Official Development Assistance, Global Public Goods, and Implications for Climate Finance

Charles Kenny

Abstract

Is research into a Covid-19 vaccine a suitable use of Official Development Assistance (ODA)? What about finance to reduce carbon dioxide emissions? Both are clearly good ways to spend money with considerable benefits to developing countries, but is that enough? This note attempts to tease apart a discussion of "is this ODA" from "is this a global public good?" and then separate out again "is this ODA and/or a global public good?" from "is this an efficient way to spend money?" It uses that discussion to frame conclusions about how and what financing of GPGs should be counted as ODA and takes a specific look at the issue of climate change in that regard.

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Is research into a Covid-19 vaccine a suitable use of Official Development Assistance (ODA)? What about finance to reduce carbon dioxide emissions? Both are clearly good ways to spend money with considerable benefits to developing countries, but is that enough? The link between global public goods like climate and research and ODA is not a new concern. Severino and Ray noted in 2011 that "many have tried to distinguish 'ODA' from global public goods promotion efforts, both conceptually and technically; they have gone as far as measuring how much of each counts in the official ODA statistics. Yet this move is being actively resisted by most governments, who are keen on pouring as much as possible into the ODA basket to reach overall and thematic international goals – including resources that have very little to do with these objectives." They suggested the issue of climate finance in particular "demonstrates the urgent need for clarity on what ill a given type of funding is designed to cure." Hopefully this note is a further step in that process.

As Severino and Ray noted, there have been previous efforts to delineate spending on GPGs that should count as ODA. Birdsall and Diofasi define "development-relevant global public goods (and bads)" as global threats and opportunities of particular relevance for the world's poor and vulnerable concentrated in developing countries, for which the benefits of investments by or in one single country cannot be fully captured by that country." They offer an illustrative list: climate change, disease and pandemics, cheaper solar energy technologies, new vaccines. Birdsall and Diofasi estimated that about $12 billion was spent annually on GPGs covering global health, the environment, peace and security, data and research, "much of which" was reported as ODA.

Development Initiatives carried out a later exercise including under "ODA finance for GPGs" spending on global public health, research, the environment, conflict peace and security, trade, transport policy, communications, transparency, impact evaluation and support for INGOs. This exercise produced an estimate of $13 billion in ODA to GPGs in 2014 (mostly to the environment). But note the Development Initiatives exercise starts with financing counted as ODA and allocates some of that financing to a pot it labels 'global public goods.'

This note attempts to tease apart a discussion of "is this ODA" from "is this a global public good?" and then separate out again "is this ODA and/or a global public good?" from "is this an efficient way to spend money?" It uses that discussion to frame conclusions about how and what financing of GPGs should be counted as ODA and takes a specific look at the issue of climate change in that regard.

This discussion may seem (is) arcane and may appear to lack real-world importance. But ODA is a brand with value. It is written into UK law that 0.7 percent of GNI be spent on ODA as defined by the OECD's Development Assistance Committee (at least for the moment). Other countries have committed to the goal of reaching a similar level of assistance. That discussions in the Development Assistance Committee over what is in and what is out of ODA can be so heated itself suggests that the definition matters. And 'good' aid, ODA that is well designed to meet the development needs of the world's poorest countries and people, can have a considerable impact on outcomes. Defining ODA in the right way can help foster development in some of the places where development progress is

most urgent. And given the relatively limited scale of ODA compared to the challenges of development, it is too valuable to waste.

What is Official Development Assistance Meant to Be?

ODA is concessional finance provided by governments administered with the promotion of the economic development and welfare of (a specific list of) developing countries as the main objective. This headline definition is buttressed by considerable OECD case law and regulation as to "what counts as ODA" in areas including international organizations (33 percent of IAEA assessed contributions count as ODA), peace-building and peacekeeping (fifteen percent of UN peacekeeping expenditures count as ODA), expenses related to housing refugees and aid administration expenses. That guidance helps illustrate what ODA was designed to be, and it suggests that ODA finance should be money that would not otherwise be spent by governments without the underlying motivation of promoting the welfare of people in developing countries.

ODA has always been a measure of donor spending rather than recipient benefit, but still embedded within that is the idea it should be for the good of developing countries and involve concessional financial flows.[1] William Hynes and Simon Scott list a sad history of retreats by the DAC secretariat in terms of allowing things to be counted as ODA that probably shouldn't be: the imputed (as distinct from direct) costs of training visiting students,[2] in-donor refugee costs, administrative costs of ODA and "developmental awareness."[3] Certainly, the rules appear amenable to gaming. The UK government's recent specific request to departments to reclassify existing spending as ODA where possible at least raises some questions as to whether the financing was initially provided with the promotion of welfare in developing countries as its main objective.

As a result of these retreats and obfuscations, Severino and Ray complained: "It is hard to find other examples of public policies whose performance is assessed so little on the basis of results and so much on the basis of expenses – themselves measured so imperfectly... ODA figures include a motley series of expenses, a minority of which actually translates into fresh funds for development programmes in the world's poorest nations." Considerable finance passes directly from donors to service providers in donor countries without ever flowing south of the equator, for example.

Nonetheless, the spirit of additional effort remains: market-rate lending is meant to be excluded, for example, because governments un-motivated by the welfare of people in developing countries would provide such funding for a number of other reasons (trade

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[1] The original definition was *official flows* that "are administered with the promotion of the economic development and welfare of developing countries as their main objective" whose "financial terms are intended to be concessional in character."

[2] Though in defense the rule is still "where fees do not cover the cost of tuition, and if the presence of students reflects the implementation of a conscious policy of development co-operation by the host country"

[3] Apparently the DAC readily agreed that a payment by "the United Kingdom government of the pension to a retired colonel in respect of service in Nigeria, resident in Brighton" counted as ODA (hopefully under 'administrative costs').

finance, as it might be).[4] Again, according to the DAC rules "Cancellation of debt qualifies as ODA debt forgiveness if it has a development motive. Unilateral write off for the purposes of book keeping does not have this motive and is not included in DAC reporting." Tied aid is frowned upon (if still included) in part because it suggests domestic industrial policy as a motivation.

Further to that idea, ODA was never meant to cover 'everything spent on things that are good for developing countries,' with core funding of many global governance organizations explicitly excluded or significantly discounted, for example, and most domestic research and development expenditures excluded as well. Because of that, there have been calls for broader measures alongside ODA. For example, the DAC's Bevan Stein at one point suggested tightening the definition of ODA while adding a category of Additional Concessional Contributions which would cover spending that did not involve an actual flow of resources to developing countries as well as other non-ODA concessional flows in areas including climate mitigation and other global public goods. Again, the OECD has developed the Total Official Support for Sustainable Development measure (TOSSD).

What are Global Public Goods?

Unlike ODA, there is no official definition of "global public goods," nor an official attempt to track spending on them. Birdsall and Diofasi give this definition: "Global public goods are institutions, mechanisms, and outcomes that provide quasi-universal benefits to more than one group of countries, extending to both current and future generations. They are nonrival and nonexcludable: one country's enjoyment of the good does not affect (or reduce) its enjoyment by others, and once the good becomes available, no country can be excluded from sharing its benefits." Some examples of global public goods are a stable climate, defense against rogue asteroids big enough to pose an existential threat, disease eradication, pandemic control, and new technologies.

From the standpoint of a government spending money on GPGs, most of the benefit from such finance often flows elsewhere. For example, most of the benefit of all UK funding for (pure) greenhouse gas reduction benefits [world-UK] far more than it benefits the UK alone.[5] This suggests they will be under-financed or provided absent some global cooperative agreement, and it is why GPGs accumulate treaties and multilateral organizations designed to provide for that cooperation: the UN Framework Convention on Climate Change, the WHO's International Health Regulations, the Convention on Biological Diversity and so on.

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[4] This is done imperfectly, with complaints that donors have reported as ODA funds borrowed on the market and then re-lent at higher rates.

[5] Note that between public and private goods there are two different types of intermediate good –club goods which are non-rival but excludable (digital TV signals) and common goods which are rival but non-excludable (fish stocks in the sea). A lot of public policy is about converting public goods into club goods (through patents, for example) and common goods into private goods (through quotas) in order to encourage markets to provide public goods and efficiently protect and allocate common goods. The two dimensional schematic I lay out later in the paper doesn't allow for these two different types of intermediate good, nor does it touch on regulation.

In a globalized world, few investments are completely free of GPG effects (for example, if your investments use energy or concrete they probably contribute to climate change). There is no binary cutoff between GPG and non-GPG activities, and activities are probably better thought of as having more or fewer "GPG characteristics" rather than being GPGs or not. At the same time GPGs are not necessarily equally valuable to everyone. Global public goods are defined by the fact that they are non-rival and non-excludable, not by any distinction on which groups of people or countries are most likely to benefit from their provision. Take publishing the technology and process behind a cheap malaria vaccine: this would provide a global public good, but it would be one of particular value to tropical countries suffering the greatest malaria burden.

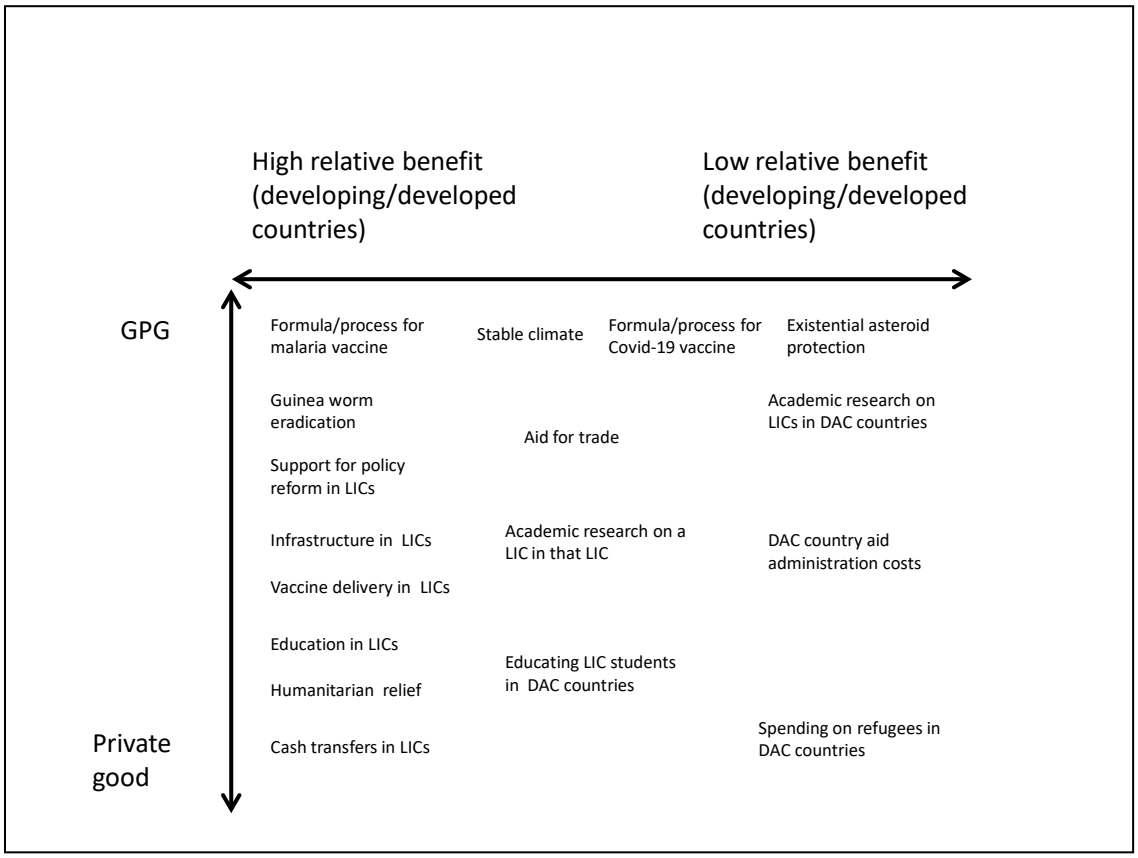
Should Funding GPGs Count as ODA?

ODA is defined (in part) as having as its main objective the welfare of developing countries. This is a question as to who should benefit. Global public goods are defined by the fact that they are non-rival and non-excludable, not by any distinction on which groups are most likely to benefit from them. That suggests there is unlikely to be a simple answer to "should funding GPGs count as ODA?" Where it is clear that the overwhelming beneficiaries of a GPG are developing countries, the answer is more likely to be yes. When that is considerably less clear, the answer is more likely to be no.

The DAC rules for ODA-funded research suggest this kind of approach. To be counted as ODA, the financed research has to be "into the problems of developing countries... with the specific aim of promoting the economic growth or welfare of developing countries." It can't be orientalism –research about developing countries to no end but general enlightenment. It can't be general research that might be applicable to developing countries. It has to be about the specific problems of developing countries.

Figure 1 tries to illustrate where various sometime ODA-financed activities fall on the range between private and global public goods and between a focus on the specific problems of developing countries and less focused spending. The placement of deliverables in the chart is surely a matter of dispute, but the broad point is that there are some things we (could plausibly) finance with resources with the main objective of improving developing country welfare that provide private goods (cash transfers) and some things we could finance with ODA that provide closer to GPGs (guinea worm eradication). There are some things we (could plausibly) finance with aid that provide higher benefits to developing countries than rich countries (infrastructure in a developing country) and some where this might be in greater dispute (aid administration costs).

Figure 1: GPGs and ODA Objectives



To take one example from the right of the figure, should defense against a planet destroying asteroid count as ODA? Certainly, developing countries would benefit if the defense was needed and it worked. And given most people live in developing countries, most of the people who would benefit would be in developing countries. Still, surely, it would be a stretch to say "the main objective" of asteroid defense is the welfare of developing countries. So while it might be a good and underfunded thing, it probably shouldn't count as ODA.

What about a coronavirus vaccine? Ensuring access or delivering doses to people in developing countries would surely count as ODA. Funding research into the vaccine itself does not count as ODA on the "main objective" grounds: it isn't specific research into the problems of developing countries. (Even though it is fantastic that countries are financing research into a Covid-19 vaccine). Conversely, publishing the technology and process behind a cheap malaria vaccine would provide a global public good that is particular to the problems of developing countries –because they are where the overwhelming burden of malaria falls.

What About Effectiveness and Equity?

There is the subsequent question of effectiveness. The small amount of available ODA should be spent where it can have the maximum impact on the welfare of developing countries. All else equal, this means a focus on the poorest countries (under the assumption

that the marginal utility of a dollar falls with rising income). And it should focus on problems towards the left of Figure 1. But, all else equal, it should also focus on likely particularly underfunded/ high impact issues toward the top of the figure.

That said, we want aid to move toward uses with a high relative benefit in developing countries if and only if it can deliver those goods. This is the challenge presented by the advocates of cash transfers: can aid financing for public goods in developing countries (or, indeed, GPGs) produce greater economic returns than simply handing money to poor people? The second is (comparatively) simple, done well the first should generate larger returns, but it is not always possible to deliver (there are high theoretical returns to 'institutional development' for example, but aid has not always proven successful in delivering that). And there is the ameliorative 'floor' at bottom left: the role for ODA to ensure a minimal level of quality of life in the poorest countries including through transfers, humanitarian support and provision of basic services.

Potential efficacy is linked to the relative scale of aid-financed activities. In all but the poorest countries, aid is likely to be a small part of the overall economy and government budgets. (UK ODA accounts for more than one percent of recipient GDP in about six countries, for example). That means it is likely to be a marginal source of funding even for the (national) public good provision that governments already provide, including infrastructure provision and education. That marginal investment may carry comparably low returns.[6] (Although note again in poorer countries as well as some post-conflict states, combined ODA accounts for considerably more of the government budget and will not be directly or indirectly financing (only) the marginal investment).

This leaves a possible role for aid to richer developing countries in : (i) ameliorative private and public good service provision to groups excluded from support by governments (refugees and internally displaced people for example) (ii) support for national public goods that governments are unlikely to provide on their own (support for local civil society, for example –although such assistance will still have a greater impact in poorer countries) and (iii) global public goods of particular relevance to developing countries where aid can plausibly and successfully guarantee delivery (for example backing an eradication exercise of a major disease threat in poor countries that is a minor threat in particular middle income countries). These are three areas where aid could have a more-than-marginal impact even in countries where it is a comparatively small part of the economy.

Note however that there is an irony that grant funding for things that recipient governments wouldn't normally fund opens ODA to the concern that it will be used on something that could have little to do with the welfare of developing countries. If recipient countries are taking on a debt or co-financing obligation, they will (usually) only be willing to do so if they value what is being financed. For example, few developing countries would accept taking on

[6] Even if aid is specifically and physically dedicated to a high-return activity (providing basic vaccines, for example), this may simply displace recipient country spending so that, in effect, aid resources are funding the marginal government expenditure. There is some evidence that Gavi support for basic vaccines in middle income countries has this effect, for example.

as debt financing resources spent 100% in the UK on goods and services selected by the UK using exactly the same process as it uses to allocate domestic spending. And yet the UK presents its "Quality Related" research grant funding under the Department of Business Environment and Industrial Strategy as ODA despite the fact it has those precise features. ODA that is both grant-based and not 'country programmable,' including a considerable proportion of ODA-funded research, is particularly at risk of being used in ways that have low benefit to developing countries. This suggests the need for additional safeguards for aid used to deliver outcomes not prioritized by recipient governments to ensure high development impact.

One partial fix to this problem would be to *exclude* grant aid from ODA calculations *unless* it is spent in developing countries or involves a considerable co-financing obligation, although noting this might exclude from ODA financing totals (even) high value GPG-related research with a focused impact on developing countries carried out in DAC countries. A less dramatic version would be to demand some level of developing country input or oversight of such aid, an idea developed with reference to GPGs below.

Can We Draw a Line Around 'ODA-Eligible GPG Financing'?

Based on the fact that ODA should have the promotion of the economic development and welfare of developing countries *as the main objective*, Inge Kaul has suggested that ODA should not include financing for GPGs, except where an investment delivers both local (developing country) and global benefits and aid is one element of the financing mix owing to the local benefits. This suggests a domestic efficiency cutoff: "would this be a reasonable use of aid given expected economic and social returns *within* the developing country, excluding global spillovers?"

Robin Davies has suggested a more generous standard that would include global public goods that benefit defined groups of developing countries or people rather than the whole world. This might be interpreted as "would this be a reasonable use of aid given expected economic and social returns within ODA recipients as a whole, and where the expected economic and social benefits are concentrated in developing countries?"Perhaps a tightening of that standard would be "would this be a reasonable use of aid given expected economic and social returns within ODA recipients as a whole, and where the expected economic and social returns in developing countries are [in absolute magnitude] [considerably] larger in developing countries than developed countries?"

Note that by excluding general GPGs, the ODA category might exclude some spending that is higher return to developing countries than some spending included in ODA (including an inefficient technical assistance project while excluding support towards development of a Covid-19 vaccine as it might be). This follows from the fact that ODA is explicitly *not* meant to be a measure of all spending that has benefits to developing countries, but instead a measure of spending motivated specifically with regard to the welfare of developing countries.

A later section discusses methods to develop a list of ODA eligible GPG spending that carries at least some level of consensus, and the question as to whether climate mitigation is more like asteroid defense or a malaria vaccine should ultimately be left up to ODA recipients to collectively determine. But for the moment we will look at how this might arguably apply in the case of climate.

What Does This Mean for Climate Mitigation?

Climate change is a considerable global threat, which will likely have its biggest impact in the world's poorest countries. Forecasts suggest three degrees centigrade of warming would reduce long term global output by about 2 to 6 percent (with some risk of even higher numbers), and with impacts focused on the developing world where long term impacts may amount to 10-20 percent of annual GDP in some countries. Furthermore, responding to climate change is cost effective: estimated costs for reducing emissions by fifty percent, for example, are closer to one percent of global output.

At the same time, the responsibility for flows and stocks of greenhouse emissions is not equally shared. Low income countries are responsible for six percent of annual greenhouse gas emissions and an even smaller percentage of cumulative emissions. Add in lower middle income countries, this rises to 22 percent of annual emissions (with India responsible for about six percentage points of that). The five countries currently contributing the most to carbon dioxide levels in the atmosphere are China, the US, India, Russia and Japan. Wealthier countries are overwhelmingly responsible for the gasses emitted to date and will remain responsible for a disproportionate share for many years to come. This is one reason why action against climate change is often referred to as a matter of *justice*: it is about ameliorating a harm, not providing a benefit.

Nonetheless, should resources used for mitigation count as ODA? Again, it does appear that climate change mitigation is a GPG where the expected economic and social benefits are concentrated in developing countries, at least in terms of relative impact, if not necessarily absolute dollars of GDP, potentially meeting the standard set by Robin Davies. But it still appears hard to argue that *the main objective* of donor spending in this area is the economic development and welfare of developing countries, given the considerable majority of spend on climate change related activities is *not* counted as ODA and there is little attempt to change that.[7] If we spend ODA with the pure goal of reducing greenhouse gas emissions, given those emissions go into a single atmosphere there is no reason at all to favor spending on reducing emissions based purely on location --Dar es Salaam over Reading, for example—and the considerable majority of spending is currently in richer countries.

Spending in developing countries may be efficient because the same dollar can achieve more emissions reduction if spent there, but this is a location decision based on marginal efficacy

[7] Consider domestic incentives for adoption of renewable energy, electric vehicles and so on along with including the regulatory costs of emissions reductions

in delivering the GPG, *not* on the specific grounds of the welfare of developing countries.[8] And it will certainly be a partial solution: Low income countries' relative contribution to greenhouse gas emissions will remain minimal for decades, so that (even) ODA spent on climate mitigation projects in lower- income countries will have a relatively small impact on the overall rate of climate change.

Even if one believes that finance for climate change has the main objective of improving the economic development and welfare of developing countries, is avoiding climate change an *effective use* of aid, one where ODA can plausibly and effectively deliver on the GPG in question? Certainly it rises towards top left of our figure, but there are questions as to the efficacy of ODA spend linked to the question of scale and funding the marginal investment flagged earlier in the paper. The estimated annual cost to reduce global emissions by 50 percent is one percent of global GDP. That is worth about $873 billion at market rates. Total global ODA amounts to less than a fifth of that --$166 billion. That suggests the impact of spending *all* existing ODA on climate change mitigation on the quality of life in developing countries would be extremely limited in terms of climate change impacts avoided.

Furthermore, reducing the welfare impact of climate change –adaptation—is expensive. It will require investing in infrastructure including air conditioned buildings with the electricity to power them as well as sea walls, irrigation and other infrastructure. Higher incomes in the poorest countries will be vital if they are to afford such responses. Thankfully, the Shared Socioeconomic Pathways that underpin IPCC forecasts on climate change include forecast for economic growth out to 2100 which suggest the world's poorest countries will be richer. Under the "SSP2: Middle of the road" forecast where the world follows a path in which social, economic, and technological trends do not shift markedly from historical patterns, the set of "low income countries" (which include a considerable number of middle income countries by the World Bank's definition) see average income per capita rise from US$ (PPP) 1,600 in 2010 to $43,500 by 2100. Their share of global GDP rises from 3% today to 23% by 2100.[9] Climate change will slow but not reverse that growth, while low income countries' ability to both mitigate and adapt to climate change will be considerably improved by rising incomes, potentially supported by ODA.

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[8] OECD Rio markers suggest a project has to qualify as "principally" about climate mitigation, to count as 100% climate finance. It is hard to see how something could both be ODA and climate finance under those terms.

[9] Using the SSP2 OECD population and GDP forecasts for regions from Keywan Riahi, et al "The Shared Socioeconomic Pathways and their energy, land use, and greenhouse gas emissions implications: An overview," *Global Environmental Change*, Volume 42, Pages 153-168, 2017, available here: https://tntcat.iiasa.ac.at/SspDb/dsd?Action=htmlpage&page=welcome. Country list: Belize, Guatemala, Haiti, Honduras, Nicaragua, Bangladesh, Democratic People's Republic of Korea, Fiji, Micronesia (Fed. States of), Myanmar, Nepal, Papua New Guinea, Philippines, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d`Ivoire, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe.

Galiani et. al. suggest that a one percentage point increase in the aid to GNI ratio from the sample mean raises annual real per capita growth in gross domestic product by approximately 0.35 percentage points. The GNI of low and lower middle income countries is currently $6,819 billion, suggesting that current aid flows of $166 billion, rather than providing considerably less than a fifth of the finance needed to prevent a long term decline of 10 to 20 percent of GDP resulting from climate change in poorer countries could have an immediate impact of raising annual growth by 0.85 percentage points (climbing to about 18 percent of GDP if sustained over 20 years).

Again, it is worth noting that the Stern Review, which suggested the considerable net benefits of rapid action to combat climate change, uses an approach that also suggests a huge return to far larger aid flows. Its "global welfarist" approach sets global utility maximization as the correct goal for policy, values the utility of the world's people now and into the future equally, and assumes a declining marginal utility to income. Following that set of assumptions also demands an urgent process of global income redistribution that would see the richest 10% of the world's population facing an average global redistributive tax rate in the region of 80%. Again: the Stern Review's approach to discounting suggests a dollar increase in incomes today in the world's poorest countries is worth much more than a dollar drop in income avoided in those same countries when they are richer a half-century from now.[10] Thinking globally suggests tackling climate change should be a priority, but even more urgent is tackling today's unacceptable level of extreme poverty.

The long-term solution to climate change involves developing and rolling out technologies and institutions that make zero-carbon production the cost-effective (or near to cost-effective) approach. In the short term this involves research and financial incentives in the major polluting countries to encourage low-carbon innovation, adoption of new technologies and (so) their production at scale. Financing the rollout of currently available low or zero carbon technologies in countries that are not major polluters is an inefficient method to sustainably tackle the climate problem. If it is at the cost of financing development in those countries, the impact on quality of life in recipient countries will be negative. Under the circumstances, it seems hard to argue that ODA diverted from meeting the immediate development needs of the world's poorest countries towards climate change mitigation is in the interest of people living in the world's poorest countries.

Harking back to the earlier point that few investments are completely free of implications for GPGs, this is *not* to suggest that ODA cannot be used to finance activities with an impact on future greenhouse gas emissions. But 'climate' interventions should be prioritized for ODA if and only if they deliver considerable benefits to the recipient country[ies], to the extent that they would be priorities for investment absent their global benefits. In the case of energy, for example, this might suggests a focus on renewable resources to the extent they are a low-cost addition to the grid that allows for reliable supply and where their impact on the (incredibly deleterious) effects of local air pollution is considerable. Similarly, forest

[10] See the discussion in Dercon (2014) Climate Change, Green Growth and Aid Allocation to Poor Countries CSAE Working Paper WPS/2014-24

conservation can have a high economic return in terms of providing local environmental services as well as delivering on carbon sequestration.

There is also a role for non-ODA climate finance, perhaps delivered through emissions trading models, for low-cost emissions reduction projects in developing countries. Again, there is a role for non-ODA market financing through development finance institutions and sovereign loans to invest in energy and transport infrastructure that is lower- or zero-carbon.

The world *should* be investing far more on mitigating climate change, in rich countries and poor ones alike. But poor people in poor countries should not be forced to pay twice for the costs of a changing climate –first as disproportionate sufferers from a problem that is largely not their fault, second from a diversion of development funds as a (very small) part of the resources that would be required to reduce that impact.[11] Efficiency is not an explicit hurdle for spending to be counted as ODA, but such a diversion would have a negative impact on the welfare and development of recipient countries, and, regardless, it is hard to argue that action against climate change is primarily motivated by welfare rather than justice.

The climate and aid discussion is historied, of course. Article 4.3 of The Rio Climate Convention stated in 1992 that climate mitigation efforts in developing countries would be supported by "new and additional" finance from developed countries who were largely responsible for the emissions that caused rising global temperatures. Fiona Ryan has noted the creative definitions that countries have used to redeploy declining ODA flows to climate mitigation and claim they are meeting that commitment. Suggests the Australian government: "Australia sources its climate finance from new and additional aid budget appropriations passed by the Australian Parliament on an annual basis." Such maneuvers suggest the danger in setting too relaxed a standard for ODA in the area of climate in particular. For financing related to greenhouse gas reduction to count as ODA it should meet the Kaul standard: an efficient use of aid given the impact in the developing country which is the intended recipient.[12]

Forthcoming CGD papers by Andrew Ritchie and Lee Robinson as well as Ian Mitchell and Rachel Calleja[13] suggest donors are measuring their 'effort' in climate using categorizations that are loose enough to allow for considerable gaming and provide some circumstantial evidence that donors tagging aid as having climate mitigation as a primary aim are in fact putting climate markers on projects that may well pass muster on local development grounds. This includes a number of Japanese-financed rail projects, for example. Nonetheless, the categorizations and associated political pressure probably has the marginal effect of shifting resources from low to middle-income countries and reducing the domestic

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[11] Regarding adaptation, climate change isn't (yet) a major factor in why poor countries are poor and unhealthy or why they are getting less poor and less unhealthy, so designing aid programs around adaptation in the near term makes little sense.

[12] This suggests ODA provided with climate-mitigation marked as "principal objective" probably shouldn't be counted as ODA.

[13] Ritchie and Robinson "Is it Over for ODA?" forthcoming and Mitchell and Calleja "How do development agencies support climate action?" CGD working paper forthcoming.

development impact of aid in pursuit of projects that will have an extremely small impact on climate change. Given climate is a problem which looms largest for the poorest countries and for which the best adaptation tool is more rapid development, this is a disappointing outcome.

Updating ODA?

The above discussion might suggest that the idea of ODA is dated, overly constricted or useless. Certainly, the original justification for ODA and the 0.7 percent target are an anachronism in a world where the two-gap development model is discredited and ODA is a comparatively minor source of external finance in all but the poorest countries. Again, many countries on the official DAC recipient list are considerably richer than the original DAC donors were when the committee was first formed[14] and rules on ODA recipients and flows were first put forward. We are left with hat might be an over-generous cutoff for recipients and a definition based on effort that ignores questions of impact and efficacy, this involving a flow of finance dwarfed by remittances, foreign direct and portfolio investment.

But these faults call for reform of the measure rather than abandonment. In domestic economies, governments track both expenditures on public goods like policing and defense as well as transfers to the least well off, there seems little reason why the they cannot do that for GPGs and transfers to the world's poorest countries. And in terms of global solidarity, the need for aid is larger than ever. The largest ODA recipients are still poor even in terms of global income distribution in the 1960s, and the gap between those recipients and major donors has grown considerably larger. Flows from the richest to the poorest have declined even as the gap between the richest and poorest has grown. The median (constant PPP) income of countries that received ODA worth 5 percent or more of GNI was $1,040 in 1960, and $1,770 in 2017. The median DAG member in 1960 had an income of $10,445. Today, the median DAC member has an income of $42,902.

Perhaps the definition of ODA should be (re-)tightened: DAC's measure of country programmable aid comes closer to Severino and Ray's ideal for what aid should be. It is defined as ODA minus: humanitarian aid and debt relief; administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries; food aid and aid from local governments and core funding of NGOs. It is about 65% of the value of ODA.[15] (Similarly, the Finance for International Development measure developed for the Commitment to Development Index at the bilateral level includes country programmable aid but adds the grant element of non-ODA loans). Perhaps finance spent outside of recipient countries should only count as ODA if and only if it demonstrates more

[14] The median DAC donor in 1960 was poorer than the median upper middle income country in 2019.

[15] Similarly, Hynes and Scott suggested a measure of Official Development Effort: the budgetary expenditure of countries made with the prime objective of promoting the development and welfare of other countries, consisting of grants for development purposes and the concessional element of loans for development purposes, measured at signature of the loan agreement. They suggested ODE would exclude all grants made under domestic programmes, including those on in-donor refugees, students who are developing country nationals, and "development awareness" schemes.

impact than spending in recipient countries in terms of outcomes selected on the grounds that they improve the welfare of developing countries. (For example, in the case of R&D on a malaria vaccine, spending in a rich country may make sense because the same dollar will create more progress towards a vaccine in a rich country than a poor one.) Again, perhaps the DAC recipient list should be limited to poorer countries, potentially the current cutoff between LMICs and UMICs. Finally, there might be grounds for thinking that the definition of ODA shouldn't be purely in the hands of donors, but instead should involve an equal voice for recipients. Perhaps this applies most urgently to the issue of ODA-funded GPGs. This, doubtless, would not increase the volume of ODA under the current definition, but might have a marginal impact on improving the quality of ODA under the current definition. Additional measures such as TOSSD (The Total Official Support for Sustainable Development) have a role to capture the broader range of flows of which ODA is a part – including climate finance. Finally, as well as involving recipients, a new definition of ODA would preferably also involve higher income countries outside the DAC, who are now providing substantial sums of concessional assistance[16].

A Process to Define ODA-Eligible GPG Expenditures

Because there is no simple and rigorous algorithm to separate GPG finance with the primary goal of improving welfare in developing countries from other GPG financing –or indeed, to define GPG financing in the first place—any approach to defining ODA-eligible GPG expenditures will be subjective. One method would be to produce a reasonably definitive and defensible criteria and list of development-relevant global public goods based on consensus, and count as ODA any expenditure on GPGs within that category. This might involve convening a set of experts primarily from major recipient countries to produce lists of specific global public goods (including specific subjects or at least criteria for research) that in their opinion meet the standard of ODA-eligible GPG financing areas that have as their main objective the welfare of developing countries.[17] This would, of course, also be a major break from the traditional method of defining what counts as ODA, which is that DAC donors decide. Perhaps the process would (have to) be (merely) advisory to a DAC decision.

The process should probably take into account whether many or all developing countries have already voluntarily committed to provide some level of the involved GPG activity (meeting obligations set by the International Health Regulations, for example). In the case of such commitments, the assumption should be that finance in support of meeting those commitments should count as ODA unless the commitment was provided on the

[16] Recent estimates put this at 18 per cent of the global total of Finance for International Development https://www.cgdev.org/publication/finance-international-development-fid

[17] Potentially there could be two lists: the first (longer) list would include GPG financing if the activity is carried out within a developing country, the second if carried out in a non-ODA eligible country (as it might be, financing research on asteroid detection carried out in a developing country counts as ODA, research on asteroid detection carried out in a non-ODA eligible country does not).

understanding that it would be accompanied by additional external finance. The process would need to be collective to avoid a race to the bottom in terms of proposed eligibility.

A related question regards what counts as a recipient country, for which the standard might be (even) tighter than for ODA in general. Historically, countries at the upper end of the upper middle income bracket have sometimes joined as donors rather that recipients in GPG financing exercises. At some income level, the presumption should be that countries fully self-finance their contribution to GPGs, and at a higher level that they finance other countries to meet commitments towards GPGs. It may be that there are reasons to set the line at different points or (non-income) dimensions for different GPGs.

Measuring and Celebrating GPG Expenditures, Including Those That Don't Qualify as ODA

Given that GPGs are underfunded compared to the benefits they provide (ODA eligible, TOSSD, or not), it would be valuable to count GPG expenditures not least as a tool for celebrating leaders and castigating laggards. A separate exercise might draw up a full list of 'GPG expenditures' for each country presumably including R&D spending, climate finance, budgets for pandemic preparedness and so on, and ask governments to report on that spending. (Though note that if such an exercise was a budget accounting process similar to ODA calculations, it would miss the impact of regulatory and other interventions as well as the role of private actors). Things that might be included in GPG expenditures (calculable on a grant-equivalent basis):

- Contributions to global organizations (UN including peacekeeping, World Bank, IMF, WHO)
- Domestic government spending on R&D for the public domain (that cannot be patented/copyrighted)
- Domestic and international spending attributable to climate mitigation, ozone reduction and other agreed environmental resources with planetary or multi-regional boundaries (potentially including the deadweight domestic cost of regulation).
- Spending on domestic and international disease control specifically linked to global eradication and pandemics.
- Spending on common use satellites (eg GPS).
- Spending on preservation of UNESCO World Heritage Sites
- Spending directly attributable to (global or multi-regional) international treaty obligations not included in the above, including spending to support other countries to meet their obligations.

To have legitimacy, the process of drawing up eligibility criteria for GPG expenditures should involve an international body –potentially the UN Statistics Division.

Conclusion

ODA is a scarce resource with a specific purpose. It is not meant to account for all external subsidized financing that has a positive impact on the welfare of developing countries. There are problems with its current definition, but any attempt to make it a measure of spending on global public goods in general would make those problems worse. If anything, the measure should be tightened. This would still allow financing of certain GPGs to be reflected in ODA counts, but it appears unlikely that ODA could or should include spending on climate mitigation projects unless those projects are primarily motivated by the fact that they deliver considerable economic benefits to the recipient country in which they take place. A different measure should be developed to capture and celebrate all spending on GPGs including climate mitigation.