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Financing global policies: but why?

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Abstract

Public financial flows to developing countries serve a multitude of purposes, the growing number of which has led over time to an incoherent institutional landscape of international financing. Institutional fragmentation has profound consequences for the effectiveness of policies. Starting from the achievements of official development assistance, our reflection seeks to clarify the aims of planetary collective action, by distinguishing three main objectives: ensuring the convergence of income between developing countries and industrialized countries; ensuring a foundation of global solidarity; fight against global public evils.

This mapping allows us to present a first sketch of what could be an inventory of international financial flows according to a new nomenclature that would be collectively accepted by donors and recipients of flows. But since there are overlaps between the objectives, it is not possible to rigorously separate the objectives of growth, redistribution and the management of global public goods. We offer slightly more complex but still manageable procedures for tracking international flows.

Accurate mapping of financial flows could avoid two main pitfalls of the current system, an excessively compassionate vision of the needs of low-income countries at the expense of the requirement to catch up on their economies, and in the face of the climate emergency, priority given to climate change mitigation projects at the expense of those specifically aimed at adaptation in low-income countries or more generally at their development.

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Introduction

« It is only through the free federation of autonomous nations, repudiating the enterprises of force and submitting to rules of law, that human unity can be achieved » said Jean Jaurès in *L'Armée nouvelle* (1910).

Contemporary global society is still confronted with this requirement: if the dream of a world government seems chimerical, the collective organisation of nations, federated around common goals, is indispensable for our collective survival. Our planet is becoming increasingly populated and is facing a growing number of common economic, ecological and security challenges. Recent blows to globalisation do not eliminate any of them. Peace itself presupposes the achievement of that human unity to which Jaurès aspired.

But these common causes that underpin our unity are numerous, evolving and... require funding. Yet, at the beginning of the third decade of the century, the institutional landscape of their international funding appears fragmented and inconsistent. Governments as well as philanthropic organisations have used the principles of official development assistance, historically the first of the international public policy constructs, according to logics that were not totally assimilable to it, to embrace a growing number of subjects with divergent logics. The result has been a fragmentation of collective action and a kind of loss of meaning. This is illustrated by the difficulties, both in terms of method and principle, in simply listing these financial flows, which is an essential basis for any reflection on public policy and even more so for evaluation.

The institutional fragmentation that we have witnessed has profound consequences on the effectiveness of policies : operational contradictions and additional costs, deleterious competition between institutions creating an atmosphere of suspicion and low credibility... These phenomena are the product of the disorganised multiplication of initiatives, sometimes responding to operational emergencies, sometimes to local political compromises or ego initiatives. The absence of an overall vision leads to disorganised public action.

However, it is not the dream of a unifying power that can give meaning to collective action. The bi- or uni-polar world of the post-World War II international scene has given way to a considerably more fragmented world. The two powers that dominate it (the United States and China) cannot have the same restructuring power as the American and Soviet pair. For more than four decades, the latter has made strength the justice.

Pascal, in his *Pensées*, raised the question of this strength and justice : « justice and strength must be put together", he said, "and to do this the just must be strong or what is strong must be just ».[1] From the Cold War principle that what was strong was fair, we have moved on to the now recurrent accusation by poor countries against rich countries that 'what is strong is not fair'. China, like India, Brazil and other emerging countries, has taken up this third world accusation and now occupies an ambiguous place in this political debate.

It is obvious that as the strength of the rich countries gradually disintegrates in this multipolar world, the just should become strong, which is doubtful in the near future. This leaves justice with the sole option of basing its construction, no longer on a force that no power can now totally guarantee, but on the common interest, which must guide the actions of all in a world that we

[1] Blaise Pascal *Pensées,* fragment 94, Michel Le Guern edition, Gallimard, La Pléiade Tome II, p. 571.

would like to be rational. The common interest is not the general interest (that of the greatest number): it is not as vast and universal in its ambitions. It implies that sacrifices or contributions must be accompanied by returns or counterparts in the field where the debate is held or in other fields.

Herein lies the considerable potential of global public goods that encompass common planetary interests. It involves identifying these interests to act together and legitimising sacrifices and contributions in relation to a theoretically measurable global gain. But because the management of these common interests is not based on any kind of imposition, nor on inherently complicated evaluation processes, their emergence is long and chaotic. It is therefore time to take collective reflection to a new level and, building on the observations made at the turn of the century on development aid and on the experience of twenty years of international negotiations on the international monetary system, climate, biodiversity, health, trade and debt, to draw up a clear vision of the goals pursued by our international community, which is otherwise so divided.

Starting from the experience of official development assistance, our reflection will seek to clarify the aims of collective global action, by presenting a map of them. Our first and foremost message is that our global community is faced with a triple objective that must enable international public financial flows to be encapsulated and measured: to ensure the convergence of incomes between developing and industrialised countries; to provide a basis for global solidarity; and to fight against global public ills. This will lead us to present a first outline of what could be a census of international financial flows according to a new nomenclature that would be collectively accepted by the donors and recipients of the flows. The *Sustainable Development Goals* (SDGs) can be assigned to these three categories, which they trace imperfectly but which they feed with at least partial measures of impact.

But we will then see that there are overlaps between the objectives on the one hand, and preferences of both donors and recipients for some of them, so that the allocation of flows is not without ambiguity. Our second message is therefore that it is not in fact possible to rigorously distinguish between the objectives of growth, redistribution and management of global public goods. This observation is essential for any inventory of financial flows as well as for any reflection on the international institutional architecture. This will force us to modify our proposal and to present slightly more complex but nevertheless manageable procedures for identifying and monitoring international flows. This monitoring will make it possible to clarify the trade-offs between the different purposes on which the legitimacy of global policy depends.

In the face of the collective work of our international community, our third message will be that the means that can be mobilised are within the reach of the wealth of the contributing countries, which must be increased by that of certain emerging countries such as China.

1. Moving beyond aid without forgetting it: the historical construction of a global policy not yet mapped and standardised

Here we understand official development assistance (ODA) as the fact that states, from the resources of their taxpayers, can and should financially assist other less developed independent states. This policy really appeared after the Second World War. It developed with the great decolonisation movement of African countries in the 1950s and 1960s. It has continued to evolve, both in its motivations and in its scope and methods.

The ethical basis of aid appeared dominant at the outset, although donor interests and geopolitical considerations never ceased to exist. At the dawn of the Fifth Republic, General de Gaulle, in his *press conference of 23 April 1960,* expressed his conception of development aid as follows: « In my opinion, fundamentally and above all theories, all doctrines and all regimes, the great world affair is to pull out of misery and to direct the two billion deprived men towards development. We are a few countries with the means, in fact sufficient means, for us not to lack anything... We are rich, fulfilled, compared to the other men who are more or less miserable ». But while affirming the urgency and the ethical basis of an international redistribution of wealth, he was not unaware of the geopolitical stakes: he added that there could be no world peace without development; in the midst of the Cold War, development aid (as a disinterested action) seemed to him to be a factor in bringing the great powers closer together.[2] On the other hand, when he defined France's future policy towards an independent Algeria in his *press conference at the Élysée Palace on 11 April 1961*, he emphasised that solidarity was not incompatible with the defence of national interests: « This aid and this assistance, why should we give it if it is not worthwhile, if there is no cooperation, if there is no quid pro quo for what we are providing? » For the General, this was to be respect for France and support for its diplomatic action and interests. « It's a good investment all in all », he concluded.[3] The idea that aid must be accompanied by reciprocity between partners is therefore old.

Geopolitical and interest motives have always existed. During the Cold War, in the West, aid was at least partly aimed at preventing developing countries from joining the communist camp This motivation disappeared with the fall of the Berlin Wall. This resulted in a temporary decrease in financial volumes. The sole ethical motivation for aid was insufficient in the face of the disappearance of geopolitical issues. It also led donors to be more concerned with short-term humanitarian crises than with long-term development. An increasing share of aid went to social sectors while productive sectors, notably agriculture, were neglected. At the same time, private philanthropic aid has increased considerably.

A turning point came with the attacks of 11 September 2001 in New York. The world became aware of the interdependence between developed and developing countries. This awareness was reinforced by a series of events: the multiplication of local conflicts, the appearance of pandemics in developing countries with a high risk of international transmission, the first effects of global warming and biodiversity loss, concern for food security and global financial stability after the American *subprime* crisis, *etc.* When t*he Sustainable Development Goals* were adopted in 2015, it became clear that while the principle of solidarity in the face of the intensity of the shocks suffered by developing countries remained important in motivating aid, it was also a question of promoting

[2] Charles de Gaulle *Discours et messages,* Plon, Paris, Tome 3, p.194-195.
[3] *Idem,* Volume 3, p.292.

values considered universal, at least in the Western world, such as human rights, freedom and equality of people and respect for the natural environment. Ideological and cultural considerations (men's and women's rights, freedoms, etc.), which are also contested by some developing and emerging countries, are associated with a new category of common interest concerns, which are catalogued in their great variety as « global public goods ».[4]

Geopolitical considerations are no less important: aid is still conceived as an instrument of power projection for the contributing countries (for example, for the French Ministry of Foreign Affairs, the French Development Agency is a « bank of influence »). The history of development aid over the last thirty years cannot be written without including the massive allocations made to Iraq, Afghanistan, or the Balkans, in the context of reconstruction or post-conflict situations of a massively political nature. Aid has also become an instrument for managing neighbourhood issues between industrialised and developing countries, as in the case of migration between Europe and Africa, and for managing local conflicts, for example in the Sahel. It is undoubtedly experiencing a renewal of this geopolitical basis with the recently renewed competition between Chinese, Russian and Western regimes, particularly in Africa.

The academic literature is replete with works that seek to disentangle in the objectives of aid what reflects the geopolitical considerations of donors and the interest of assisted countries.[5] To this end, these studies generally estimate an econometric relationship between the share of aid going to each country and the characteristics of that country, supposedly representing the interest of the donor on the one hand and the interest of the recipient on the other.[6] This work reveals that in fact it is difficult and probably artificial to oppose the interests of donors and the needs of recipients as if they were antagonistic in nature.

Development aid is now part of a larger picture of all official financial flows to developing countries. Official development assistance flows exceed the amount of ODA as defined statistically by the OECD's Development Assistance Committee (DAC).[7] Indeed, many states and public bodies that finance developing countries have not joined the DAC[8] ; they have multiplied over time; some public loans, although granted at financial conditions below the rate at which the developing country could borrow on the markets, do not meet the DAC's grant element criteria. Official development assistance now constitutes only a small (and declining) part of official financial flows

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[4] See page 6 below.

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

[6] 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, B192, July. The main variables supposed to explain the geographical allocation of aid are arbitrarily contrasted by the authors as representing some selfishness and others altruism of donors. For example, population size, a highly significant negative factor in aid received as a proportion of population or product, reveals a donor preference for small countries. Is this in the donors' interest, since they are supposed to be able to buy more votes at the UN or at least exert more influence on the countries they help if they are smaller? Or does the preference for small countries reflect a greater need for external support to small countries because of the economic disadvantage of their small population size, especially the vulnerability that is associated with it? Another example is the impact of historical and cultural links which obviously influence geographical allocation: do they reflect the desire to pursue a neo-colonial influence or are they the expression of a particular responsibility, or do they result from the fact that a better knowledge of the countries is a factor of efficiency?

[7] ODA according to the DAC must be provided by public bodies, be directed to developing countries according to a list established by the DAC, have the aim of improving their standard of living and have a clearly defined concessionality element.

[8] Notably China, which according to the World Bank over the whole period 2000-2019 was the second largest contributor with 243.17 billion constant 2019 dollars, after the World Bank group (357.4 billion). The Arabian Peninsula states are also in a good position. See World Bank Group. Development Finance *A changing landscape: Trends in official financial flows and the aid architecture*, November 2021, p.7.

to developing countries. Private development assistance is partly supported by tax incentives, i.e. by public policies.

The specific purposes of ODA cannot be understood without considering the whole of international development financing, since it is now only one part of it. « Its character as a specific global public policy is, in a way, dissolved within broader issues such as climate, transitions, inequalities, the fight against pandemics or the protection of biodiversity ».[9] Today, it is at the level of international policy for financing interdependencies between rich and poor countries that we must build a collective action that can be evaluated and effective.

This new reading is all the more necessary because, sixty years after independence, and almost eighty years after the birth of development aid policy, this last one is the subject of strong contestation. These come primarily from developing countries, which however denounce it as insufficient. Its name is criticised as colonial. The unilateral basis of donors' decisions is also criticised: they allegedly do not take sufficient account of the particularities of each beneficiary country and impose policies that are contrary to their own choices. But the industrialised countries are also dissatisfied. They contest the financing of ODA by themselves, wishing to make certain countries, and primarily China, contributors rather than recipients. As the OECD's Development Assistance Committee (DAC) no longer includes all contributors, its system of accounting for ODA is being questioned by some public and private donors, although it is widely used, for example by the United Nations. Finally, doubts are growing about the effectiveness of aid itself, despite the rather reassuring conclusions of the academic literature. The quality of governance in developing countries, particularly the poorest, is often denounced. The issue of corruption undermines the debate on aid, including in emerging countries. Finally, democratic conditionality is considered insufficient by some, who also wish to link aid more closely to counterparts, particularly in the field of migration.

In practice, this could lead to abandoning the name « development aid », be an opportunity to completely change the vocabulary and to develop a more global vision of the motivations of international flows, based on a precise collective interest and referring to reciprocal obligations between beneficiaries and contributors.

However, we should recognise that ODA, over the years, despite its flaws and « neo-colonial » resurgences, and the many criticisms of its origins, has managed to acquire the status of a truly global policy: standardisation of its financing, measurement, and objectives; cooperative management among funders in a circle of formal governance; and a process of open dialogue with beneficiaries and partners who are not members of the formal governance. The methods of commitment and disbursement and the lessons that ODA has accumulated over seventy years are relevant to the new challenges.

But the purposes of international public financial flows as they emerge in the international community are extremely diverse; they should be the source of considerable collective activity over the coming decades. They do not have the reference framework of ODA, as far as governance and the doctrine of use of the financial flows dedicated to them are concerned, the management of which appears chaotic. The question therefore arises as to the possibility of an integrated vision of all international financing, built on the achievements of ODA, but encompassing in a new

[9] T. Mélonio, J-D Naudet and R. Rioux "L'aide publique au développement à l'âge des conséquences", AFD *Policy Paper*, October 2022, n° 11, p. 21.

coherence all the activities that the international community of the 21st century aspires to carry out.

2. Better than aid: towards an integrated vision of international financial transfer needs in the 21st century

Even if headwinds are blowing against globalisation and slowing its pace, it is still going on and will undoubtedly continue. If it is to remain legitimate, it presupposes that three distinct questions are answered: i) How can we ensure that the convergence of per capita incomes between countries that globalisation should make possible is achieved and how can we remove the structural obstacles that stand in its way? ii) How can we ensure that those who have lost out in the system are given a « survival allowance » and a minimum chance to re-enter the global competitive game? iii) In an increasingly interdependent world, the idea that there are problems common to humanity is becoming more and more prevalent: how can we preserve global public goods?

The first two objectives, promoting economic development and redistributing wealth, are based on two conceptions of justice. The second is purely redistributive and aims to correct an excessively unequal distribution of income. The first is more dynamic: it seeks to compensate for developmental disadvantages in an evolving vision of the world.[10]

The third objective, the preservation of global public (or collective) goods, corresponds to a broadening of the notion of ethics, highlighted by the *Sustainable Development Goals* in 2015. It is justified by the non-rival and non-excludable character of a public good, in the sense that at the global level each country benefits from it without prejudice to others and no country can be excluded from its use.[11] The list of « global public goods » that need to be financed is constantly growing: it currently covers mainly knowledge and the innovations that flow from it, the climate, biodiversity and the natural resource cycle, the end of international pollution (plastics, etc.), the eradication of communicable diseases, financial stability and world peace. Many « public goods » are already managed by specific, discrete and often highly resilient mechanisms designed to ensure the survival of markets and cooperation between their players (think of international standards, industrial property or the metric system, air transport through the ICAO, etc.).

With regard to climate, it is accepted to distinguish between *mitigation* of global warming and *adaptation* of economies to global warming. Only mitigation is part of the preservation of a global public good (maintaining temperatures at a level favourable to human life); adaptation is the correction of negative externalities due to rising temperatures, i.e. the inadequacy of the mitigation policy. This is why in international discussions the two topics are addressed together.

As the notion of « global public good » covers a very large number of subjects of a diverse nature, it will be impossible to mention them all. However, their immense consequences in terms of conflict and loss of collective well-being, if left unaddressed, justify defining the mechanisms necessary for the functioning of an international society perceived as just and therefore peaceful.

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[10] See P. Jacquet and J-D Naudet « 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, Pari, 2006, p.47-96.

[11] However, the benefit from a global public good is not equal on all continents.

At the outset, in order to build effective collective action, it is simply necessary to start defining and measuring who does what and why.

Let us take up the three pillars on which a legitimate international society should be based: convergence of per capita incomes, wealth sharing and global public goods.

2.1 For a convergence of per capita incomes : towards « international financing for development » (IDF)

Global inequalities between countries remain considerable. The ratio of GDP per capita between the ten richest and ten poorest countries, which had risen sharply between 1970 and 1995, then stabilised and from 2005 onwards fell, but in 2020 still remains equal to 150.[12]

This situation actually covers two main trends: for a significant part of the population in low-income countries, mainly in Asia, incomes and living conditions have improved considerably, allowing a real convergence of per capita income with industrialised countries. This allows the last fifty years to be described as a major development success story, with a record number of people being lifted out of absolute poverty. But for another part of the world, essentially located in South and Central Asia and sub-Saharan Africa, while this same period has seen a definite improvement in living conditions and a significant reduction in the proportion of the population experiencing extreme poverty, materialised, for example, by a significant increase in life expectancy at birth, the gaps in per capita income with the richest countries have widened further.

This situation justifies the perpetuation of the great historical objective of official development assistance: the convergence of per capita income between countries. Its basis is twofold. First, it is ethical. It is a matter of promoting equal opportunities in the face of structural obstacles to growth, with the 'South' only partially responsible for non-convergence. The equalisation of per capita income should be the normal consequence of productivity differences between countries according to their level of development and, in a theoretical unfettered market, the result of massive international private investment. The market failures, the poverty traps in which some countries are trapped because of their structural economic, social and environmental vulnerability, prevent this theoretical vision from materialising. These countries are already largely grouped by the United Nations in the category of *Least Developed* Countries (LDCs), which are identified by a low per capita income (lack of convergence), a low level of human capital and as suffering from a high level of structural vulnerability, in the sense that they are recurrently subjected to external shocks, whether economic, such as fluctuating prices of primary products, or natural and due to their geographical location (drought, floods), which are structural handicaps to the growth of their economies. This vulnerability (whether climatic or economic) also concerns a significant number of middle-income or so-called "emerging" countries, whose growth dynamics are highly cyclical and, in the long term, may not converge towards the incomes of industrialised countries. However, the financial capacity of middle-income countries to remove structural obstacles to their development is much greater than that of low-income countries.

[12] T. Mélonio, J-D Naudet and R. Rioux « L'aide publique au développement à l'âge des conséquences », AFD *Policy Paper*, October 2022, No. 11, p. 17.

Secondly, income convergence is in the common interest of all countries. The large differences in per capita income create a situation of international political instability and represent a risk of a trial of legitimacy for the global society, especially as the countries of South Asia and Africa constitute an increasingly large demographic mass. Delays in convergence also affect the growth rates of the richest countries, whose exports and imports are slowed down. In the long term, income convergence is the means to reduce economic migration. The issue of income convergence can therefore also be analysed in the context of development externalities.

The search for income convergence is certainly the historical mission of the old « development aid ». Yet, *de facto,* it tends to disappear from the formal objectives of international public flows. It is true that since the end of the 1990s, the international community has tried to agree on objectives through the *Millennium Development Goals* (MDGs), which were followed by the *Sustainable Development Goals* (SDGs). It has identified the goals of growth and reducing income inequality between countries. However, income convergence was not recognised as a specific and fundamental target and was not associated with any outcome or even means target. It is diluted in the mass of targets of a heterogeneous nature that the international community has set for itself. The international community should agree on a target for reducing income inequality between countries over a given timeframe and assess the necessary financing.

Three important adjustments need to be made to the continuity of this historic mission. The first is linked to the sectoral orientation of funding, which should focus on sustainable fixed capital formation. This is currently very insufficient in relation to the « growth need » necessary for medium-term convergence. Support for convergence must be based on three pillars:

- An acceleration of national public investment to promote sustainable and green competitiveness in a world marked by profound changes such as digitalisation, decarbonised electrification, robotisation...
- In the same perspective, an acceleration of national and international private investment (FDI), in infrastructure as well as in established and emerging companies.
- Removing the barriers that public policy sometimes erects, such as inadequate regulations or missing institutions, and generally improving governance.

Of the three issues, it is clearly the second that requires additional efforts. Innovative strategies are available to help low-income countries, particularly in Africa, catch up, provided that the international community invests massively in promoting small and medium-sized enterprises for the benefit of their domestic markets. Support for the productive sector comes up against a missing link in the financing of the latter, between micro-credit, intended for households or very small businesses, and the financing of local banks or international organisations which only manage large amounts of financing, with high profitability and limited risks.

Second, accelerating convergence also requires a geographical reorientation of public financial flows. The lack of a risk culture among Development Finance Institutions has led to a geographical orientation of financial flows that is not optimal for the purpose of income convergence. 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, while ODA constitutes 94% of official flows received.[13] While the Development Finance Institutions (DFIs) have demonstrated that it is profitable to invest in emerging countries, they are now accelerating

[13] See World Bank Group. Development Finance *A changing landscape: trends in official financial flows and the aid architecture*, opus cite, p. V.

development in emerging countries, where there is already a strong entrepreneurial base, without taking the risk of developing businesses in the low-income countries that have the least.

A third adjustment concerns the actors of this policy, both financiers and beneficiaries. The accountability of the former should be based on their GDP per capita, so that the ratio of their financing for development (FID) to their GDP is an increasing function of their GDP per capita. As for the recipients, the logic is to remove countries that manage to converge their per capita income: this is clearly the case for China, but also for a significant number of middle-income countries, which could be phased out of any such contribution.[14]

2.2. For a minimum social floor: towards an « international solidarity financing » (ISF)

We must of course hope that all countries on our planet will soon be engaged in the dynamic convergence process that is the crucible of global social justice. But the reality is that some, for a more or less long time, will remain far from the target, given their structural vulnerability and despite the international community's support for their development. These countries must be supported from a perspective of redistributive justice, unless we accept the persistence of ethically unacceptable and politically dangerous situations of individual and collective misery.

The requirement for aid with a social and humanitarian purpose was recognised in the 2000 version of the MDGs. The MDGs set specific « well-being » targets (education, health, etc.) for the global community, determining minimum thresholds that must be met regardless of the economic growth of countries. They state that no country should be prevented from achieving them for financial reasons. The result is that every individual has the right to a minimum standard of living and that it is up to the international community to supplement the actions of states that do not have the capacity to guarantee it, which implies long-term transfers. From now on, « aid » is called upon to finance not only investments with a social purpose, but also their recurrent costs. The countries that should benefit from this social aid are mainly low-income countries.

For other countries, massive financial transfers are necessary for a short period of time, when they are at the end of a conflict that justifies mobilisation for their reconstruction, and sometimes even their construction... These post-conflict situations have been encountered repeatedly over the past decades: the end of the war in the Indochinese peninsula, East Timor, Afghanistan, Pakistan... We will experience a new, massive one with Ukraine. International intervention presents major differences with the previous category: the objective is limited in time to the achievement of a certain level of (re)constitution of the country's physical, social and institutional capital; the distribution of the burden between donors cannot be based solely on the criterion of per capita income, but must include the neighbourhood dimension; even if donations may be preferable in certain situations, the use of massive loans is legitimate if the country's capacity to rebound is high. Finally, the beneficiaries of such assistance cannot be defined by the level of their GDP per capita or absolute poverty: any country or community is entitled to assistance.

Thirdly, humanitarian emergencies persist. They are the consequence of natural disasters or conflicts, which have multiplied, sending an unprecedented number of internally displaced persons or international refugees onto the roads. An important international apparatus has been

[14] The issue of « graduation » out of existing categories has become important in international discussions, whether of LDCs or ODA-eligible countries, if not the much more complicated status of China.

developed over the decades (FAO, UN, etc.) to deal with them. This category of intervention is obviously very different from the first two, even if its final objective is also a social transfer to countries and people in critical situations. The humanitarian motivation is not the only one: the persistence of conflicts in the Horn of Africa, the Sahel or the Middle East is an important source of migration posing acute political problems. Here again, the level of per capita income cannot be the main criterion for identifying beneficiaries, and the distribution of the burden should follow both a logic of transfer from rich to poor and from neighbour to neighbour.

The lack of clarity between convergence and redistribution funding has profoundly obscured the understanding and assessment of public policy. This vagueness hinders the projection of volumes and the preparation of the international community to meet the different needs. It allows for shifts between objectives, even though the emergence of specific humanitarian reasons should not, in all logic, be a burden on the budgets devoted to structural objectives. Furthermore, the appropriateness of cyclical objectives (e.g. country reconstruction) should be combined with a willingness to reduce funding volumes outside of disaster management periods, a practice that is currently impossible to legitimise.

2.3 For the common good: towards « international financing of global public goods » (IPG)

As we have highlighted, since the turn of the century in particular, new foundations for international collective action have gradually emerged. They respond to various logics; the identification of legitimate sources of public funding and operating methods is thus becoming complex, as each category of global public issue (a broader notion than that of global public good in the strict sense) calls for action of a different nature, as much in terms of beneficiaries and contributors as in terms of allocation or funding methods.

We will briefly mention here global financial stability, adaptation to climate change, the carbon transition, biodiversity, the fight against communicable diseases, the regulation of food markets and knowledge. But these burning issues do not exhaust the long list, which will undoubtedly evolve over time, of issues of collective interest involving financial transfers between countries.

Financial stability is the global public good that has been the early concern of the international community. The recurrent financial crises in the global economy originate sometimes in developed countries (such as the 2008 crisis that started in the United States) and sometimes in developing countries (such as the Asian crisis in 1997), while their global spread is the result of the international interlocking of financial systems and the adventurous behaviour of many financial actors, including governments. International actions to support national financial systems benefit all countries, given the financial interdependencies.

The financial crises have also justified the establishment of international rules for the regulation of financial institutions, aimed at correcting the failures of financial markets marked by asymmetric information, which is a source of moral hazard, and the inability to take long-term perspectives into account. However, the poorest countries are struggling to meet the costs of these regulations, which implies transfers aimed at building capacity (technical assistance, etc.); moreover, the implementation of some of these rigorous regulations constrains the financing of economies and justifies financial compensation.

Financial stability, unlike other public goods, is already, at least in part, covered by structured policies, although the international agenda is not exhausted in this area. It is covered by the role of the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and other regulatory or capacity-building institutions.

The same cannot be said for *adaptation to climate change*. This has been the subject of bitter discussions within the Climate Conventions. It is primarily the responsibility of each country, which must allocate the sums needed to adapt its own society to a global but locally specific challenge. Nevertheless, the considerable inequality in the production of the carbon stock, as well as in current flows, leads to the recognition of the responsibility of industrialised countries in this negative externality, the effects of which are at least partially identifiable in concrete societies. The difficulty of determining the amount of funding that should be paid in justice lies in the difficulty of assessing the amount of damage suffered by each country.[15] On the one hand, the damage caused by the stock is compounded by the damage caused by current and future flows. On the other hand, it is extremely difficult, if not impossible, to objectively assess the loss and damage by separating what is due to climate change from what is the result of the nature of the climate as it was before it changed. Finally, the extent of loss and damage due to climate change depends on the policies pursued by the countries concerned, under their own responsibility: low-income countries certainly have the right to request the support of the international community to adapt to climate change in order to mitigate the loss and damage that may result from it. But relying on compensation for damage would create a moral hazard that would undermine risk prevention through adaptation measures.

Faced with the extent of the delays accumulated by the international community in financing adaptation, developing countries sought to promote another mode of commitment by the international community at the last Conference of the Parties in Sharm el-Sheikh. This led to the creation of a new fund to compensate for loss and damage related to climate change for the most vulnerable countries. By accepting this Fund, the industrialised countries, historically the main emitters of CO_2, have acknowledged their responsibility for climate change (with the exception of China), which constitutes, as we have emphasised, the affirmation of 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 damages be a third purpose of climate finance?

Since the measure of damage suffered by a given country is uncertain, it would make more sense to allocate adaptation funds between countries according to 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 moral hazard.[16] There is also a legitimate view that, since we are talking about a contribution to repairing harm, there should be no conditionality or justification for the use of the funds: they should therefore be completely free to finance the budgets of the recipient countries. This would be consistent with the fact, as we shall see, that it is difficult to differentiate between adaptation and the conduct of the country's general development policy.

[15] See the November 2022 Ferdi *Editorial* by P. Guillaumont from which the following development is taken.
[16] FERDI has constructed such an indicator on the basis of two kinds of climate change risks: those related to trend shocks such as sea level rise, increasing temperatures and decreasing rainfall, and those related to the intensification of recurrent shocks (such as cyclones).

Let us now consider the distribution of the burden among donors. At the global level, rather than at the level of a particular country, it is conceivable to put a value on the damage induced by one tonne of carbon emitted since a reference date (allowing the damage created by the stock to be valued), and then to measure the additional damage generated by new emissions over the course of future decades. Thus, China, clearly at the outset a potential beneficiary of transfers linked to the damage caused by the stock, would over the years become a potential net contributor to the compensation of the damage generated. The annual transfers from rich to poor countries would be progressively reduced, or perhaps even cancelled, as their emissions decrease and the emissions of developing countries increase. The mechanism would provide an incentive for green development.

The financing of the *carbon transition* has a different basis. All countries must converge to a maximum level of emissions in 2050. It is therefore essential that developing countries embark on an economic growth trajectory that keeps emissions sustainably below the maximum standard. Achieving this objective depends on three main types of action: the development of decarbonised energy, a transformation of mobility modes (transport, communication) and housing types, and the capture of carbon emitted through land use planning (agriculture, forestry, etc.). The carbon transition has a cost, for two reasons: the first is that some green technologies are more expensive (at least in terms of investment) than their carbon-based competitors; this situation can be a handicap for countries in a difficult financial situation or which do not have access to international markets. The second is that some technologies or public policies do not have sufficient financial profitability within an acceptable timeframe and their implementation is legitimised exclusively by the cost of carbon externalities.

Flows intended for the mitigation of global warming, a public good of global scope, should logically go to the countries where they are most effective. These are most often emerging countries, because if the modification of the growth model is necessary everywhere, it is particularly necessary in these countries, which are already responsible for a significant share of CO2 emissions, and it is there that it would undoubtedly be the most effective, since it involves modifying existing equipment.[17] This financing will be based on an analysis by the donors of their potential effectiveness and economic and financial return and on a request from the beneficiary countries.

The capacity to define mitigation projects is greater in emerging countries than in low-income countries. Their appeal to the international community for funding is likely to be dominant. To ensure that low-income countries are not excluded from climate change mitigation financing, they should develop sustainable, low-carbon growth plans that isolate the additional costs of implementing green growth. Donor conferences could then finance these programmes, either globally or on a project-by-project basis. Such plans exist under the Paris Agreement, but the link to a financing mechanism is not established. However, it should be noted that, with the current state of technology, implementing carbon savings is not just a cost. It is in large part a sound choice for a competitive position in the medium term: the move towards a decarbonised world opens up

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

positive prospects for a number of poor countries, which can exploit renewable resources at low cost for their own needs or exports.

Another crucial environmental issue is *biodiversity*. However, the basis for possible transfers between rich and poor countries is very different from that of climate. It is not the actions of the industrialised countries that are responsible for the loss of biodiversity in the developing countries: it is the result of their population growth and development methods. However, some emerging countries argue that industrialised countries are responsible because they buy products from developing countries and thus have an indirect impact on biodiversity (deforestation, for example). The basis of the argument is weak because sellers are not obliged to sell, and can choose other economic speculations that could be even more profitable, or have less impact on biodiversity.[18]

The real basis for financial transfers to poor countries for biodiversity is the establishment of a common target of converting 30% of the planet into protected areas by 2030, (the 30*30).[19] At present, this global target is not defined country by country. However, it could be proposed that countries that fail to reach the 30*30 target should allocate compensatory amounts to countries that exceed this target, whether they are low or middle income. This would create a « right to destroy » biodiversity on condition that it is rebuilt elsewhere. Another perspective would be to consider certain poor countries as a « weak link » in the pool: the poorest countries, for example the LDCs, which would not manage to meet the general 30*30 target without seriously undermining their growth, could benefit from international transfers to ensure that the common target is met.

Biodiversity is obviously closely linked to climate, insofar as some of the elements of its preservation are also contributors to carbon storage in the soil. The risk of double payment for two ecological services that are distinct in purpose but common in activity should therefore be avoided.

Other international environmental negotiation topics will raise similar issues. For example, in 2022, a negotiation on *plastic pollution* has begun, with the aim of developing a new binding treaty. It will raise the question of the cost of the stock and flow of plastics on land and in the oceans. The burden of eliminating the stockpile will fall largely on industrialised countries. It is likely that the weakest link theory will be used to legitimise the financing of technologies or public policies to phase out plastic for poorer economies.

Global public health is also an area where the weak link theory must be applied. In terms of communicable diseases, the North, having eliminated most of the Native American, Black and Asian populations with smallpox and a few other viruses, is no longer the cause of contemporary problems, the origin of which is mainly in human-wildlife contacts. The history of AIDS, Ebola, recent respiratory viral diseases, and COVID testify to the new responsibility of developing countries.

However, identifying the source of these ills in the South does not eliminate a duty to transfer money and capacity, as long as the countries of origin or transition of the viruses do not have the capacity to control the epidemics. The problem is less of an institutional nature than in the access to vaccines and treatments as well as to prevention methods. Furthermore, the mortality situations generated by epidemic crises obviously fall under the requirements of solidarity mentioned above.

[18] Nevertheless, one could argue that when industrialised countries, as is the case for the European Union, introduce carbon or biodiversity taxes at the borders, part of these should be allocated to finance the transition to other economic activities in the selling countries.

[19] Proposal from the biodiversity summit last December.

The issue of communicable diseases therefore calls for a specific regime, which is already the subject of international debate. This regime could be managed by the WHO: an international standard for the prevention and management of epidemic situations, including all national health care systems, could lead to an upgrading process and a crisis management mechanism, with structural or ad hoc funding as appropriate.

The issue of *market optimisation* has its own characteristics. In the area of food, for example, national self-sufficiency, which is becoming fashionable again, on the basis of both safety and environmental considerations, can only lead to a very serious sub-optimisation of production, and therefore of world consumption, given the very significant divergences between countries from the point of view of natural endowments as well as comparative advantages. We are in the presence of a market (i) that must be organised globally in such a way as to guarantee maximum production as well as security of supply and absolute confidence on the part of importers (ii) that must minimise carbon-based transport (iii) that must encourage a decarbonised agriculture that respects biodiversity.

Achieving these objectives implies an international regime in which transfers between rich and poor countries have their role. Here, in addition to the development motivation that justifies these interventions in agriculture and agro-industry, there is also the motivation of global public goods. One way of managing this set of issues could be to set up an international food insurance mechanism, which would give any net importer of critical foodstuffs the assurance, whatever the global situation, of access to a minimum level of per capita imports. This would undoubtedly imply the constitution of global stocks, which would have to be operated under uncontested governance and would be financed at the global level by 'premiums' paid by the beneficiaries, with those of the poorest countries being partially or totally covered by a solidarity mechanism.

A final category of public good, which deserves to be mentioned, is the benefits of *scientific research*. A significant number of the problems mentioned above will require major scientific progress to solve them. This is the case, for example, with pandemics: the development of vaccines or treatments depends mainly on research conducted in industrialised countries, even if some of it may be based on molecules identified through traditional medicine or present only in living organisms located in the intertropical belt. The same problem is encountered in the field of climate, with green energy technologies. The challenge is to find the right balance between providing incentives for innovation through remuneration for invention and ensuring that the poorest countries have access to new technologies despite their financial constraints, and that research that is not very profitable because it is mainly of interest to poor countries is not neglected.[20] It is important that expenditure outside developing countries, which does not constitute financing of their economies but is of direct interest to them, is taken into account and evaluated. In this respect, the field of health is one where a global policy is being developed, although it is still in its infancy (Advanced Market Mechanism, GAVI, etc.).

[20] Cf. de Villemeur E., Dequiedt V., Versaevel B. (2022) Mieux qu'un compromis, une troisième voie: le panier de brevets pour accélérer l'accès aux vaccins et traitements contre la COVID-19. *Development Economics Review*, vol. 29(1), pp. 17-42.

2.4 From the jungle to the French garden?

The issues we have just discussed are both broad and complex, and can result in what appear to be potentially massive financial transfers. Rich countries may be concerned that this will result in an increasing and unsustainable financial burden on their taxpayers, but these fears must be tempered. In the face of a large absolute increase in potential funding, the burden will depend on the growth of GDP in industrialised countries. For example, the current 179 billion in official development assistance, which is a very artificial amount and represents a much lower effective budgetary cost, amounts to about 0.26% of the GDP of all OECD countries. If the GDP of these countries were to grow by 10% over five years, this would represent, at an unchanged burden in relative terms for taxpayers, around 6.8 billion dollars of ODA, in the classical sense of the term. A general alignment with France's level of contribution, at around 0.5% of a projected 2030 GDP, would represent a shift to around $375 billion, in practice almost imperceptible to most OECD taxpayers.

These figures do not include China. If China were to contribute at the level of OECD countries, this would add $63 billion to current contributions, and if it were to contribute at the level of France, we would reach about $122 billion. In total, an « acceptable » and relatively easy-to-obtain level of global public transfers could be established in about ten years' time at around 510 billion dollars, compared to the current 179 billion: it is not very difficult to finance the famous additional 100 billion dollars for climate and biodiversity.

But how can these current and future flows be organised, managed and evaluated?

Today's financial landscape has become a jungle. The temptation is therefore great to design a new French-style garden. This would be the great public policy of « financing common global objectives ». Each country could declare according to a system as standardised as that of the current ODA:

- Its financial contribution to international income convergence: International Development Finance (IDF)
- Its financial contribution to international solidarity: international solidarity funding, with three sub-categories: poverty reduction, post-conflict and reconstruction; humanitarian crisis management (HCM).
- Its financial contribution to global public goods: international financing of collective goods, with sub-categories: financial stability, adaptation to climate change; carbon transition; biodiversity, health; food; research... the list being non-exhaustive and evolving (BPF).

Each category could have its own set of contributors and beneficiaries and different allocation criteria. The amounts would be allocated on a discretionary basis or set by international treaties.

One merit of this classification is that it allows for reflection on the impacts sought. The various *Sustainable Development Goals* could be divided into the three categories of objectives. Other objectives could be identified, relating to subjects not currently covered, particularly with regard to convergence. Geographical targets could also be devised. Financial allocations to LDCs could thus be included in both the SIF and the DIF. Climate commitments could be given geographical targets, etc. In short, the undertaking started within the OECD in the late 1990s to identify the performance of what was then ODA could be taken a step further, by clarifying the results expected from the funding raised.

In terms of governance, one could imagine that the OECD's Development Assistance Committee (DAC), expanded to include China and all contributing countries, would be responsible for managing this system. It would establish institutional collaboration with the secretariats of the Climate and Biodiversity Conventions, the WHO and the FAO to establish the criteria for these declarations, which should be validated after consultation with the recipient countries.

As is currently the case, this governance body would conduct peer reviews, which would be discussed on an equal basis, and which would have the dual purpose of ensuring the integrity of the declarations and learning from the system. These audits would involve, unlike the current practice, the beneficiary countries, which would not only be consulted but would also be part of the « reviewers ». The governance body would also organise debates and learning processes on international policy standards and practices.

This inventory of financial flows according to a consensual nomenclature could give multilateral organisations the specific mission of compensating, through their own flows, the sectors and countries that appear to be « orphaned » by public aid. On the other hand, whenever an international agreement sets targets in terms of both substance and volume, as in the case of climate and biodiversity, all multilateral financing institutions (United Nations agencies, the World Bank and regional banks) should be given the statutory task of contributing to the implementation of these multilateral agreements, which should automatically feed into their business plans and conditionalities. An international agreement within the framework of the UN and/or the OECD should establish this essential principle for the coherence of international action.

But this rationalisation implies that the different objectives are clearly dissociable from each other, that they are exclusive of each other and that clear arbitrations can be made. It is time to see that this is not the case, or not as much as we would like, and that our French garden could be transformed into an English garden, avoiding that we simply return to a new jungle.

3. The weight of reality: the difficult trade-offs between goals

In the real world, given the financial and operational constraints, there are in fact two trade-offs between the three objectives just mentioned: the first is between the objective of convergence of economies and that of redistribution of wealth or well-being of the poorest. The second is between these two traditional objectives of development policy and the preservation of « global public goods ». These two trade-offs are obscured by the overlap of the objectives pursued and by the constraints on the financing of convergence. This will lead us to conclude that the acceptance of double counting is necessary to construct any new system for measuring public financial transfers.

3.1. The trade-off between « convergence » of per capita income levels and the immediate « well-being » of the poor

The categorisation we have proposed implies that one can distinguish the promotion of growth in the countries of the South (for the benefit of convergence) from social protection and the fight against poverty. Are the two aims not in practice based on the same logic, which would weaken the distinction we have made above? It cannot be denied that there is at least some overlap between them.

The academic literature has abundantly shown that economic growth is the most effective way to reduce poverty, even if it is more or less pro-poor depending on the country, as the income of the poorest grows faster or slower than the average per capita income.[21] The history of China, as well as other East Asian countries, demonstrates the effectiveness of growth in reducing the number of poor.

In addition, economic growth generates fiscal resources that are essential for financing social sectors. In the last thirty years, international literature has identified recommended levels of allocation in education and health according to the level of development that can serve as a guide for governments. Obviously, this virtuous circle does not occur if productive investments are poorly chosen (but the risk is the same for social sectors) and do not generate growth (the case of white elephants), if taxation is defective (tax evasion and avoidance, administrative inefficiency).

Conversely, the economic literature establishes that funding for education or the strengthening of national health systems is favourable to development in the long term, although this is not so clear for purely social protection expenditure. However, better educated and healthier people need to find employment, which requires the development of the productive sector.

It is therefore worrying that the official donor community tends to favour interventions in the social sectors at the expense of the productive sectors. From 2000 to 2020, the share of official development assistance commitments devoted to production has increased from 10% to 12% in both low and middle income countries, while the share of social sectors and emergency aid has increased in low income countries (from 44% to 54%) and remained stable in middle income countries at the high level of 40%.[22]

Why this bias against aid to productive sectors? In all areas of policy, governments must arbitrate between preventive and curative actions, given the limited means 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 since they are projected into the future. The priority given to social aid at the expense of development projects contributes to this inclination. The adoption of the *Millennium Development Goals (MDGs)* in 2000 undoubtedly reinforced the choice in favour of aid with a social or humanitarian purpose. As mentioned above, the MDGs and then the SDGs imply that every individual should have the right to a minimum standard of living.

The issue of global public goods has reinforced this trend, as the fear of pandemics has led to support for health systems in poor countries through sustainable transfers. Finally, the increase in the number of natural disasters and the international emotion they generate have increased emergency humanitarian aid to the detriment of long-term development actions that are less in the headlines.

At the same time, and above all, the idea had taken root that since productive sectors depend primarily on private companies, it was not the role of public policy to subsidise them. The financing

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[21] Among the founding texts:
Bruno, M. Ravallion and L. Squire « Equity and growth in developing countries: old and new perspectives on the policy issues » The World Bank *Policy Research Paper Series*, No. 1563, 1996.
M. Ravallion « Growth, Inequality and Poverty: Looking Beyond Averages », *World Development,* vol. 29, no. 11, 2001, pp. 1803-1815.
D. Dollar and A. Kraay « Growth is Good for the Poor », *Journal of Economic Growth,* vol. 7, no. 3, September 2002, p.195-225.
[22] These percentages are calculated from : World Bank Group. Development Finance *A changing landscape: trends in official financial flows and the aid architecture*, *op. cit*.

of productive infrastructure (roads, airports, ports, railways, energy, etc.) was, however, an accepted means of doing so; but it was also perceived as a breeding ground for white elephants and as generating negative externalities. China has made the most of it, offering developing countries, particularly in Africa, access to infrastructure that was *de facto* denied to them. Added to this was the scepticism of part of the international community about the development potential of low-income countries, particularly in Africa.

It has sometimes been argued that the impact of trade-offs on social sectors can be considerably reduced because of the fungibility of resources, which leaves some freedom of action to the governments of recipient countries. For this argument to be valid, however, external funding should not be imposed as additional to local expenditure, which is often the case; moreover, sectoral allocation manifests a priority given by partners that can be contagious and determines the sectors where the priority transfer of knowledge takes place.

This set of considerations against strong development action permeated the international community massively in the 1990s, leading to a retreat to the social sectors. But the productive agenda has regained prominence across the continent and has once again become an important item on the international community's policy agenda. Infrastructure financing is a major theme of the G20. The 2021 summit on financing African economies selected this topic as one of its three themes for discussion, and complemented it with the promotion of entrepreneurship, further adding to the productive dimension of the discussions. While there are countries where a purely « compassionate » approach can be justified, the majority of the African continent does not fall into this category, as its growth performance has shown over the past twenty years. While the growth strategy of Asian countries based on the export of manufactured goods is no longer relevant, low-income countries, particularly in Africa, can now base their growth on their domestic market due to their demographic dynamism, as well as on the export of digitalised services, provided that the international community invests in IT structures. Africa's immense agricultural potential is under-exploited.

3.2. The trade-off between « development of economies » and « global public goods »

It is difficult to know what criteria are used to divide financing for development and financing for global public goods, for many reasons. This uncertainty stems from 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, disease transmission and insecurity around the world. Thus the convergence of economies has positive externalities in the public goods of global health and security. Similarly, much development spending, such as that to increase human capital, improve infrastructure or promote better governance, increases the capacity of governments and people to mitigate or adapt to global warming. Debt crises in developing countries undermine the public and private sectors in industrialised countries.

Conversely, the financing of global public goods by rich countries in poor economies contributes to the growth of the latter. This is often the case for investments to combat global warming. Similarly, protecting biodiversity is good for development. It has impacts on health and well-being, and the ecosystem services it provides are considerable (water, soil fertility and agricultural productivity, etc.). Some activities are also directly profitable when they promote sustainable tourism.[23] Vaccination programmes and programmes to improve local health systems, whose primary objective is to reduce the risk of international disease transmission, increase national human capital and contribute to local development. However, if poorly designed, they can also create tensions or imbalances between different health sectors and disrupt national health policies. Similarly, all actions by the international community to combat insecurity in developing countries, linked to jihadism and the drugs and arms trade, are essential for the economic development of the regions concerned, as well as contributing to the security of developed countries.[24]

Despite these overlaps, there is a trade-off between supporting development and financing global public goods. This trade-off is not the same depending on the nature of the latter.

The first and most difficult trade-off is between the objectives of *security* and development. The populations of developing countries, particularly in Africa, are victims of daily insecurity resulting from the withdrawal of state services (army, police, gendarmerie, justice), particularly in areas far from the capital, which leaves them in the hands of armed groups. While the international community has become aware of the importance of internal security and the fight against all forms of extremism for local development, the financing of security expenditure is hampered by the rule that such expenditure can only be marginally counted in ODA.

On the other hand, the objectives of *financial stability* and development seem to be better balanced. In developing countries, monetary stability is a positive factor for growth. Indeed, high inflation disturbs the functioning of markets and the expectations of economic agents and is therefore generally accompanied by recession or even depression. Moreover, inflation particularly affects the poor because their assets are mainly composed of cash and because currency depreciations against foreign currencies severely affect the urban poor who consume imported goods, especially food.

Historically, the objectives of monetary stability and sound debt management promoted by the IMF were strongly criticised during the period of structural adjustment. The countries subject to its interventions accused the IMF of condemning them to recession through an excessively restrictive macroeconomic policy and of having reinforced inflation by imposing devaluations. Since then the IMF has renewed its means of intervention. The conditionalities of its programmes have been adapted to the characteristics of developing countries, particularly the most vulnerable, while respecting the limits of its mandate. This was reflected in the transformation of the « Enhanced Structural Adjustment Facility » into a « Poverty Reduction and Growth Facility » in 1999. The IMF has provided an increasingly rapid and better calibrated response to the needs of low-income countries in the face of balance of payments and fiscal imbalances caused by exogenous shocks and structural fragilities. The IMF's response to the Covid crisis is significant in this regard. On 22 July 2021, the IMF Executive Board approved a reform of its support to poor countries.[25] It was able to allow developing countries to benefit from the recent issuance of SDRs and their reallocation by

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[23] For example, East and Central Africa generates considerable resources through the protection and promotion of its biodiversity.

[24] The situation in the Sahel is a good example of the link between security and development : see Ferdi *Linking Security and Development A Plea for the Sahel,* 2016.

[25] B. Cabrillac and L. Jacolin « The Evolution of IMF Facilities for Poor Countries », Ferdi Briefing Note, B227, updated May 2022.

some willing industrialised countries.[26] However, these reforms did not end the debate. The IMF's support for the poorest and most fragile countries still suffers from shortcomings.[27] Finally, in view of the growing debt overhang of low-income countries[28], coordinated debt restructuring can no longer be achieved within the Paris Club and requires the creation of a new framework for negotiations involving new creditors (notably China) and private financial institutions.[29]

The question of the trade-off between development and the promotion of global public goods is more acute for « *climate finance* », which often competes with rather than complements development finance, and to a lesser extent probably for « *biodiversity finance* ».

The term « *climate finance* » is increasingly used without it always being clear what it means. It refers of course to funds that are intended to address climate change. But this can be understood in a broad sense, funds that have this purpose among others, or in a narrower sense, funds that are specifically intended for this purpose, and in either case it is traditional to distinguish between mitigation funds and adaptation funds.

The temptation of international donors is to equate development projects with climate change adaptation projects, which artificially inflates the volume of spending on adaptation. Even if these two types of projects are intertwined on the ground, their financing by developed countries does not respond to the same motivation and will probably have to remain distinct, with different modalities.[30]

In the case of international financing for climate change mitigation, the ambiguity is similar. In the narrow sense, it is concessional finance, or even grants, to cover the additional cost of investments made with a lower carbon footprint than investments with the same purpose that could be made at a lower cost due to, for example, the use of available fossil fuels instead of decarbonised energy. In a broad sense, international financing for climate change mitigation includes the full cost of investments made with a low climate footprint.

The climate emergency entails the risk of abandoning the most growth-enhancing investments in favour of investments in adaptation to climate change or, even more so, those serving the global objective of mitigating global warming. This risk is all the more acute given that the international community's commitment at the fifteenth session of the Conference of the Parties (in 2009) to devote $100 billion per year to « climate finance » by 2020, which was to *be additional to* development finance, seems to have been forgotten.[31] The abandonment of the principle of

[26] Through the creation of the Resilience and Sustainability Trust (RST). See B. Cabrillac and S. Guillaumont Jeanneney « The challenges of reallocating SDRs to vulnerable countries » Ferdi Briefing Note B223, 2021.
[27] B. Cabrillac and L. Jacolin *cited article:* See the proposals of both authors, p. 9-10.
[28] Recent *DSAs* 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. See IMF (2022) « Macroeconomic Developments and Prospects in Low-Income Countries » *IMF Policy Paper* December 2022, p.19.
[29] The *G20 Common Framework* is not yet effective.
[30] This is particularly true for cross-compliance.
[31] *Report of the Conference of the Parties on its fifteenth session, 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 to it should be provided to developing countries, in accordance with the relevant provisions of the Convention, to enable and support enhanced action on both 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 the implementation of the Convention... Developed countries commit to the goal of jointly mobilising $100 billion per year by 2020 to meet the needs of developing countries ».

additionality is evident in the OECD's accounting of climate funds.[32] The « climate flows » recorded are mostly related to development finance activities and are provided by the donors themselves, who generally refer to the « Rio markers »; these classify the flows into three categories: those where the climate objective is clearly stated and plays a main role in the activity, those where the climate objective, although mentioned, is not the primary motivation, and those that have no climate objective. The financial flows of the first category are generally counted for 100% and those of the second for 35% to 50% depending on the case. The OECD thus arrives at a total of 83 billion dollars of « climate flows » for 2020.

Using these accounting standards, the OECD calculates that 20% of multilateral public flows and 17% of bilateral flows for development are climate-related.[33] But these figures say nothing about the share of flows whose sole 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 finance, another trade-off is between credits for mitigation and credits for adaptation. According to the same OECD statistics, from 2016 to 2020, 64% of multilateral public flows went to mitigation and 32% to adaptation, the same percentages being 59% and 25% for bilateral flows.[34] According to COP15, funding should be « balanced between adaptation and mitigation ». This is a far cry from the 50% for adaptation, which developing countries, especially low-income countries, say is a debt owed to them by developed countries, since they are mostly responsible for global warming, while mitigation funding benefits everyone. The predominance of mitigation investments is easily explained: as their destination is mainly emerging countries, they can be financed at or close to market conditions. Conversely, adaptation investments are mainly located in poor countries and imply a high degree of liberality.

Biodiversity protection poses the same problem of trade-off with development projects. It may lead to restrictions on use or reduced resource extraction in the short term, as for example in the fisheries or forestry sectors, or involve additional costs in the case of an agricultural project to reduce the use of fertilisers and plant protection products. In recent international negotiations it has been argued that the cost of biodiversity conservation should ultimately be borne by industrialised countries, either because of market failures (the « weak link » case) or because of morality (« industrialised countries have destroyed their biodiversity, so we have the right to destroy it too and we should be paid to give it up »). Setting the long-term target of 30*30 may imply that poor countries that exceed this universal target and thus renounce growth-generating activities could be helped and compensated partially or totally for this choice that benefits the common good. As such, the corresponding biodiversity financing should be considered as additional to the classical « aid ».

In fact, at the fifteenth biodiversity conference in Montreal[35], developing countries raised the idea that developed countries should devote 100 billion per year to this objective. The developing countries also wanted a specific fund to be set up, since the Global Environment Facility (GEF)

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[32] The explicit purpose of which is to see what the gap to the 100 billion target is. OECD (2022) *Climate finance provided and mobilised by developed countries in 2016-2020. Lessons from a disaggregated analysis*, OECD Publishing, Paris.
[33] *Idem* (graph A.C2).
[34] The complement of 100 corresponds to unclassified flows.
[35] 7 -19 December 2022.

finances climate projects more than those for the protection of biodiversity.[36] A compromise was finally reached on an amount of 30 billion dollars per year to be matched by the developed countries, without resorting to a new fund, but by setting up a specific compartment within the GEF. But will it be to finance the additional costs of development projects with a biodiversity component or all of these projects?

Conclusion: English gardens and skylines

A review of the main trade-offs between global public policy goals shows that it is difficult to pursue each one rigorously.

Investing in the social sector serves competitiveness and growth. Investing in productive growth benefits the social sectors. Managing the climate serves the fight against poverty. Fighting to preserve biodiversity helps fight global warming. Adapting helps to green the economy. It might therefore seem pointless to try to establish a clear categorisation of objectives to measure contributions to the international common good.

However, the need to display the goals, the contributions that meet them and to monitor their achievement is indispensable. One way of reconciling the measurement of these contributions with the overlap of objectives could be a scoring system whereby a country's financial contribution could be attributed to a primary objective, a secondary objective and a marginal objective. This would lead to a « Rio marker » type system, extended to the whole range of growth, welfare and global public goods issues.

Take the case of France, which via the French Development Agency (AFD) would finance a national programme of protected areas in the Sahel to the tune of 20 million euros. This programme would include reforestation, conservation, and economic activity through local green tourism, sustainable agroforestry and social services for local populations in the area. France could declare these twenty million as Objective 1 (primary) aid for global warming mitigation, Objective 2 (secondary) aid for biodiversity, and Objective 3 (marginal) as socio-economic aid. Weighting factors could be added to these declarations.

Various other solutions can be found to this multiple declaration logic. Each will have, as always, its advantages and weaknesses between which it will be necessary to arbitrate. It is obvious that only the first-tier contributions can be added together to obtain the total of public policy contributions. But multi-declaration will give a picture of redundancies and logic crossings, a source of learning about double or triple benefits, which are themselves encouraged by this mechanism. Thus, we will not be walking in the jungle but in this famous English garden which, in order to be lively and varied, will allow the view to be carried unhindered on all its dimensions.

Two main pitfalls of the current system that we have pointed out could be avoided in this way: i) an excessively compassionate view of the needs of low-income countries, rather than the need for their economies to catch up; ii) in the face of the climate emergency, priority given to global

[36] J. Landry, J. Rochette, M. Wemaëre, S. Treyer « Implementing the post-20020 global biodiversity framework: what financing mechanism? » Iddri *Study,* n°07, November 2022.

warming mitigation projects at the expense of those specifically aimed at adaptation in low-income countries.

However, the discussion cannot stop there and must move to the field of institutions and organisational modes. If one believes in the multiplicity of purposes of each project, the organisation of global collective action through specialised organisations is a problem; for the latter the pursuit of multiple benefits is more difficult than for generalist organisations. The latter, having a mainly geographical logic, are naturally inclined to claim double, triple or quadruple benefit contributions.

From this perspective, bilateral cooperation agencies, generalist UN agencies such as UNDP, and national development banks by their very nature have a comparative advantage, and can claim to manage the problems posed by the focus of specialised international agencies on certain types of objectives.

The regional development banks and the World Bank are in the same situation. In this respect, transforming the World Bank into a climate bank would only be conceivable if we clearly consider that it is not only the climate bank but also the bank for biodiversity, growth, health, etc. In short, that it remains basically what it has been since its birth: a development finance institution supporting both national policies of developing countries and global policies. This point should be clarified: giving it the official mission of supporting global policies (alongside the other responsible organisations) by ensuring their financial coherence and implementing international conventions, which is not the case at present, would give the institution new legitimacy. To do this, the World Bank would not need a (useless) mandate to finance industrialised countries.

As can be seen, the issues of the goals and the organisation of the international system are not disconnected; one interferes with the other. However, these considerations obviously do not exhaust the debate on the organisation of the global institutional landscape. Numerous other considerations, relating for example to questions of legitimacy, technical competence, capacity for political and financial mobilisation, but also the vision of the merits and limits of institutional competition between public actors, come into play when imagining what the optimal global public construction is.

"Sur quoi la fondera-t-il l'économie du monde qu'il veut gouverner? Sera-ce sur le caprice de chaque particulier? Quelle confusion! Sera-ce sur la justice? Il l'ignore."

Pascal

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