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Judging the effectiveness of funding according to its purpose: four trade-offs in international development cooperation

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Abstract

The objectives of international development cooperation have undergone profound changes in recent decades. To the traditional goals constituted by the fight against poverty and the development of less developed countries the promotion of global public goods has been added. It is in terms of all of these purposes that this article attempts to assess the effectiveness of this cooperation, subject to four trade-offs: between the development or convergence of economies and the immediate well-being of the poorest; between this development and the preservation of global public goods; between preventive actions and curative actions; between the interests of the countries receiving aid and those of the international community.

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International development cooperation has undergone a number of upheavals in recent decades. On the one hand, it is no longer confined to Official Development Assistance (ODA), which represents only a proportion of public funding for developing countries. Secondly, the objectives of international policy have been extended to many new areas. Its effectiveness should be assessed in the light of all these objectives[1].

The current aims of global financial policy for development can be grouped under three headings. Traditionally, international cooperation for development has pursued two objectives : on the one hand, to provide a minimum of social services necessary for the well-being of everyone (as defined by the *Millennium Development Goals* in 2000*),* and on the other hand, to ensure a relative convergence of the per capita income of developing economies with that of developed countries by financing productive projects. These two objectives, redistributing wealth and promoting economic development, are based on two conceptions of justice, one purely redistributive, aimed at correcting an excessively unequal distribution of income, the other more dynamic, seeking to reduce development handicaps within an evolving vision of the world[2].

The realisation that there are problems common to humanity has given rise to a third objective: promoting global (or regional) public goods. We are witnessing a broadening of the notion of ethics, highlighted by the *Sustainable Development Goals* in 2015. As a public good is by definition non-rival and non-excludable, everyone benefits from it without prejudice to other users, and no one can be banned from using it. A public good becomes global if it concerns all the inhabitants of the planet, even if the benefits are not equal on all continents. The global public good par excellence is the knowledge from which innovation comes out, and it is the one that has been most studied by economists.[3] The list of global public goods is constantly expanding: it now mainly covers the climate, biodiversity, the eradication of communicable diseases, financial stability and world peace.

These three aims of international funding correspond to the ideal aims as they can be formulated philosophically and independently of political considerations. In pursuing these goals, donors are faced with two dilemmas: i) how to ensure that preventive action is not sacrificed in favour of curative action? In particular, there is a strong temptation to favour short-term ex-post actions of immediate impact, such as social actions, at the expense of ex-ante actions projected into the future, such as development investments or those directly aimed at reducing structural economic or political vulnerabilities; ii) how to ensure that the interests of the recipients of the flows are not crowded out by those of the donors? Is there not a risk that the emergence of the issue of global public goods, and in particular concern about global warming, will overshadow concern for the economic growth of poor and vulnerable countries? The geopolitical considerations of international finance have always been present, but they seem to be taking on a new form in the sharp confrontation between representatives of developed and developing countries at international conferences.

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[1] Jean-Michel Severino and Sylviane Guillaumont Jeanneney (2023) "Financing global policies : but why ?" FERDI, Work of the Chair in International Architecture of Development Finance, *Working Paper,* No. 317, March. It benefits from the contributions of many subsequent works by the Chair.

[2] See P. Jacquet and J-D Naudet (2006) "Les fondements de l'aide" in D. Cohen, S. Guillaumont Jeanneney and P. Jacquet *La France et l'aide publique au développement,* Conseil d'analyse économique, La Documentation française, Paris, p.47-96.

[3] C. Hess and E. Ostrom (2007) "Introduction: An Overview of the Knowledge Commons", in *Understanding Knowledge as a Commons: From Theory to Practice*, MIT Press, 2007.

The question of the effectiveness of development aid has been a constant worry of the international community. At the macroeconomic level, the aim has been to assess the impact of aid received on economic growth and poverty reduction[4]. We now need to take an interest in all financial flows of public origin and consider the broadening of their purposes. It is in the light of the four trade-offs facing the international community that we must assess the effectiveness of global finance: trade-offs between the growth of poor countries and the immediate well-being of populations, between development objectives and the promotion of global public goods, between preventive action and curative action, and between the interests of developing countries and those of the international community as a whole.

1. The trade-off between 'development' in low-income countries and the immediate 'well-being' of poor populations

Income inequalities between developed and developing countries are considerable. The ratio of GDP per capita between the ten richest countries and the ten poorest countries, which had risen sharply between 1970 and 1995, then stabilised and from 2005 fell slightly, but in 2020 will still be equal to 150[5]. However, there is a clear tendency in the donor community to favour interventions in the social sectors to the detriment of the productive ones. Between 2000 and 2020, the share of official development assistance commitments devoted directly to production rose from 10% to 12% in both low-income and middle-income countries, while the share devoted to social sectors and emergency aid increased in low-income countries (from 44% to 54%) and remained stable in middle-income countries at the high level of 40%[6]. There are many reasons for this bias against growth.

The adoption of the *Millennium Development Goals (MDGs)* in 2000 reinforced the choice in favour of aid for social or humanitarian purposes. They mean that every individual has the right to a minimum standard of living, and that it is up to the international community to supplement the action of those States that do not have the capacity to guarantee it, which implies long-term transfers. From now on, aid will be called upon to finance not only social investments, but also their recurrent costs. At the same time, the growing fear of pandemics justifies supporting the health systems of poor countries through long-term transfers. The growing number of natural disasters and the international emotion they arouse have led to an increase in emergency humanitarian aid to the detriment of long-term development actions, which are less in the headlines. However, the major cause of the disaffection for productive sectors is undoubtedly the conviction that their growth depends primarily on private companies and that it is not the role of public policy to subsidise them.

[4] For an analysis of this work, see Patrick Guillaumont and Laurent Wagner (2013) "L'efficacité de l'aide- pour réduire la pauvreté: leçons des analyses transversales et influence de la vulnérabilité des pays, *Revue d'économie du développement,* 2013/14 décembre, p. 115-164.
[5] T. Mélonio, J-D Naudet and R. Rioux (2022) "L'aide publique au développement à l'âge des conséquences", AFD *Policy Paper*, October, no. 11, p. 17.
[6] Percentages calculated from : World Bank Group. Development Finance (2021) *A changing landscape: trends in official financial flows and the aid architecture*, p.13.

It has also been argued that the consequences of this trade-off could be considerably lessened because of the fungibility of resources, which leaves a certain freedom of action to the governments of the recipient countries. For this argument to be valid, external funding should not be imposed as a supplement to local expenditure; moreover, the allocation shows the priority given by the partners to certain sectors, which can be contagious and determines the areas in which the transfer of knowledge takes place.

It is true that funding for education or for strengthening national health systems is favourable to development in the long term, but this is not as clear-cut for spending on pure social protection. What's more, people who are better trained and healthier still need to find jobs, which presupposes the development of the productive sector. Without vigorous intervention by the international community in favour of the latter, there is a risk that inequalities in per capita income between developed and developing countries will increase, due in particular to the rapid demographic growth in the latter, especially as they are poorer. The situation in Africa is exemplary. At the end of the century, the African continent will be the most populous and the youngest, while the population of the rest of the planet will enter a phase of decline and ageing.

The relative lack of interest in directly productive projects can also, and perhaps mainly, be explained by the doubts that have arisen about the possibility of rapid development on the African continent, where the demand for growth is greatest. Whereas the successful development of Asian countries was based on exports of goods, services and people (via migration), exploiting the great market potential of industrialised countries, this mode of development is no longer possible. The place taken by Asian economies in manufacturing production, the constraints associated with carbon-based transport, and the relocation of industrial activities in OECD countries made possible by robotisation and digitalisation, are now compromising the chances of a growth strategy based on traditional manufacturing exports. Similarly, the trend towards locally sourced food and the need for sustainable transport will make it more difficult to produce agricultural products for distant export. Constraints on the movement of people will limit further migration.

On the other hand, new and innovative strategies are opening up in Africa.[7] The growth of domestic markets, resulting from demographic growth and the rise of a middle class, will be a driving force behind the continent's development, but this presupposes that the international community is committed to financing small and medium-sized enterprises. These are the companies that can meet local demand and new export opportunities. African countries have vast green geothermal, solar and hydroelectric resources that can be exploited on a decentralised basis. Hydrogen production could flourish in such a context. Carbon neutrality is probably out of reach by 2050 without carbon capture. Yet African countries have a strategic advantage, provided they are properly remunerated for protecting the forest and supported in the creation of craft activities compatible with it. Advances in digitalisation and the demographic imbalance between the continents of Europe, soon to be Asia, and Africa, open up the possibility for African graduates to work remotely in a large number of fields, which

[7] J-M. Severino (2022), "Scoping note : three key directions for African economic policy over the next twenty years", November 2022, in J.M Severino (2023) "Millions for billions: Accelerating African entrepreneurial emergence for accelerated, sustainable and job-rich growth" FERDI, Work of the Chair in International Architecture of Development Finance*, Working Paper* P325, May, p.66.

will include the design of new types of products and services. This means speeding up the construction of a digital infrastructure, seen as a priority in the same way as roads and railways, and building a higher education system of international standard, training as many young people as possible locally to meet the global demand for services via the Internet.

Support for the productive sector comes up against a missing link in the financing of small and medium-sized enterprises, between micro-credit for households or very small businesses and financing from local banks or international organisations, which only manage large amounts of financing with high profitability and limited risk[8]. Start-ups run by promising entrepreneurs with no reputation and no funding of their own are generally not supported by development finance institutions. There are three reasons for this situation i) Public financial institutions feel that aid to the private sector is only justified if there is a genuine opportunity to generate positive externalities. The ability to assess the relevance of subsidies implies accurately measuring the economic and social impact of corporate action, which we are not very good at doing. The predominance of financial return considerations is due to the fact that companies are managed by financiers (rather than economists), who are hardly inclined to measure the social and environmental impact of investments. As a result, a high expected financial return becomes a condition for credit, so that only the banking, telecommunications, oil and mining sectors are financed, which do little to meet local needs. (ii) Large institutions are calibrated to make investments that are too large in relation to the needs of fledgling businesses; the transaction costs of small loans seem excessive. (iii) They do not have staff capable of immersing themselves in poor countries and understanding the complex reality on the ground.

The lack of a risk culture among development finance institutions leads to a sub-optimal geographical orientation of financial flows. Over the entire period 2000-2019, middle-income countries received almost half of ODA commitments and 85% of other flows. Low-income countries received only 30% of ODA commitments, whereas they accounted for 94% of flows received.[9] The Development Finance Institutions certainly have the merit of having demonstrated that it was profitable to invest in emerging countries, but today they are accelerating development in middle-income countries where the entrepreneurial fabric is already substantial, without taking the risk of helping businesses to emerge in low-income countries which have the least.

In no way would giving priority to the productive system be to the detriment of the primary objective of the MDGs and the SDGs, which is to "reduce poverty". China's experience and academic literature have clearly shown that growth is the most effective way of reducing poverty.[10]

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[8] See J.M Severino (2023) " Millions for billions : Accelerating African entrepreneurial emergence for accelerated, sustainable and job-rich growth" FERDI, Work of the Chair in International Architecture of Development Finance, *Working Paper* P325, May.
[9] See World Bank Group Development Finance (2021) *A changing landscape: trends in official financial flows and the aid architecture*, opus cit, p. V.
[10] Among the founding texts: Bruno, M. Ravallion and L. Squire (1996) "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues" The World Bank *Policy Research Paper Series*, n° 1563, B. M. Ravallion (2001) "Growth, Inequality and Poverty: Looking Beyond Averages", *World Development,* vol. 29, n° 11, p.1803-1815. D. Dollar and A. Kraay (2002) "Growth is Good for the Poor", *Journal of Economic Growth,* vol. 7, n° 3, September, p.195-225.

2. The trade-off between "economic development" and "global public goods"

There are many reasons why it is difficult to know how financing for development and financing for global public goods are divided. There is a lack of clarity about the very scope of global public goods and the measurement of the flows dedicated to them. This uncertainty is also due to the fact that there is sometimes complementarity and sometimes competition between the two objectives, which differ according to the nature of the public goods.

Income inequalities between countries are at the root of international migration, the transmission of disease and insecurity throughout the world. The development of poor countries therefore has positive externalities in terms of the public goods of global health and security[11]. Conversely, the financing of global public goods in low-income economies contributes to their growth. Vaccination programmes and programmes to improve local health systems, whose primary objective is to reduce the risk of international transmission of disease, increase national human capital and contribute to local development. Support for the fight against insecurity in developing countries, linked to jihadism and the drugs and arms trade, is essential for the economic development of the regions concerned, while at the same time contributing to the security of developed countries. The populations of developing countries, particularly in Africa, are victims of daily insecurity resulting from the withdrawal of State services (police, gendarmerie, justice), particularly in areas far from the capital. The international community has become aware of the importance of internal security and the fight against all forms of extremism for local development[12].

The trade-off between the objective of development (or convergence) and that of preserving global public goods operates differently depending on the type of public good. Let's look first at "climate finance", where the trade-off with development finance is most obvious. The problem stems from the fact that the concept of "*climate finance*" is used without any clear definition of what it means or how it is measured. It refers, of course, to funds intended to tackle climate change. But this can be understood in a broad sense, as funds that have this aim among others, or in a narrower sense as funds that are specifically earmarked for this purpose. Are we talking about concessional financing, or even grants, intended to cover the additional cost of investments made with a lower carbon footprint than investments with the same purpose, but which could be made at a lower cost because, for example, of the use of available fossil fuels instead of decarbonised energy? or the total cost of investments made with a low climate footprint? On the other hand, a clear distinction needs to be made between funds intended for mitigation and those for adaptation.

The international community's overriding concern about global warming carries with it the risk that spending on mitigation will take precedence over spending specifically on development and adaptation. This fear is all the more acute given that the international community's commitment at the

[11] This means encouraging growth in the South and simultaneously in the North if we are to free up the financial margins needed to protect global public goods. The policy of degrowth advocated by some to protect the planet contradicts the ambition of technological innovation that is essential to mitigating global warming.
[12] The situation in the Sahel is a good example of the link between security and development : cf. FERDI (2016) *Linking security and development - A Plea for the Sahel.*

fifteenth session of the Conference of the Parties (in 2009) to devote $100 billion a year by 2020 to "climate finance", which was to *be additional to* development funding[13], seems to have been forgotten. The abandonment of the additionality principle is clearly reflected in the OECD's accounting of climate funds[14]. Most of the "climate flows" recorded relate to development financing activities and are provided by the donors themselves, who generally refer to the "Rio markers"; these classify the flows into three categories: those in which the climate objective is clearly stated and plays a principal role in the activity, those in which the climate objective, although mentioned, is not the primary motivation, and those in which there is no climate objective. Financial flows in the first category are generally counted at 100% and those in the second at 35% to 50%, depending on the case. The OECD arrives at a total of 83 billion dollars for 2020. These figures say nothing about the proportion of flows whose primary objective is the development of the recipient countries, or the extent to which the inclusion of the climate objective has been accompanied by an increase in public financial flows.

Within climate financing, the trade-off between credits for mitigation and credits for adaptation is also critical. The fifteenth Conference of the Parties decided that funding should be "balanced between adaptation and mitigation". According to OECD statistics, from 2016 to 2020, 64% of multilateral public flows went to mitigation and 32% to adaptation, while the same percentages were 59% and 25% for bilateral flows[15]. This is a far cry from the 50% earmarked for adaptation, which, according to developing countries, particularly low-income countries, constitutes a debt owed to them by developed countries, since the latter are mainly responsible for global warming, whereas mitigation credits benefit everyone.

Here again, the low level of investment in adaptation is partly due to the uncertainty surrounding its measurement. It is easy to identify funding that is specifically earmarked for adaptation, such as building dykes, regulating watercourses, setting up early warning systems or climate insurance systems... But the bulk of development spending contributes to adaptation to climate change: increasing human capital, improving infrastructures or promoting better governance increases the capacity of governments and populations to adapt to climate change. The temptation for international donors is to assimilate the two types of expenditure and no longer make adaptation a specific goal. The predominance of mitigation investments can also be explained by the conditions under which they are financed: as their destination is mainly the emerging countries, they can be financed at or close to market conditions; conversely, adaptation investments are mainly located in poor countries and require a high degree of liberalisation.

At the last Conference of the Parties in Sharm el-Sheikh, faced with the realisation that an *additional* 100 billion a year in climate funding has not been reached, and that less of this money is going towards adaptation in the most vulnerable countries, these countries sought to promote a different form of commitment from the international community. The long-standing demand, reiterated more clearly in

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[13]*Report of the fifteenth session of the Conference of the Parties held in Copenhagen from 7 to 19 December 2009*, Part II: Action taken by the Conference of the Parties: 8. "Scaled-up, new and additional, predictable and adequate funding and improved access thereto should be provided to developing countries, in accordance with the relevant provisions of the Convention, to enable and support enhanced action on mitigation, including substantial financial resources for reducing emissions from deforestation and forest degradation (REDD-plus), adaptation, technology development and transfer, and capacity-building, with a view to enhancing implementation of the Convention... Developed countries adhere to the objective of jointly mobilising 100 billion dollars per year by 2020 to meet the needs of developing countries."

[14] The explicit purpose of which is to see how far we are from the 100 billion target. OECD (2022) *Climate finance provided and mobilised by developed countries in 2016-2020. Lessons from a disaggregated analysis*, OECD Publishing, Paris.

[15] Flows of an uncertain nature are added to 100.

Glasgow, that developed countries should compensate vulnerable countries for the loss and damage they suffer as a result of climate change, became a pressing issue. The creation of a new fund to compensate the most vulnerable countries for the loss and damage caused by climate change was therefore agreed.

By accepting this Fund, the industrialised countries, which have historically been the main emitters of CO2, acknowledge their responsibility for climate change (with the exception of China), thereby affirming an essential principle of international justice. It *is* in this respect that the agreement can be recognised as "historic". But alongside mitigation and adaptation, should compensation for damage be a third objective of climate finance? It is extremely difficult, if not impossible, to objectively assess the loss and damage by distinguishing between what is due to climate change and what is the result of the nature of the climate as it was before it changed. The extent of the loss and damage caused by climate change depends on the policies pursued by the countries concerned, under their own responsibility: low-income countries certainly have the right to request support from the international community to adapt to climate change in order to mitigate the loss and damage that may result. But relying on compensation creates a moral hazard that could affect risk prevention through adaptation measures[16].

Protecting biodiversity poses the same problem of trade-offs with development projects. The issue is all the more important because biodiversity resources are located mainly in developing countries, and particularly in the poorest ones. In the long term, protecting these resources can only benefit development. But it can also mean a reduction in activity in the short term, as in the fishing or forestry sectors. Or it may involve an additional cost, for example in the case of an agricultural project aimed at reducing the use of fertilisers and plant protection products. This is why developing countries argue that funding dedicated to biodiversity should be additional to development aid.

At the fifteenth Biodiversity Conference in Montreal[17], developing countries raised the idea that developed countries should devote 100 billion a year to this objective. Fearing that the funds would not be additional to development financing, as for climate change, the developing countries called for the creation of a specific fund, believing that the Global Environment Facility (GEF) finances climate change projects more than those aimed at protecting biodiversity[18]. In the end, agreement was reached on an amount of 30 billions dollars per year devoted to biodiversity, to be matched by the developed countries, with a specific compartment within the GEF. Is it to finance the additional costs of development projects with a biodiversity component or all of these projects?

As we have noted, the eradication of pandemics is a global public good, given the high risk of international transmission, even when they originate in developing countries. But designed with specific objectives in mind, vaccination programmes or targeted treatments can create tensions or imbalances between the different health sectors and disrupt national health policies. This is why they must be accompanied by a general strengthening of health systems.

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[16] Patrick Guillaumont (2022) "Les fantômes des COP, de Glasgow à Charm el-Cheikh, Ferdi, *Editorial,* 8 December 2022.
[17] 7 -19 December 2022.
[18] J. Landry, J. Rochette, M. Wemaëre, S. Treyer (2022) "Mise en œuvre du cadre mondial pour la biodiversité pour l'après-2020: quel mécanisme de financement?" Iddri *Étude,* n°07, November.

The trade-off between financial stability and economic development is less problematic. The financial crises that repeatedly rock the world economy sometimes originate in developed countries (such as the 2008 crisis, which began in the United States), and sometimes in developing countries (such as the Asian crisis in 1997), while their spread to the entire planet is the result of the international interweaving of financial systems and the adventurous behaviour of many financial players, including governments. The financial stability of developing countries is therefore a global public good.

While international action to regulate and support national financial systems benefits all countries, it is of particular interest to low-income countries. In these countries, there is a strong link between monetary stability, economic growth and the fight against poverty. Indeed, financial instability blurs market signals and leads to postponement and erroneous investment choices. Inflation hits the poor particularly hard because their assets are essentially made up of savings intended to smooth consumption in the presence of seasonal income, to meet unforeseen expenditure or to invest in the absence of access to credit[19]. It depreciates these cash balances, while wealthier people can invest their savings in assets protected from its effects (equities, index-linked or variable-interest debt, foreign currency investments, property)[20]. The depreciation of national currencies on foreign exchange markets, which is symptomatic of financial crises in developing countries, has a severe impact on urban populations who produce goods for mainly local use in the informal sector and consume imported goods, particularly foodstuffs; this is also the case for farmers when the prices of agricultural goods are disconnected from international prices.

Financial stability, recognised as an essential public good, is already largely covered by international finance, thanks to the role assigned to the International Monetary Fund (IMF). The IMF, which was strongly criticised during the period of structural adjustment for condemning developing countries to recession when they were forced to call on its financing, has profoundly renewed its means of intervention. The objectives and conditionalities of IMF programmes have been adapted to the specific vulnerabilities of these countries, while respecting the limits of its mandate. In 1999, this was reflected in the transformation of the "Enhanced Structural Adjustment Facility" into the "Poverty Reduction and Growth Facility". The IMF has provided an increasingly flexible, rapid and better calibrated response to the needs of low-income countries faced with balance of payments and budget imbalances caused by exogenous shocks and structural weaknesses. The IMF's reaction to the Covid crisis is significant in this respect. On 22 July 2021, the IMF's Executive Board approved a reform of its intervention modalities, which notably consisted of raising, and in exceptional cases even removing, the limits on access to IMF financing for low-income countries[21]. Finally, the reallocation of SDRs decided by certain developed countries in favour of developing countries has made it possible to top up the Growth and Poverty Reduction Facility and to create a new trust fund for resilience and sustainability (RD Trust Fund), which came into operation on 1er May 2022. The purpose of this fund is to help low-income and vulnerable

[19] Here the central assumption of the conduit effect of MacKinnon 1973) *Money and capital in economic development,* The Brookings Institution, Washington.

[20] W. Easterly and S. Fischer (2001) "Inflation and the Poor", *Journal of Money, Credit and Banking,* vol. 33 (2), pp. 160-178, and Feindouno S., Guérineau S., Guillaumont P., Guillaumont Jeanneney S., Plane P. (2022) "Monnaies nationales ou régionales et réduction de la pauvreté en Afrique", *Revue d'économie du développement* 2021/4 (Vol. 29), pp. 49-81.

[21] Cabrillac B., Jacolin L. (2022) L'évolution des facilités du FMI pour les pays pauvres, FERDI Policy Brief B227, updated May 2022.

middle-income countries address structural challenges with macroeconomic risks, such as climate change and pandemics[22].

However, despite these undeniable developments, the IMF's support for poor countries still suffers from shortcomings that merit consideration by the donor community[23]. Twenty-seven years after the launch of the Heavily Indebted Poor Countries (HIPC) initiative, the issue of over-indebtedness in low-income countries is back on the agenda, with the risk of bringing their growth to a halt. "Climate change has both immediate and long-term consequences for the debt trajectories of developing countries[24]". Recent *Debt Sustainability Assessments* show that by the end of 2021 almost 60% of low-income countries (as defined by the IMF) were considered to be at high risk and/or in distress, compared to 30% in 2015[25]. Coordinated debt restructuring can no longer take place within the Paris Club, and requires the creation of a new framework for negotiations involving new creditors (notably China) and private financial institutions. This is the purpose of the "Common Framework"[26] advocated by the G20, but which is not yet effective. Finally, we need to look at ways of reducing the negative impact of the Basel Committee's international regulation of financial institutions, which has become increasingly strict over time, on access to credit in low-income countries[27].

Finally, there is a trade-off, one of the most difficult, between the objectives of *security* and development. The populations of developing countries, particularly in Africa, are victims of heavely daily insecurity. While the international community has become aware of the importance of internal security and the fight against all forms of extremism for local development, funding for security expenditure is held back by the Development Assistance Committee (DAC) rule that such expenditure can only be counted very marginally in ODA. Here, the trade-off is currently to the detriment of this public good, which is security for all.

3. The trade-off between preventing and repairing damage

In all areas of policy, governments have to choose between preventive and curative action, given the limited resources at their disposal. Everywhere, there is a strong temptation to favour short-term, *ex-post* actions of immediate impact over *ex-ante* actions of uncertain effectiveness because they are projected into the future. The priority given to humanitarian aid or social assistance at the expense of development projects is part of this inclination. One way of giving priority to the long term would be to allocate public flows intended for development, particularly concessional flows, according to the

[22] The RD Trust Fund will provide policy support and affordable, long-term financing (with a 20-year maturity and a 10½-year grace period) to help increase countries' resilience to long-term risks to balance of payments stability. IMF "IMF Managing Director welcomes creation of Resilience and Sustainability Trust to help vulnerable countries address longer-term challenges" Press Release No. 22/115. See also on the challenges of reallocating SDRs: B. Cabrillac and S. Guillaumont Jeanneney (2022) "Les défis de la réallocation des DTS en faveur des pays vulnérables", Ferdi *Working Paper* P298.

[23] B. Cabrillac and L. Jacolin (2022) "L'évolution des facilités du FMI pour les pays pauvres", *article quoted*: See the proposals of the two authors, p. 9-10.

[24] On this point Bruno Cabrillac (2023) "Debt sustainability and climate change" FERDI, Work of the Chair in International Architecture of Development Finance, *Policy brief* B249, May.

[25] See IMF (2022) "Macroeconomic Developments and Prospects in Low-Income Countries -2022 *IMF Policy Paper* December, p.19.

[26] *G2 Common Framework*.

[27] Cf. C. Angely (2023) "La crise de 2008 et l'inclusion financière en Afrique Impasse, fausses et vraies pistes" Ferdi, forthcoming.

structural economic and social vulnerability of countries, which does not depend on their current policies and which constitutes a lasting obstacle to the long-term growth of the economy[28]. In other words, it would be a matter of introducing a structural vulnerability index into the World Bank and African Development Bank allocation formulas, alongside the per capita product and the index representing the quality of economic policy (CPIA), which have no temporal dimension[29]. At the same time, bilateral donors should be encouraged to take into account the relative stuctural vulnerability of countries when choosing which countries to support[30].

The trade-off between the short and long term also concerns the financing of public goods, but is not as acute depending on their nature. The dilemma is particularly acute where global peace and security are concerned. The World Bank and the United Nations have attempted to estimate the "savings" made by the international community if more resources were devoted to prevention, which means spending more in countries at high risk of conflict, before violence breaks out[31]. According to this report, the savings would be substantial, but their return would be spread over time. The difficulty lies in the multitude of conflict risk factors (economic, ethnic, cultural, geographical, climatic) and their diversity depending on the country concerned, the broad spectrum of preventive actions covering economic development, internal security and governance or the role of the State, and the need to combine long-term structuring actions with rapid impact actions so that populations perceive the benefits[32].

Conversely, the IMF's interventions to promote financial stability in developing countries better distinguish between prevention and correction. It is true that IMF loans respond to an emergency situation marked by an imbalance in the balance of payments, but the associated programmes always include structural measures aimed at achieving a lasting rebalancing of these balances and restoring public finances, combined with technical assistance to improve the efficiency and transparency of the management of public funds.

As far as the climate is concerned, actions to mitigate climate change are themselves part of a preventive, forward-looking approach. It is striking that, despite repeated announcements by scientists, it is the recurrence of climate shocks and the damage they cause that has mobilised the international community. The question of the trade-off between prevention and correction clearly arises for actions to adapt to global warming, particularly in agriculture. It's not just a question of compensating farmers for the damage caused by drought or flooding (through insurance, for example), but of designing and implementing production methods that are more resilient to shocks, in other words of bringing about

[28] See P. Guillaumont (2023) "Financing global policies: but for whom? ", FERDI, Work of the Chair in International Architecture of Development Finance, *Working Paper* P319, March.

[29] The Caribbean Development Bank and the European Union have already taken this step.

[30] It would be up to the independent body responsible for monitoring financial flows mentioned in the conclusion to provide each donor with an assessment of the extent to which the vulnerability of the countries receiving the flows has been taken into account.

[31] United Nations and World Bank (2018) *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict*, DC: World Bank, Washington, 2018.

[32] See the study carried out for the Fondation Prospective et Innovation: S. Feindouno and L. Wagner (2020) *Les Conflits internes dans le monde : Estimer les risques pour cibler la prévention,* Ferdi, in particular p.55-61.

a genuine structural transformation in agriculture[33]. This involves research into technologies adapted to agro-ecological conditions (e.g. the creation of flood-resistant rice or drought-resistant hybrid maize), investment in water management, particularly irrigation, and the construction of value chains that include family farmers through rural infrastructure, storage capacity and purchasing contracts - all long-term actions.

4. The trade-off between the interests of developing countries and those of the international community

The academic literature on the motivations for aid has highlighted that geopolitical considerations and the self-interest of donors may be dominant. During the Cold War, Western aid was aimed, at least in part, at preventing developing countries from joining the Communist camp. This motivation disappeared with the fall of the Berlin Wall, followed by a transitional reduction in international aid. The ethical motivation for aid alone was insufficient in the face of the disappearance of geopolitical issues.

A turning point came with the attacks of 11 September 2001 in New York, when the world became aware of the interdependence between developed and developing countries. Although the problems arising from this interdependence were already visible some twenty years ago[34], the feeling has been reinforced by a series of events: the first effects of global warming and loss of biodiversity, the appearance of pandemics in developing countries with a high risk of international transmission, concern for global financial stability following the US sub-prime mortgage crisis, and the proliferation of local conflicts with repercussions in neighbouring countries or even far away with the flow of emigrants. When the *Sustainable Development Goals were* adopted in 2015, it became clear that we needed to promote values that are considered universal, at least in the western world, such as human rights, freedom and equality for all, and respect for the natural environment. At present, political considerations remain important, and aid is still seen as an instrument for projecting power or at least influence for the contributing countries.

Numerous academic studies have sought to disentangle the aims of development aid from those that respond to the recipient country's own interests or to the commercial concerns of donors[35]. To this end, they generally estimate an econometric relationship between the proportion of aid going to each country and the characteristics of that country, supposed to reflect on the one hand the interests of donors and on the other the interests of the recipient. The main variables supposed to explain the geographical allocation of aid are arbitrarily opposed by the authors as representing, on the one hand, the selfishness and, on the other, the altruism of donors[36]. For example, population size, a highly significant negative factor in aid received as a proportion of population or product, reveals a preference

[33] de Janvry A., Sadoulet É. (2023) "Seven propositions to support and finance the agricultural sector in sub-Saharan Africa in the context of climate change", FERDI *Working paper* P324, May.

[34] See J-M Severino and O. Ray (2009) "The End of ODA: Death and Rebirth of a Global Public Policy", Center for Global Development, *Working Paper n° 167*, March.

[35] For example, J.C Berthélemy and A. Tichit (2004) "Bilateral donor'said allocation decision-a three-dimensional panel analysis*", International Review of Economics and Finance*, vol.13, Issue 3, p.253-274.

[36] Cf: P. Guillaumont (2018) "L'économie politique de l'allocation de l'aide : du positif au normatif ou comment le positif et le normatif s'entremêlent", Ferdi, *note brève,* n°192, July.

on the part of donors for small countries. Is this in the interests of donors, since they are supposed to be able to buy more votes at the United Nations or at least exert more influence on the countries they help if they are smaller? Or does this preference reflect a greater need for external support because of the economic handicap resulting from a small population, and in particular the vulnerability associated with it? Let's also consider the non-linear relationship between allocations and the per capita income of recipient countries: if, initially, the allocation increases with per capita income and then decreases, this may be interpreted as complying with a principle of efficiency and justice, or as reflecting the interests of donor countries, which are supposed to lose interest in the poorest countries for commercial reasons, whereas in the poorest countries it may prove difficult to disburse effectively because of the limits on their absorption capacity. Finally, let's consider the impact of historical and cultural links, which obviously influence geographical allocation: do they reflect a desire to pursue a neo-colonial influence, or are they the expression of a particular responsibility, or are they even the result of the fact that a better knowledge of countries is a factor of efficiency? These examples illustrate just how difficult and often artificial it is to pit the interests of donors and the needs of recipients against each other, as if both were antagonistic by nature.

The fact remains, however, that in some blatant cases the interests of donors may appear to far outweigh those of recipients. One way of approaching this question is to examine the geographical destination of aid flows in the light of the main criteria likely to represent the needs of recipient countries. This is known as an analysis of the selectivity of aid, an expression that was for a long time used in a partisan sense, since it was essentially a question of knowing whether aid went to well-governed countries. A more meaningful analysis would be based on the characteristics of the countries receiving aid, such as their size, poverty or vulnerability in its three dimensions - economic, climatic and socio-political - which determine their needs, as well as other features reflecting a common interest between donor and recipient, such as geographical proximity or sharing a common language and culture[37].

The main question is whether the purposes corresponding to the interests of the country from which the financial flow originates are illegitimate. Helping countries that are geographically or culturally close in particular is justified by the fact that their development is a factor for stability on both sides, by limiting the risks of anarchy, terrorism or even mass migration. But helping only these countries would lose legitimacy, since the need for development concerns a wider group of countries.

In addition to the choice of countries receiving financial flows, a crucial issue is the conditions that multilateral institutions and bilateral donors place on their disbursements. The conditionality that has traditionally accompanied development aid has been sharply criticised both as ineffective and as encroaching on the sovereignty of assisted countries while serving the commercial interests of donors or their companies. This is why, at the Paris Conference on Aid Effectiveness (2005), donors pledged "to align themselves with the objectives of recipient countries and to build on local systems"[38]. It is by no

[37] Cf. J. Amprou, P. Guillaumont and S. Guillaumont Jeanneney (2007) "Selectivity According to Augmented", *World Economy*, Vol. 30, n° 5, p. 733-763. This measurement of the selectivity of the various donors could again be the responsibility of the independent body monitoring financial flows, which we mention in conclusion.

[38] Reducing conditionality in no way detracts from the need for transparency, so that the donor can monitor the use of funds and avoid personal illicit enrichment.

means clear that this resolution has had a profound effect on practices, given the weight of long-standing habits. The conditionality attached to flows intended to finance global public goods, in particular "climate finance", is even less well supported by recipient developing countries. They accuse developed countries of failing to honour their financial commitments and of trying to deny them the paths they themselves have taken for their development, even though they are primarily responsible for global warming and the climate disruption that goes with it. The trade-off between the development interests of the countries receiving aid and the interests of the international community, which according to the economic literature appeared to be relatively artificial, is once again a topical issue.

Conclusion

The presence of these four dilemmas in the international policy of financing developing countries justifies entrusting an international institution with the task of identifying the objectives pursued by donors. Even if there are overlaps between the different objectives, a clear vision of the goals pursued by each is the first condition for arbitration to be carried out in a reasoned and consensual manner and for the overall effectiveness of financing to be ensured. We have argued elsewhere[39] for the creation of an independent body whose task would be to map public funding for developing countries and analyse its effectiveness. Comprehensive knowledge of flows is essential to ensure that the objective of economic growth (which is paramount for developing countries, particularly low-income countries) is not considered secondary by donors, at the risk of fracturing the international community.

The choice of objectives is all the more important because it logically determines the potential recipients of the funds, as well as the financial conditions and political conditionalities that may be associated with them. Recipients and conditionalities in turn determine the effectiveness of international cooperation.

Flows intended to mitigate global warming, like those intended to preserve biodiversity, which correspond to a global public good, will logically go to the countries where they are *a priori* most effective. These are most often emerging countries, because while a change in the growth model is necessary everywhere, it is particularly necessary in these countries, which are already responsible for a significant proportion of CO_2 emissions, and it is here that it would undoubtedly be most effective[40]. This financing will have to respond to a request from the countries and an analysis by the donors of their relative effectiveness and their economic and financial return. However, low-income countries should not be excluded from climate change mitigation funding and should be the main beneficiaries of biodiversity funding, again depending on the effectiveness of the projects. Low-income countries currently have the greatest potential for biodiversity and for mitigating global warming by capturing

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[39] According to our proposal in Jean-Michel Severino and Sylviane Guillaumont Jeanneney (2023) "Financing global policies : but why ?". FERDI, Work of the Chair in International Architecture of Development Finance, *Working Paper,* No. 317, March.

[40] The share of greenhouse gas emissions per capita in global emissions in 2018 was 28% for China, 7.3% for India, 7.3 for Central and South America, compared with 14.3 for North America and 7.9 for the European Union. The African continent accounted for only 6.3% of global emissions. French Ministry of Ecological Transition, *Chiffres clés du climat*, *France, Europe et Monde*, 2022 edition.

CO_2 through forest cover. Sound forest management that avoids uncontrolled deforestation means compensating developing countries for the loss of income.

On the other hand, the choice of beneficiaries for adaptation credits follows a different logic. Adaptation funds should be allocated to countries where the damage caused by climate change is greatest. But, as we have noted, measuring this damage is uncertain. A good criterion for allocating funds between countries should be an indicator of physical or structural vulnerability to climate change, i.e. independent of the adaptation policy currently pursued by governments in order to avoid any moral hazard and to prevent rather than cure[41]. Even if development projects and climate change adaptation projects are intertwined on the ground, their funding by developed countries does not respond to the same motivation and will no doubt have to remain separate, with different terms and conditions, in particular less conditionality.

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[41] Ferdi has constructed an indicator of this type on the basis of two types of risk due to climate change: those linked to trend shocks such as rising sea levels, increasing temperatures and decreasing rainfall, and those linked to the intensification of recurrent shocks (such as cyclones).

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