CHAPTER 5

Something’s Gotta Give: Aid and the Financing of Global Public Goods

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There is one particularly striking disconnect between what traditional donors say about their aid and what they do with it. What these donors—the longstanding members of the Organisation for Economic Co-operation and Development’s (OECD) Development Assistance Committee (DAC)—mostly say is that their aid is a transfer of resources to poor countries for the purpose of helping those countries meet their own national development objectives. This notion is part of the canonical concept of aid effectiveness, which has at its core the linked concepts of “ownership,” meaning leadership of development programs by beneficiary countries, and “alignment,” meaning alignment of those development programs with national priorities.

What traditional donors increasingly do, however, is use aid to help provide a variety of global public goods (GPGs). A large majority of their aid is still devoted to meeting the development objectives of individual poor countries. But a sizeable minority of it is rather quietly dedicated to GPGs, most notably and recently including climate change mitigation. About one-quarter of aid outflows from DAC donors, and one-half of aid outflows from multilateral organizations, is currently dedicated either to GPGs or to complementary national public goods that must be present if a country is to avail themselves of the benefits of GPGs. Sometimes this use of aid is prominent, as for example, in the case of investments in vaccines and immunization programs for neglected diseases that almost exclusively afflict poor countries. For the most part, though, it happens under the radar.

Even if a substantial proportion of global aid is spent on GPGs, the global aid pie—$127 billion in 2012, or 0.29 percent of the combined gross national income (GNI) of DAC members—is small in proportion to the scale of transnational problems, particularly that of climate change mitigation. It is not controversial, therefore, to argue that the provision of more public financing for GPGs would be a good thing for the development of poor countries, particularly if such financing could be used in part to leverage private contributions toward the

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provision of some GPGs. What is controversial is the argument that aid should be the source of such financing. However, the discussion that follows does not enter into normative questions about whether aid, as distinct from some other stream of international public finance, should be used for GPGs or whether aid for GPGs should be additional in some sense to existing aid. Nor is it argued that there should be a dramatic expansion in the share of aid that is used for GPGs, even though it is conceivable that the development benefits of such an expansion would, up to a certain level of substitution, outweigh the benefits foregone as a result of reductions in aid support for purely national priorities. For present purposes, it is simply taken as a fact that aid budgets are now, and are likely to remain, the source of almost all international public financing for GPGs.

The purpose of this chapter is simply to examine how aid is in fact being used for GPGs and to discuss how, in a changing context, something like the present level of investment in GPGs might be maintained. The approach is largely descriptive and analytical; the intention is to demonstrate that a tension between the two uses of aid just mentioned—GPGs and country priorities—might soon become much more acute owing to recent and rather dramatic changes in the global context in which aid is provided. Chapter 6 adopts a more normative perspective, arguing in broad terms that aid’s rationale, and its multilateral delivery mechanisms, would need to be revisited in a certain way in order to resolve this tension.

The argument of this chapter is as follows. The first section specifies which GPGs are of principal interest from an international development perspective and briefly discusses how they are produced, which ones receive the most financing, and from what sources that financing is received. The second section looks at some long-term trends in the provision of aid financing for GPGs, based on an analysis of data from the OECD’s Creditor Reporting System (CRS). The third section summarizes some relatively recent changes in the context for aid. The fourth section concludes that the use of aid for GPGs is, or soon will be, grinding against significant limits, and the friction is likely to generate heat. If so, donors may have to choose between two courses of action: realigning their aid with the standard narrative or changing the standard narrative. For a range of reasons, which are explored, the choice is not easily made.

**Global Public Goods for Development**

A public good is something that confers benefits on people without restriction or exhaustion, like a street light. A GPG is a public good whose benefits transcend national boundaries, like climate change mitigation or, to be more exact, whatever international arrangements deliver climate change mitigation. National public goods are generally provided by governments, since markets do not provide things that they cannot commodify. In the absence of a world government, international public goods are generally provided by cooperation between governments, usually supported by international organizations.

To be more specific, the term “global public goods” is here used to cover a class of products that provide sustained yields of shared benefits in areas of particular
importance to developing countries. “Products” entails human action of some kind. “Sustained yields” means that the benefits in question are not finite and therefore not subject to long-run allocation decisions (though they might be rationed where production cannot keep pace with demand). “Shared benefits” means that no country for which the benefits are relevant is restricted in its access to them.

With its requirement that benefits be sustained and shared, the above notion of GPGs incorporates the characteristics of non-rivalry and non-excludability that feature in textbook definitions of “a pure public good.” However, it allows that these characteristics might be contingent. For a product to be a GPG, it is sufficient that it be provided in such a way as to yield sustainable, shared benefits. Its publicness might therefore be the result of a policy choice (Kaul et al. 2003) rather than being intrinsic.

The most significant GPGs, in terms of their importance for development and their reliance on aid financing, fall under three broad outcome areas:

- infectious disease surveillance, control, and eradication;
- sustainable management of transboundary natural resources, such as the atmosphere, forest and marine ecosystems, fresh water and fisheries; and
- the production of knowledge for development, which both cuts across and extends beyond the above two areas.

Other GPGs are notable from a development perspective but tend to make smaller, less frequent, or sometimes questionable calls on aid budgets. Free and open trade and global financial stability are often also mentioned as GPGs, likewise peace and security. The World Bank’s 2007 GPG policy framework, for example, gives prominence to trade and financial stability, along with GPGs relating to global health, the global environment, and knowledge (World Bank 2007). More recently, global food security is sometimes mentioned as a GPG and the aspirational concept of a global “social protection floor,” advocated by the International Labour Organization, is articulated in ways that would tend to make it a GPG. In all these areas, there is no question that agreements or cooperation-related mechanisms with strong GPG characteristics can be identified, and also that they will be of substantial or primary relevance to developing countries. Other GPGs, such as global standards that facilitate the expansion of economically or socially important networks, might be of relatively less importance to developing countries.

GPGs can also be classified according to their mode of production, rather than by outcome area. In fact, from a financing perspective this is perhaps a more useful method of classification. GPGs can be produced through singular, cumulative, or structured actions. Different financing and production strategies are required in each case. For example, singular GPGs might be produced by any one of a number of competing actors in response to financial incentives, such as prizes. Structured GPGs require careful management of, and financial and technical support for, the contributing actions of multiple parties, with strong institutional mediation. Cumulative GPGs, which present perhaps the greatest financing and strategic challenges, require at least tacit agreement on some kind
of a common goal among the most significant actors, and often arrangements for the provision of financial benefits as incentives for participation by some parties, for example, through side payments or flexibility mechanisms pursuant to a multilateral or plurilateral agreement.

Figures 5.1 and 5.2 below show the major purposes for which cumulative bilateral and multilateral GPG funding has been used over ten years up to and

**Figure 5.1 Bilateral GPG Funding, by Major Purpose, 2001–2011**

*millions of USD*

- Other, 12822
- Research/scientific institutions, 3039
- Agricultural research, 3640
- Biodiversity, 3775
- Postconflict peace-building (UN), 4949
- Infectious disease control, 8055
- Civilian peace-building, conflict prevention and resolution, 9011
- Sexually transmitted disease control, including HIV/AIDS, 34591

*Source:* Calculations based on OECD Creditor Reporting System data.

**Figure 5.2 Multilateral GPG Funding by Major Purpose Period**

*millions of USD*

- Solar energy, 239
- Other, 1366
- Biodiversity, 357
- Forestry development, 518
- Agricultural research, 940
- Civilian peace-building, conflict prevention and resolution, 1426
- Sexually transmitted disease control, including HIV/AIDS, 13061
- Infectious disease control, 3335

*Source:* Calculations based on OECD Creditor Reporting System data.
including 2011, the last year for which detailed comparative data are available. In interpreting these figures it is important to note that multilateral and bilateral totals cannot be added together. Bilateral totals reflect outflows from DAC donors, some of which are also inflows to multilateral funds and organizations. The latter funds or organizations will either convert those inflows into outflows, though not necessarily in the same calendar year, or simply consume them, as in the case of health and agricultural research organizations. In some cases multilateral funds and organizations also receive funding from private sources, or generate them internally, as in the case of the multilateral development banks. Thus bilateral and multilateral totals must be considered separately.

Bilateral outflows totaled around $80 billion over the decade and are dominated by financing for infectious disease control and peace-building. Multilateral outflows totaled around $20 billion and are dominated by financing for the same two purposes, but with an even greater share of the total—approaching two-thirds—allocated to infectious disease control.

Figures 5.3 and 5.4 below show the major sources from which cumulative bilateral and multilateral GPG funding has been received over the decade up to and including 2011. In reading figure 5.4 it should be noted that the OECD treats the Bill & Melinda Gates Foundation as a multilateral donor for statistical reporting purposes. However, the foundation passes much of its funding to traditional multilateral donors. Thus there is some double-counting in the figure below: some outflows from Gates will also, if in the same calendar year, appear as outflows from the multilateral organizations supported by Gates.

**Figure 5.3 Bilateral GPG Funding by Major Source**

*Source: Calculations based on OECD Creditor Reporting System data.*
While figure 5.3 illustrates that bilateral donors provide GPG funding roughly in accordance with their ranking on the DAC donor “league table,” figure 5.4 illustrates the dominance of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFTATM)—established in January 2002, the first year of the decade under consideration—as a source of GPG financing.

A final observation to close this section is that the acuteness and scale of global challenges has spurred public and private providers of development finance to experiment with new, complex financing schemes during the last decade. These are aimed at securitizing future aid flows for immediate effect, tying financing to development outcomes rather than development inputs, and stimulating market-based private sector provision of products important for development, such as drugs for neglected diseases. Such schemes are not well understood outside expert circles, nor always unanimously supported within those circles.

It is not quite true that all experimentation with new financing instruments and approaches is related in some way to GPGs: some payment-by-results approaches are applied in areas such as education and water supply and sanitation. However, for the most part, innovative financing approaches are being used to achieve innovation, scale, and speed for the delivery of GPGs. It is also important to note that the increasing preference for complex financing approaches reinforces the centrality of multilateral organizations as agents for the delivery of GPGs. Arguably, only such organizations can aggregate and manage resources, and monitor results, in the way needed for the effective execution of these complex approaches.
A Trend Analysis

There is no systematic or regular consideration of the share and composition of aid allocated to GPGs, whether at the global level or by individual donor countries or by the multilateral institutions that spend a substantial proportion of this aid. This is rather surprising given the frequently expressed concern that aid for GPGs might be provided at the expense of aid for more local priorities. This likely displacement effect is occasionally remarked upon, and it has been seen as a major risk in connection with developed countries’ collective commitment to scale-up climate change financing between 2009 and—which had already resulted in the allocation of some 13 percent of all aid to climate-related activities by 2011 (OECD 2013).

In the period from about 1999 to 2004, when there was a notable spike in international interest in GPGs, several efforts were made to estimate the quantity of aid used in support of them. These efforts yielded quite divergent figures, ranging from 4 to 30 percent. The divergence is explained by several factors.

First, the primary source of data, the OECD Development Assistance Committee’s CRS, employs a coding system that is by no means useful for identifying aid in support of GPGs. Being itself an established and widely used global public good, the CRS is not easily modified, even to meet such pressing needs as determining the quantity of aid allocated to climate change mitigation. (The “Rio marker” system [OECD 2013], which now includes a climate change mitigation marker, is poorly applied by reporting agencies and allows only very rough quantification.)

Second, the various estimation efforts of the late 1990s and early 2000s took quite different views about what constitutes a GPG. For example, Raffer (1999) inexplicably includes all aid for water and sanitation. The differences might have been less if the CRS coding system were better suited to the task, but they probably also reflect quite different understandings of the concept of a GPG.

Third, only the World Bank, whose 2001 estimate is at the lower end of the spectrum, has attempted to make a clear distinction between core GPGs and complementary funding for related national public goods, the latter being necessary for the consumption of GPGs (World Bank 2001). Other estimates appear to include many national public goods without necessarily applying the latter restriction.

What all past estimation efforts have agreed on, regardless of their methodology and the exact time window in question, is that aid for GPGs increased dramatically through the 1990s into the early 2000s, perhaps roughly doubling as a share of total aid relative to the 1980s. And there are several reasons to expect that the growth of aid for GPGs would have further accelerated since the above estimations were made.

The main reason is that since the turn of the century, several major new GPG financing mechanisms have been established, including the GAVI Alliance (founded in 2000); the GAVI Alliance-related International Financing Facility for
Immunisation (2006); the Global Fund to Fight AIDS, Tuberculosis and Malaria (2002); and the Climate Investment Funds (2008). The GAVI Alliance, the Global Fund, and the Climate Investment Funds immediately became three of the five largest global programs in which the World Bank is involved, the others being the Global Environment Facility (GEF) and the Consultative Group on International Agricultural Research (CGIAR).

Many other, smaller mechanisms have also been created, such as

- the Critical Ecosystem Partnership Fund (2000);
- the Global Crop Diversity Trust (2004);
- a considerable number of health-sector product development partnerships, such as the Medicines for Malaria Venture (late 1999) and the Drugs for Neglected Diseases Initiative (2003);
- pilot "pull" mechanisms, such as the Pneumococcal AMC (Advance Market Commitment) vaccination initiative (2006) and the AgResults initiative (2012); and

As a rough indication of the scale of financing allocated to such mechanisms in recent years, it is useful to consider contributions to World Bank–managed trust funds with global and regional objectives. During the period 2002–10, donors contributed $57.5 billion to trust funds managed by the World Bank, of which around half was likely to have funded GPGs through large "financial intermediary" funds (IEG 2011a). In 2011 the World Bank was involved in 120 global and regional partnership programs with total spending of $7 billion (IEG 2011b).5

A second reason to expect growth in aid for GPGs is that philanthropic donors, most notably, the Bill & Melinda Gates Foundation, have also played an increasingly prominent role through the first decade of this century in funding GPGs through many of the above, and other, mechanisms. Recent annual reports show the Gates Foundation is spending well over $3 billion per annum (BMGF 2011). It is now providing more aid than all but the top dozen or so OECD DAC donor countries—with a very strong emphasis on funding for GPGs.

A third reason to expect growth in aid for GPGs is that all major donors made commitments at or following the United Nations Framework Convention on Climate Change (UNFCCC) conference in Copenhagen, in 2009, to provide collectively an average of $10 billion per annum over the three years, from 2010 to 2012, in “fast-start” financing for action on climate change in developing countries. A substantial majority of this has been allocated to climate change mitigation, a GPG.

Given the appearance of the new multilateral financing mechanisms listed above, the growth in foundation financing for GPGs, and the known growth of climate change financing since 2009, it seems highly likely that aid financing for GPGs will have continued to grow strongly in absolute terms between 2001 and 2011, and probably also as a proportion of aid.
An analysis of CRS data for the decade from 2002 to 2011 confirms that the use of aid for GPGs has increased substantially. (It appears that nobody has undertaken such an analysis since around 2004.) In constant 2011 US dollar terms, DAC donor funding for GPGs grew from about $4 billion annually during 2002–03 to about $12 billion for 2010–11. Multilateral spending on GPGs grew from about $1 billion to about $3 billion. DAC donors’ complementary spending grew from about $12 billion to $22 billion, and multilateral complementary spending from about $4 billion to about $7 billion. As a share of official development assistance (ODA) from DAC donors, spending on GPGs went from under 4 percent to more than 8 percent. As a share of multilateral spending, it went from 5 percent to 15 percent.

Figures 5.5 and 5.6 illustrate trends in the level and share of aid for GPGs over the decade up to and including 2011, distinguishing between bilateral and multilateral outflows.

While increasing allocations for global health and environment programs account for the bulk of the recent growth in aid for GPGs, strong growth in aid budgets up to 2010 or so for most donors coincided with an increased level of interest in the use of aid for other GPG-related purposes. These uses include costs associated with international peacekeeping, the presence of refugees and asylum-seekers within donor countries, the negotiation of trade liberalization agreements, and the promotion of private investment in developing countries through bilateral development financing institutions or various public-private partnerships for development. The general trend is toward much greater use of aid for both mutual interest and global interest purposes, though some of the uses listed have aroused considerable controversy.
Overall, the sharp increase in global aid, commencing around the turn of this century and falling off only recently, permitted a similarly sharp increase in funding for GPGs without any very noticeable impact on allocations to country-specific purposes. Thus a sort of additionality was achieved—the sort of additionality that many donors clearly had in mind when they agreed, in negotiations on the Copenhagen Accord (UNFCCC 2009), that their climate change financing commitments would be “new and additional.” This might help to explain the seeming paradox that aid for GPGs experienced a major acceleration at exactly the time when international interest in GPGs as an object of international public financing appeared to evaporate. It is possible that the onset of the global financial crisis, and the resultant preoccupation with its national-level impacts and related response measures, might also have played a role in drawing discussion on this topic to a close.

The Changing Context for Aid

At the same time as aid for GPGs has been growing strongly, some quite dramatic shifts have taken place in the level, composition, and origins of international financial flows to poor countries, as well as in the distribution of growth...
and poverty across the world. As these have been well-discussed elsewhere, the four main such shifts are discussed only briefly below.

First, aid from traditional sources is currently declining in overall volume. Over the last 40 years, global aid from official donors—ODA, as defined by the OECD Development Assistance Committee—has mostly followed a quite steep upward trajectory. In fact, it has trebled in real terms since 1970. In constant 2011 dollars, ODA more than doubled, from $43 billion to $93 billion, between 1970 and 1992, declined somewhat over the five years to 1997 to $73 billion, then climbed steeply from 1998 to 2010. It hit an all-time peak of $137 billion in 2010. In 2011, however, it fell by 2 percent, and in 2012 by a further 4 percent. It is expected to remain stagnant, at best, over the several years ahead.

Second, even without the recent volume declines, aid was becoming much less important than it was compared with other sources of finance. Foreign direct investment and migrants’ remittances, in particular, were both about half the size of global ODA in 1990, but now, taken together, are some eight times larger. The level of private flows with an explicit development objective is growing rapidly too. By some estimates, private philanthropic flows have grown from a very low base in 1990 to more than $50 billion per year now. Domestic sources are also assuming much greater importance. Tax receipts in Africa are now thought to be equivalent to about 10 times the level of ODA.

Third, aid from traditional sources is now competing with aid or aid-like flows from emerging economies. While not well understood, these flows are thought to be anywhere between $10 billion and $50 billion per year (Walz and Ramachandran 2011). These donors, or “South-South cooperation partners,” have so far shown little interest in financing GPGs. Their emphasis is on mutual interests within bilateral relationships rather than on global interests. Their priorities tend to be those neglected in the Millennium Development Goals (MDGs) and in the programs of traditional donors over the last two decades: economic infrastructure and production. In some cases, of course, this emphasis on mutual interest and infrastructure will in fact lead them to support the provision of important regional public goods (RPGs), such as international road, rail, and seaport networks.

Fourth, there are fewer poor countries and, as a result, more poor people in middle-income countries (MICs). The Center for Global Development argues that by 2025, the client base of the World Bank’s concessional financing arm, the International Development Association (IDA), could shrink by more than half in terms of the number of eligible countries (37 of 68 could graduate) or by two-thirds in terms of the population of eligible countries (from 3 billion to 1 billion people) (Moss and Leo 2011). The number of low-income countries fell from 63 in 2000 to 35 in 2010 and might be as few as 16 by 2030 based on IMF (2012) World Economic Outlook projections (Sumner 2012). At the same time, MICs now account for around 70 percent of the world’s poor, compared with less than 10 percent two decades ago. In addition, almost 90 percent of the world’s poor are concentrated in just 10 low-income countries and 10 MICs. Persistent inequality in these countries could in some cases have negative regional or global spillover effects.
We have seen that dramatic shifts have taken place in the level, composition, and origins of international financial flows to poor countries, as well as in the distribution of growth and poverty across the world. These developments pose major questions for traditional development agencies, whose institutional mandates and resource allocation processes are carrying them toward a narrow focus on the poorest and most fragile states with the most intractable development problems, mainly in Africa. As a result, the traditional donor community is undergoing much self-examination with respect to aid volume, resource allocation priorities, financing instruments and delivery channels.

To some extent, this self-examination is taking place in the context of ongoing discussions about the post-2015 international development framework. The priorities of traditional donors, as expressed in the MDGs, have often been seen as biased toward the charitable concerns of their own citizens and somewhat ill-matched with the primary concerns of people in poor countries, namely, jobs and growth, social security, peace and freedom, and, increasingly, climate change. These “missing” elements of the MDGs are likely to assume greater prominence in the post-2015 framework. However, fundamental and interrelated questions about the use of aid for climate change and other GPGs, the allocation of aid to MICs, and the overall level of financing for international development have not yet begun to be considered and could make agreement on the post-2015 development agenda much more difficult than is presently expected.

The self-examination referred to above is also taking place in the context of individual donor countries’ policy-making and budget processes. At the level of policy, there is an increasingly evident inclination to use, or revive, mutual-interest rationales for aid in traditional donor countries. Such rationales typically emphasize generalized benefits, as in the case of the United Kingdom’s aid narrative, quoted in box 5.1 below. In some cases, though, they emphasize narrower,
usually commercial, benefits for the donor country. At the time of writing, at least two DAC donors—Canada and Australia—were describing their aid programs as instruments of “economic diplomacy.” There are in fact two divergent tendencies here: one toward a new, GPG-based rationale for aid, the other toward a “bilateral-benefits” rationale of the kind used by emerging donors. Traditional donors might be coming to perceive that there is a choice to be made between, on the one hand, competing with emerging donors on their terms in bilateral arenas and, on the other hand, ceding some ground to those donors and pursuing complementary investments in RPGs and GPGs. These options are not mutually exclusive in practice, but they represent such different conceptions of the role of aid that it is hard to imagine a donor juggling them.

One might hope that with all the contextual changes outlined above, the use of aid for GPGs by traditional donors would naturally further increase in order to complement, progressively, the bilaterally oriented investments of emerging donors—in other words, that for these donors the “global-benefits” tendency would prevail over the “bilateral-benefits” tendency. This is certainly not a foregone conclusion. It is entirely possible that aid for GPGs will actually diminish if a significant number of traditional donors elect to compete with emerging donors at the bilateral level. However, it is clear that such competition would be inefficient and retrograde from an aid effectiveness perspective. For present purposes, then, assume that traditional donors do see reason to further increase aid for GPGs. The question then arises as to how easy it would be actually to achieve such an increase.

Even if there were strong interest among traditional donors in increasing the share of aid allocated to GPGs, this enterprise faces a significant barrier in the form of the standard aid policy narrative. Most DAC donors’ aid policy narratives, read strictly, are largely inconsistent with the use of aid for purposes other than poverty reduction and humanitarian action within the poorer developing countries. They present aid as a resource for national and local poverty reduction and social development efforts, in line with partner governments’ national development strategies. They place little or no emphasis on the importance for poor countries themselves of actions to supply GPGs. Three factors, not entirely independent of one another, explain the nature of the dominant aid policy narrative, as follows.

First, the notion that aid is focused on poor or at least fragile countries is generally considered to be important in building and maintaining public support for aid. The MDGs, which crystallized over the period 2000–01, increasingly became a rallying point for aid advocates as the decade progressed. By the time of the G8’s Gleneagles Summit in 2005, many bilateral donors had given the MDGs pride of place in their aid policy frameworks. It should be noted that the MDGs are not in themselves antithetical to the use of aid for GPGs. In fact, it is often argued that the emergence of several “vertical” funds, including the health-related funds that account for a large part of the recent growth in aid funding for GPGs, was linked to the centrality of the MDGs in donors’ aid policies and sector strategies. However, the MDGs, despite being established as global goals, were
quickly translated to the country level, to the dismay of at least one of their architects (Vandemoortele 2012). In effect, the MDGs have been localized in order to make them more vivid and consistent with the message that aid is for poor countries. As a result, the measures necessary for the achievement of the MDGs are generally conceived as national measures, and vertical funds have faced strong pressure to become more responsive to national priorities.

Second, a body of aid effectiveness doctrine was developed over the course of the last decade that essentially elaborated on the 1990s donor dictum that for aid to work, developing country governments needed to be “in the driver’s seat.” The Paris Declaration on aid effectiveness and the subsequent Accra Agenda for Action (OECD 2005/08) called for aid to be provided in ways that maximize ownership by beneficiary governments and alignment with their development strategies. At the same time, there was a strong emphasis on managing aid for results (which also found expression in the MDGs) and on harmonizing donor processes (IEG 2008). While the results orientation of global funds and programs was applauded, the need for such mechanisms to be integrated into country-level assistance efforts was, as noted above, strongly emphasized. The need to integrate assistance related to HIV/AIDS into national development strategies, for example, was explicitly mentioned in the Paris Declaration. This heavy emphasis on the national development strategies and priorities of developing country governments also helps to explain the localization of the MDGs, which appealed to many donors and some developing country governments as templates for such strategies where they did not already exist.

It is worth mentioning here that the concept of “policy coherence for development” is an important part of the above aid effectiveness doctrine, though a somewhat neglected one in the view of the OECD, which regularly criticizes donors for inconsistencies between their aid and non-aid external policies. This concept recognizes that action outside the borders of developing countries is important for their development. It is, however, usually concerned only with policy consistency, primarily within individual donor countries and specifically between externally oriented ministries. A commitment to policy coherence does not in any strong way entail a commitment to collective action for the purpose of supplying GPGs, even if it might be expected to. Certainly some donors will present their commitment to an open, rule-based, non-discriminatory trading system—a GPG—as an instance of policy coherence. However, this particular GPG is prized primarily for its benefits to the economies of the donors in question.

Third, the notion that aid is used in support of developing countries’ priorities is important in maintaining those countries’ support for aid and therefore in maintaining aid’s diplomatic impact. Bilateral aid is inevitably embedded within diplomatic and trade strategies, even where it is not actually subservient to such strategies. For this reason, quite apart from any attachment to the above aid effectiveness doctrine, a donor country will wish to convey to its bilateral aid partners that its aid is above all responsive to their needs and priorities. In fact, donor countries’ attachment to the aid effectiveness doctrine is likely, in part, to be a reflection of their diplomatic and trade objectives.
The several factors just described help to explain the nature of the aid policy narrative that is now dominant, and therefore donors’ heavy reliance on country-based aid allocation processes, as well as the related incentive structures within development agencies. Clearly these factors should tend to limit the quantity of aid allocated to GPGs, particularly in a straitened fiscal environment. However, it is less clear exactly where that limit might start to assert itself. As demonstrated above, aid for GPGs has so far been able to grow very substantially, somewhat faster than global aid has grown, without evident impact on the dominant aid policy narrative. At some stage, however, funding for GPGs could become so significant and prominent that the narrative ceases to be relevant, perhaps with something of a lag. At that stage, it might be assumed, the obvious course of action is simply to qualify the narrative in some way, such that it articulates a secondary purpose for aid in supporting the provision of GPGs important for development. But now further barriers arise.

One barrier is that—for full-blown GPGs, as distinct from international public goods benefiting only developing countries—moral objections tend to inhibit reliance on aid. If the weight of benefits is too strongly in favor of wealthier countries, this could lead to reductions not only in public support for aid in developed countries, but also in cooperation from the governments of developing countries.

A second barrier, which arises even where the weight of benefits strongly favors developing countries, is that much of the action necessary to supply certain GPGs—namely those described above as “cumulative” GPGs—must happen, not extraterritorially, but within the borders of fast-growing MICs. These countries are generally characterized by growing inequality, weak social protection systems, and inadequate infrastructure. They are unlikely to pursue policies and programs that yield global benefits without some level of subsidy for the incremental costs of doing so. However, if aid is used to fund such subsidies, this creates the perception that aid is being allocated to richer countries at the expense of poorer ones. It would be a very challenging public relations task to dislodge this perception. Indeed, public relations imperatives are tending in the opposite direction: the United Kingdom and some other donors have announced the cessation of all aid to China, India, and South Africa. Norway is an interesting exception to the general trend: its largest aid recipient in 2012 was Brazil, a principal site of Norwegian-funded action to reduce carbon emissions from deforestation and forest degradation.

A third barrier is one of principle. As just noted, even emerging economies will often require an external subsidy in order to adopt this or that specific policy or measure that yields global benefits. However, a traditional donor country might accept that reality without conceding that the emerging economy in question should make no contribution at all to the cost of providing GPGs. The argument will be that as an economy grows, it should accept an increasing level of overall responsibility for sharing the burden with respect to GPGs. This might mean, for example, that the emerging economy in question is expected to make contributions to certain global mechanisms commensurate with its growing financial
capacity, while remaining eligible for international subsidies for certain purposes. Unless the burden-sharing obligation is accepted, the subsidies are withheld. This was the model proposed by Mexico in 2008 for a World Climate Change Fund, known generally as the Green Fund (Quesada 2009). However, gaining the cooperation of major players in such an arrangement, and negotiating precise burden shares, would be very difficult indeed.

This latter set of essentially moral factors—relating to reflexive benefits, the special entitlement of poor countries to aid, and global burden sharing—strongly tends to limit the extent to which the dominant aid policy narrative can be modified or qualified in order to make space for GPGs. Perhaps space can more easily be made for actions in support of GPGs that strongly benefit poor countries where those actions are taken at the global level. The paradigm of such action is support for the development of vaccines and drugs for neglected diseases. The anti-paradigm, however, is the provision of concessional financing to large emerging economies as an inducement to switch from high-emission to low-emission energy generation.

This set of moral factors accounts for various calls for GPG financing to be made separate from and, more important, additional to aid. This call for additionality is a common refrain in the Zedillo report prepared for the Monterrey conference on financing for development (UN 2001), in the 2006 report of the International Task Force on Global Public Goods (ITFGPG 2006), in the 2009 Copenhagen Accord (UNFCCC 2009) with respect to climate change financing, and in several pieces of work led by Inge Kaul, the primary author of the 1999 United Nations Development Programme report that sparked international interest in the topic of GPGs for development (Kaul, Grunberg, and Stern 1999).

The additionality here called for is not merely additionality with respect to baseline levels of aid, but additionality in one of several much stronger senses, according to which the resources in question must not come from the same sources as aid, or disturb the existing pattern of aid allocation to countries and sectors, or be counted as aid in the context of assessing progress toward ODA/GNI targets, most notably the United Nations’ 0.7 percent target. For example, the resources might be extracted from the budgets of relevant domestic sectoral ministries, with no offsetting savings harvested from aid programs. Or they might be raised by means of new taxes or levies on certain types of international transactions that are currently untaxed or generate global public bads.

However, such proposals have made no appreciable progress thus far. In part this reflects their complexity and the fact that governments generally prefer to maintain a clear separation between revenue and spending policies. (It must also be assumed that if any new international tax or levy proved particularly lucrative, it would tend to depress aid budgets or else lead to the diversion of some share of the proceeds to domestic purposes.) In part, however, the poor uptake of these proposals likely also reflects a view that the existence of reflexive benefits and displacement effects does not constitute a compelling argument for creating a separate category of international public finance.
Not everybody argues that GPG financing should be additional to aid. Severino and Ray (2009) have called for abandonment of the traditional concept of aid in favor of a broader concept of international public finance (presumed to be concessional in character). This would encompass GPG financing and financing for poverty reduction at the national level. It would essentially be a category of financing for the resolution of a variety of global problems, some of which would concern developing countries only and some of which would concern the world as a whole. However, this call has attracted little support, probably because it is unclear what allocation and burden-sharing principles would apply and how public support, which is strongly linked to the dominant aid policy narrative, would be preserved.

Where the Zedillo strategy would situate GPG financing in a parallel space, not impinging on that occupied by traditional aid, the Severino and Ray strategy would eliminate the distinction entirely. In both cases, any amount of growth in GPG financing would in principle be possible. However, in the real world, GPG financing simply is aid, and its growth is strongly constrained by both the standard aid narrative and the quantity of aid. At some point, the use of aid for GPGs is likely to start grinding against these constraints, and it will not be possible to relieve the resultant pain simply by adding a GPG “wrinkle” to the existing aid policy narrative.

Conclusion

International aid donors are in a fundamentally unstable situation. On one side is a level of investment from traditional donors in GPGs that is increasingly out of balance with their own dominant rationale for aid, and probably with the allocation preferences of their partner countries. On the other side is an increasingly concentrated and assertive group of developing countries whose priorities cannot be read off from the MDGs and who have access to new and flexible sources of finance. They are more often finding themselves in a position to refuse aid that might once have been accepted for its national benefits, even if the motivation for its provision related more to its global benefits. Surely, sooner or later, something has got to give. Unless global aid resumes its rapid growth, either the standard aid rationale will have to be decisively revised, or the growth of aid for GPGs will have to end.

In the latter outcome, traditional donors would flatline or reduce aid for GPGs, restore faith with their own policy narratives, and compete in bilateral arenas with newer donors. In the alternative outcome, they would further increase aid for GPGs, substantially revise their narratives and try to work in a complementary fashion with newer donors. In other words, aid for GPGs would either subside or move to the foreground in the narratives and portfolios of traditional donors. Subsidence looks unlikely, given the trends of the last two decades and the nature of the challenges ahead. So a sensible modification of the dominant aid policy narrative should be contemplated. How such a modification might be undertaken is the subject of chapter 6.
Of the four global public good (GPG) topic areas introduced in the beginning of this chapter, the climate-related narrative and evidence that follows focus primarily on the financing of climate mitigation activities. The frictions described in the chapter between the dominant aid policy narrative and the evidenced practice of increasing financing for GPGs are very real in the context of climate mitigation given the moral, public relations, and delivery challenges noted. However, another topic area mentioned deserves arguably greater attention in the context of climate change and the role of development finance institutions like the World Bank Group in 2025, namely, sustainable [management and] consumption of internationally-important resources.

Increasing financing for sustainable management of forest, fresh water, coastal, and marine ecosystems and consumption of their goods and services should result in both reduced emissions and increased resilience of the poorest and most vulnerable people to the effects of climate variability and change. This “sustainable management” subsector of adaptation merits and could sustain large growth in public financing flows by 2025 and beyond, building substantially on existing trends. After all, there is no evidence to suggest that the current pace of incremental mitigation action will solve the climate crisis completely, leaving all countries, including poor and vulnerable populations now concentrated in middle-income countries (MICs), to cope with the unavoidable and residual consequences.

Unlike on the mitigation side of the equation, financing for climate adaptation fits nicely into the dominant aid policy narrative described in this chapter. The benefits are national or local; the purpose is to reduce poverty or increase welfare; and the provision of such finance can be integrated in donor countries’ trade and diplomatic strategies as well as the mainstream operations of development finance institutions, such as the World Bank Group. Through their actions and commitments, donor countries have shown that while they may not formally acknowledge “historical responsibility” for climate change, they are able to justify and deliver large levels of “new” financing for adaptation, including through multilateral institutions like the Bank. But current levels of financing are in no way adequate “compensation” for the historical failures of rich countries to provide their fare share of GPGs.

I was in the Bella Centre assisting the chair of the Small Island Developing States negotiating block when the resolution recognizing the Copenhagen Accord was passed. A major sticking point for the support of island leaders from Grenada and the Maldives was donors’ agreement to provide “balanced allocation [of support] between adaptation and mitigation.” Why then, do recent analyzes show that climate finance flows for mitigation have vastly outstripped those for adaptation, including in the public finance category? The multiwindow Climate Investment Funds (CIF), a microcosm of the vast climate finance space, illustrates this point. The CIF’s adaptation financing window—the Pilot Program for Climate Resilience (PPCR)—accounts for roughly 17 percent of the $7.6 billion in funds pledged...
to the CIF by donors to date, with the balance going to mitigation programs. Of the $1.1 billion that donors have pledged to the CIF after the initial start-up phase (establishing pledges totaled $6.5 billion), less than $200 million have been for the PPCR. Meanwhile, the PPCR supports a greater number of countries than any other CIF program.

Substantially increasing funds for the PPCR and for broader adaptation finance, with the goal of reaching at least parity with mitigation finance by 2025, should be the priority of donors and the MDBs. Also, sustain investments in current PPCR countries who have both paid substantial transaction costs to participate in the program and benefitted greatly from the new experience and capacity in climate resilient development planning and implementation. Open up the PPCR to the scores of countries knocking on the CIF’s doors, and welcome the participation of MICs with large economies. A large proportion of the demand for adaptation finance in 2025 will come from them, and they still look to the Bank’s technical and financial assistance to help them solve long-term and difficult challenges and to crowd in private finance.

Given the risks and long lead times associated with these types of investments, the World Bank will also need to build the foundations for them now by investing in human capacity within the World Bank and the International Finance Corporation (IFC) and increasing the prominence of climate risk and adaptation in dialogues with public and private sector clients. Climate risk and adaptation curriculum (an “Adaptation Academy”), similar to that now used to train environmental and social safeguards specialists, could be developed and mandated with different tracks for sector specialists, investment officers, and country directors and managers. Achievement of annual training targets should be developed and included in performance assessments of operational staff. This would ensure that World Bank Group representatives involved in policy and technical dialogues would be capable of offering the best advice to their client counterparts.

This strategy ultimately hinges on two preconditions: wealthy countries delivering on their political commitment and moral obligation to increase financing for adaptation, and the Bank and IFC showing top performance as a financial and technical mediator for adaptation financing programs like the PPCR. Only with “cash in hand,” a good track record, and the above-noted capacities can Bank representatives be taken seriously by clients as they work to steer them toward a more climate-resilient development.

Notes

1. All funding amounts cited in this chapter are in U.S. dollars.
2. This is not quite the same as distinguishing them, based on Sandler (1998), according to their “aggregation technology”—best shot, summative, or weakest link. Sandler’s approach, which has been widely taken up, is essentially quantitative. It is concerned with the manner in which the total quantity of the good supplied depends upon the quantities supplied by each of the relevant actors. The mode-of-production approach is qualitative. The main difference between the two approaches is that in the mode-of-production approach, structured public goods include weakest-link public goods, but much else besides. For example, regional water resources management regimes and regional transport corridors are structured public goods, but not
weakest-link public goods, because non-cooperation by one party may reduce but not necessarily eliminate their benefits to other parties.


4. Raffer (1999) estimates 25.3 percent; Reisen, Soto, and Weithöner (2004), 30 percent; World Bank (2001), 12.5 percent; te Velde, Morrissey, and Hewitt (2002), 8.8 percent (though they allow that this might be a substantial underestimate); and Anand (2002), only 3.7 percent. These estimates include aid for regional public goods. Reisen, Soto, and Weithöner (2004) suggest that about half of aid for international public goods is for GPGs and half for RPGs.

5. Of the $7 billion total, the World Bank had operational responsibility for about $1 billion and acted as trustee for about $5 billion. The Climate Investment Funds were not included in IEG 2011b, but were included in IEG 2011a.

References


