannot discover the minimum markup that would induce investment. Moreover, because only politically connected investors are likely to be bidding and negotiating, this approach encourages investors to set high mark-ups. An alternative strategy is competitive risk mitigation that provides contestable subsidies from development finance institutions (DFIs), such as preferential finance and partial risk guarantees. Contestable subsidies work by reducing risks of unconnected investors, encouraging their participation to make collusion more difficult, and constraining mark-ups. To test our hypothesis, we collect a dataset on plant-level DFI support and prices from 58 private power plants in Bangladesh from 2004 to 2017. Our empirical analysis finds that financing instruments with contestable subsidies from DFIs are associated with a 26% reduction in plant-level prices, controlling for plant capacity, size, and fuel type. The research (costing around £200,000) identifies a feasible policy intervention based on competitive risk reduction that can reduce overpricing in the procurement of private power plants that cost billions of dollars every year in a relatively small economy like Bangladesh.

Cost-benefit analysis of the proposed instruments?

Some of the data can be found in https://iati.fcdo.gov.uk/iati_documents/53737697.odt

The references in the World Bank review paper on payment by results programmes in vocational training could also be used to be combined with the ACE data for a CBA.

The case study: De-risking private power in Bangladesh: How financing design can stop collusive contracting - ace (soas.ac.uk) may provide useful information and quantification of plausible CBA on the power sector.

(3) Foster coalitions for growth within countries

a. ***3a - Creation of globalization v2 narrative focusing on tradable growth within countries.***

Precedents

The closest parallel to the desired investment and outcome is the one recounted by Lant Pritchett in a discussion on the Ford Foundation's ICRIER investment in India in the early 1980s. While the underlying research paper seems to no longer be available, a blog recounts the approach he took. Key to remember is that in the 1980s, India was still a heavily controlled economy with limited openness, while in the 1990s, India opened up with a first push in 1991 by Finance Minister Manmohan Singh, generally recognised as leading to the fast growth India still knows today.

Cost-benefit analysis of the proposed instruments?

Lant Pritchett argues that $36 million was well spent on a think tank strongly supporting growth narratives through trade liberalisation. He suggested that ex-ante even if there was only a 1% chance of adding 1% to growth, it would have been worth $3.6 billion.

We are talking here about orders of magnitude of success at similar levels (even if the level of success is lower).

Other precedents that may be quantified

One interesting exercise would be to try to assess the return to the long-standing investments by the IMF in the capacity of central banks in Africa. This capacity building has long been an important role of the IMF (even though I cannot find the cost of these investments). There definitely has been a striking and notable change in the quality of central banks in Africa when comparing the 1980s and 1990s to now. It probably could be measured in terms of relative price stability in the 1980s and 1990s (sub-Saharan Africa relative to OECD) compared to 2000–2019 (eve of COVID, after which circumstances were especially difficult to the scale of the economic shock). Translating price stability (inflation and its volatility) into growth is not self-evident, but there are plenty of papers (e.g., Agarwal and Baron, 2023 and papers reviewed in it).

(3) **Foster coalitions for growth within countries**

*b. **3b - Quality economic advisory capacity building and support within selected countries.***

Precedents

There is a similarity to the type of reasoning related to 3a (investment in particular ideas for growth) to this one, with one key difference: here the investment is in the potential advisors and champions of a growth-related agenda.

It may be possible to read the investment in ICRIER in the 1980s by the Ford Foundation differently from how it was described earlier by Lant Pritchett. One could consider that the investment was probably less in the institution than in the specific individuals associated with it.

Many “capacity support” investments (such as the Think Tank Initiative mentioned in the main text) is in institutional development — in practice, the buildings, the admin support structure, the salaries, and the posts — and success is measured all too often by outputs produced and inches of press received. But maybe this is not the right way to interpret what the ICRIER investment was.

It is in fact of interest to unpack ICRIER in another way. One of its key founding members was Manmohan Singh, later the finance minister led the trade liberalisation reforms in 1991. Others included Jagdish Bhagwati, the trade economist at Columbia and ardent supporter of free trade, as well as Montek Singh Ahluwalia, later the top civil servant at the finance ministry in 1991 when the reforms started, and subsequently for a long time the top person at the Planning Commission. His wife, Isher Judge Ahluwalia, became its director later in the 1990s, dominating the institution until 2020. Besides academics and people connected to government institutions, other founding members came from business (e.g., the CEO of a large textile company) or diplomats who had seen firsthand the benefits of free trade (the first CEO of ICRIER was a former diplomat, formerly posted to the European Common Market). In short, the investment in ICRIER was as much an investment in this top group of people — and the ideas they were trying to promote in Indian political and economic circles — as in an institution.

Cost-benefit analysis?

It means that the same cost-benefit analysis could be used to get a sense of the return to an investment as done in ICRIER, but simply reinterpreted as an investment in a group of people with a commitment to a sensible growth-oriented view of the world. Just as the objective of the investment in ICRIER may well have been “to get better ideas for growth via free trade for India”, it may just as well have been framed as “to strengthen a group of potential or actual advisors of government, so they can have a convincing narrative for policy change that can persuade doubters, well underbuilt by the evidence".

In other words, the same cost-benefit analysis could inform the support proposed in 3b, in which now the focus is on trying to produce better economic advisors that could help shift the elite bargains towards growth and help to implement sensibly such renewed commitment to growth — indirectly through, better university education and better think tanks, and directly through better quality groups of advisors.

The same challenges remain:

- The investment needs to be in high-potential people who would be inclined to give careful growth-focused advice, and would be committed to taking up such challenge;
- They may not get the opportunity to give that advice to receptive political and other "elite" groups that can determine the destiny of countries;
- They have to have the potential to handle the trials and tribulations of such settings (i.e., political understanding and skills to handle these);
- Good people will subsequently get offers they cannot refuse from, e.g., the World Bank or the IMF.

It also means that any investment will only have a small chance of success, as defined as genuinely getting these people in a position and with sufficient agency so they can change the economic direction of countries. But success would have very high returns.

In a short note "In praise of African Technocrats", I discussed three examples of such senior advisors. I genuinely think they were worth at least a few tenths of a percent of growth for their countries, if not more.