

The Additionality of the Global Public Goods Concept for Developing Countries

By Inge Kaul*



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The concept of global public goods could shed new light on many developing country concerns today, serving as a useful framework to revisit the design, implementation and possible reform of various international policies, with the view of making international arrangements not only more efficient, but more equitable and fair. The following points highlight the added value of using the concept in debates and discussions, focusing on issues of particular interest for developing countries.¹

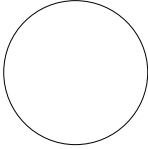
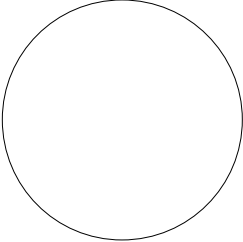
1) The global public goods framework provides a strengthened and objective rationale for an enhanced participation of developing countries in the decision-making on—and management of—globalization.

For instance, the equivalence principle in public economics theory is very much in practice nationally, but could also be applied internationally. This principle suggests that the span of a good's benefits and costs should be matched with the span of the jurisdiction (local or national) that takes decisions on the good. As the studies in Part II of the book indicate, internationally, the two circles—the span of the good's benefits/costs and that of the decisionmaking jurisdiction—are often poorly matched. Issues that concern all are often still decided by only a few. In particular, the participation of developing countries is frequently weak.

Take the issue of international financial stability. It is a global public good with extensive scope across countries and regions, yet representation is very select and limited in many of the relevant decisionmaking bodies that influence whether and to what extent this GPG is provided. Focusing more specifically on financial codes and standards, which are being determined in institutions like the Financial Stability Forum or the Bank for International Settlements, the mismatch between the circle of who decides and who is affected is readily apparent, as illustrated in figure 1.

¹ The discussion in this note draws on *Providing Global Public Goods: Managing Globalization*, edited by Inge Kaul, Pedro Conceicao, Katell Le Goulven and Ronald U. Mendoza, and published by Oxford University Press in 2003. For more information on that publication, please refer to the book website: www.globalpublicgoods.org.

**Figure 1: Are the Circles Evenly Matched?
Decisionmaking on IFA reform and new codes and standards**

Circle of decisionmakers (those who decide on provision)	Circle of stakeholders (those who are affected)
<p>Financial Stability Forum: 40 members (see annex for breakdown)</p> <p>Bank for International Settlements: 50 member institutions</p> 	<p>184 countries in the IMF where these standards are rolled-out</p> 

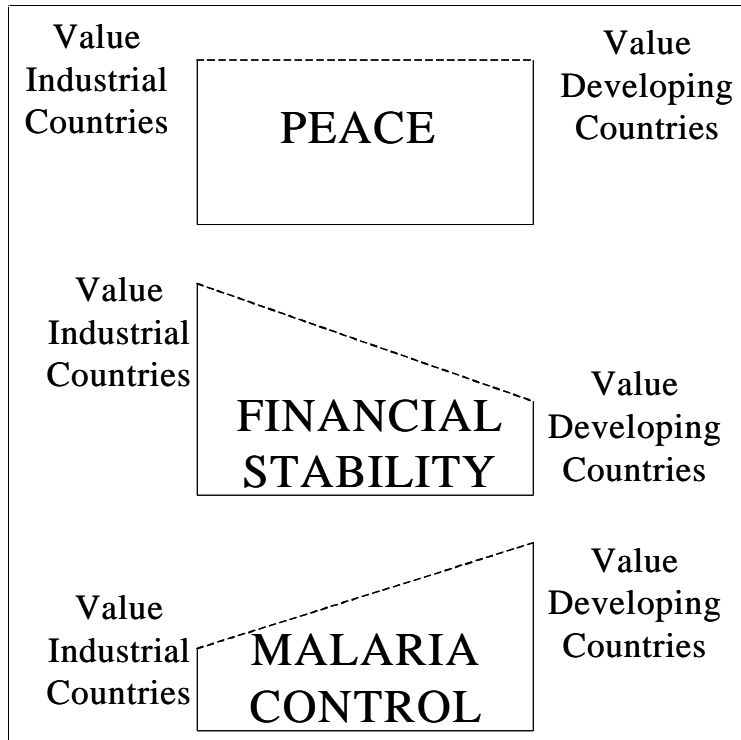
2) The global public goods framework draws attention to the dual operational agenda of international cooperation: “aid + global public goods provision”.

Aid, ideally, is a distribution matter and primarily involves a resource transfer, mostly a flow of money from richer to poorer countries. Basically, it is guided by an equity rationale and is meant to help the poor.

On the other hand, providing global public goods is mainly an allocation issue. The challenge in this case is to build on the motivations of various actors in order for them to undertake certain policy actions in the social—general public—interest. For example, international financial stability matters not only to the people in developing countries who want to guard against external shocks, but also to people in industrial countries who want to protect their savings and investments.

However, just as different people have different preferences for private goods, they also have different preferences for public goods. Figure 2 shows how industrial countries and developing countries might value some global public goods differently.

Figure 2: Preferences for Global Public Goods Vary



Today, the conventional aid (development assistance) agenda and the global public goods agenda are often intertwined and a growing volume of official development assistance (ODA) flows into global public goods concerns—some 30% of ODA at present. Not only this, but the global public goods issues addressed often reflect more the concerns of the richer countries than those of the developing countries.

Hence, the global public goods concept allows us to point out this diversion of funds and to make a clear case for new and additional funding that should be provided for international cooperation initiatives that are aimed at providing global public goods, which are of primary interest to industrial countries (e.g. reducing greenhouse gas emissions). This would also give aid initiatives a better chance to be adequately funded and to achieve the effectiveness level that donors and recipient countries desire. It would therefore be desirable to distinguish aid and financing for global public goods. To clarify, figure 3 shows how such a differentiation could be drawn.

Figure 3: Differences between aid and financing for global public goods

Issue	Aid	Financing for global public goods
Rationale	Equity	Efficiency
Branch of public finance	Distribution	Allocation
Policy tool	Transfer of resources	Panoply of instruments
Policy focus	Country	Issue (public good)
Main net beneficiary	Developing countries	Potentially all countries and all generations

3) The global public goods concept draws renewed attention to the link between national policy choices and the international development context.

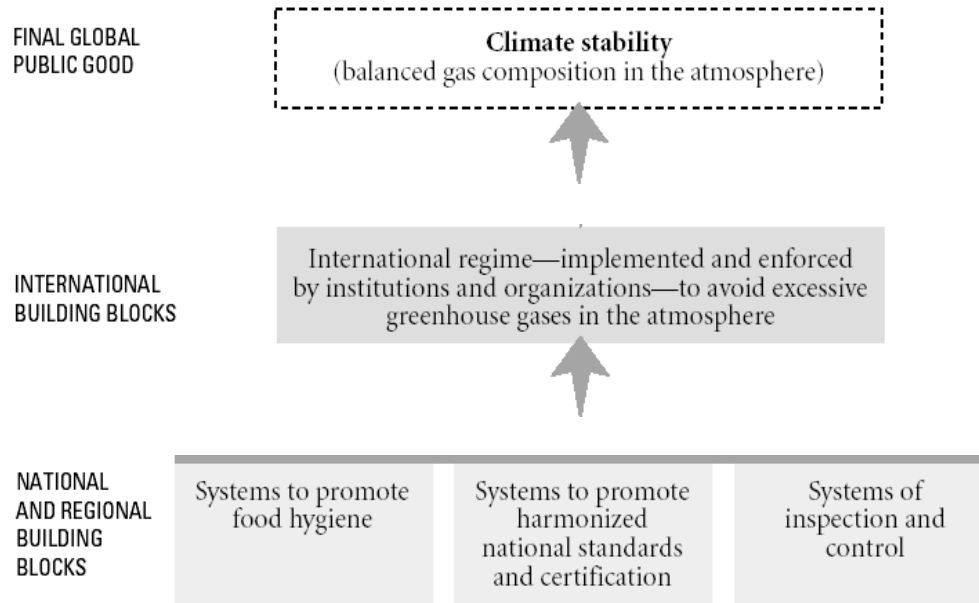
When looked at from the consumption side, global public goods are goods whose benefits and/or costs cut across national borders, affecting the development opportunities of people worldwide, and sometimes even, current as well as future generations. Seen from the production side, global public goods are public goods that local/national communities desire for their well-being but which cannot be produced through domestic policy actions alone and require international cooperation in order to emerge.

To illustrate the latter aspect of utility interdependence, even the best domestic policy efforts may sometimes not suffice in order to achieve the control of a communicable disease, such as HIV/AIDS, malaria or tuberculosis, or to maintain conditions of financial stability. National-level efforts are key, but they can be thwarted (or enhanced) by negative (or positive) spill-ins from abroad. These spill-ins may constitute externalities emanating from other countries or they may be linked to inadequately or malprovided international-level public goods. Possible examples include a too rigid interpretation of the TRIPS agreement, non-implementation or delayed implementation of agreements to cut agricultural subsidies in industrial countries, or the lack of adequate arrangements for the prevention of financial crises.

In order to enhance the efficiency and effectiveness of international cooperation, it is important to understand the production path of various global public goods and to aim at putting all components in place—the national-level ones as well as the regional and international-level ones. Figure 4 provides an example of what such a production path might look like—in this case through an illustration of some of the key building blocks of the global public good, “climate stability.”

Figure 4

Building Blocks of Climate Stability



Source: Kaul and Le Goulven (2003)

4) **Developing countries have valuable inputs to provide in the provision of global public goods. And these inputs need to be properly valued and priced.**

The production of global public goods may entail several actors, both public and private. For example, the definition and assignment of new property rights (e.g. pollution permits) and the creation of new markets (for pollution permit trading) could contribute to the production of "climate stability". In this case, market forces would help strengthen each country's incentive to conserve resources, such as rainforests, by recognizing their appropriate "scarcity value." Thus, developing countries would have assets to sell to the rest of the world—possibly at a market-determined price. Selling at such a price is quite possibly a more desirable scenario than the current *de facto* practice of exchanging these assets for foreign aid and at a bureaucratically/technocratically determined value.

For instance, the case studies by Castro and Cordero (2003) or by Perrings and Gadgil (2003) show how developing countries can provide carbon sequestration services or genetic information to industrialized countries. Because they are latecomers in the industrialization process, they still possess many resources in these areas. Carbon sequestration services and genetic information could thus be recognized as national (excludable or private) goods and services that could be allowed to fetch a scarcity price,

just like gold or cotton (but hopefully, with better structured markets). The Convention on Biodiversity could serve as a step in this direction.²

As a final point, it is important *not* to confuse, as often happens today, the *input or national (private) good*, which is being traded, with the *global public good*, to which this trade may contribute. This is especially important, when the trade constitutes an off-setting arrangement: a case, where a richer actor, state or company, undertakes pollution reduction efforts in a developing country for production-efficiency reasons. Again, having a clear concept and understanding of global public goods would help avoid the mingling of different agendas—a mingling that often deprives developing countries of important financial resources and other development opportunities.

Literature References

- Castro, Rene and Sarah Cordero. 2003. “Global Trade for Local Benefit: Financing Energy for All in Costa Rica.” In *Providing Global Public Goods: Managing Globalization*. Inge Kaul, Pedro Conceicao, Katell Le Goulven and Ronald U. Mendoza, Eds. New York: Oxford University Press.
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- Perrings, Charles and Mahdavi Gadgil. 2003. “Conserving Biodiversity: Reconciling Local and Global Public Benefits.” In *Providing Global Public Goods: Managing Globalization*. Kaul, Inge, Pedro Conceicao, Katell Le Goulven and Ronald U. Mendoza, Editors. New York: Oxford University Press.

² For more information, see <http://www.biodiv.org/>.

Annex1 Membership in the International Financial Stability Forum

National Authorities (25) <i>(three from each of the G7 countries; from the treasury, central bank, and supervisory agency)</i> <ul style="list-style-type: none">• Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, United Kingdom, United States
International Financial Institutions (6) <ul style="list-style-type: none">• International Monetary Fund (2)• World Bank (2)• Bank for International Settlements (1)• Organization for Economic Co-operation and Development (1)
International Regulatory and Supervisory Groupings (6) <ul style="list-style-type: none">• Basel Committee on Banking Supervision (2)• International Organization of Securities Commissions (2)• International Association of Insurance Supervisors (2) Committees of Central Bank Experts (2) <ul style="list-style-type: none">• Committee on the Global Financial System (1)• Committee on Payment and Settlement Systems (1)
Chairman (1)
Total : (40) members

Source: FSF [www.fsforum.org]

Annex2 Governance of the BIS [Source: www.bis.org/about/proforgan.htm]

Under its *Statutes*, the governance of the BIS is entrusted to the General Meeting and the Board of Directors, which is responsible for the administration of the Bank.

The General Meeting is held annually, within four months of 31 March, the end of the BIS's financial year. Fifty institutions have rights of voting and representation at General Meetings. These are the central banks or monetary authorities of Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Hungary, Iceland, India, Ireland, Italy, Japan, Korea, Latvia, Lithuania, the Republic of Macedonia, Malaysia, Mexico, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, the United States of America and Yugoslavia, as well as the European Central Bank.

The Board of Directors, currently chaired by Nout Wellink, President of the Netherlands Bank, has 17 members. The Board has six ex officio directors, comprising the Governors of the central banks of Belgium, France, Germany, Italy and the United Kingdom and the Chairman of the Board of Governors of the US Federal Reserve System. Each ex officio member appoints another member of the same nationality. The Statutes also provide for the election to the Board of not more than nine Governors of other member central banks. The Governors of the central banks of Canada, Japan, the Netherlands, Sweden and Switzerland are currently elected members of the Board.

FIGURE 1

Are the Circles Evenly Matched?

The case of decisionmaking on IFA reform and new codes and standards

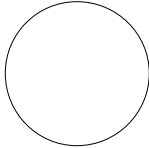
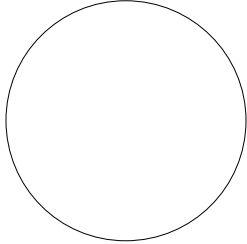
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FIGURE 2

Not all global public goods are valued equally by countries

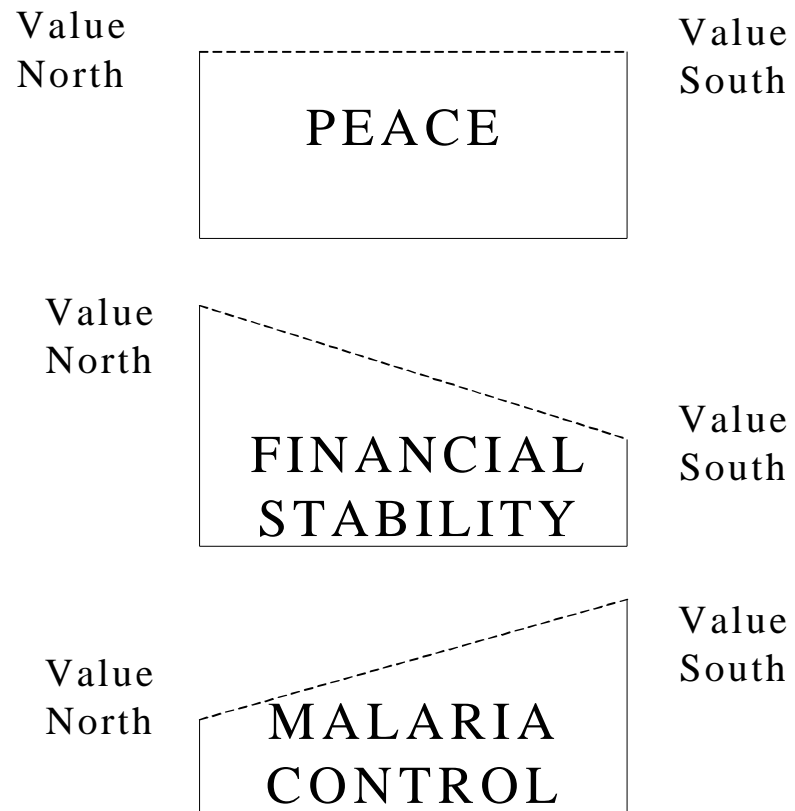


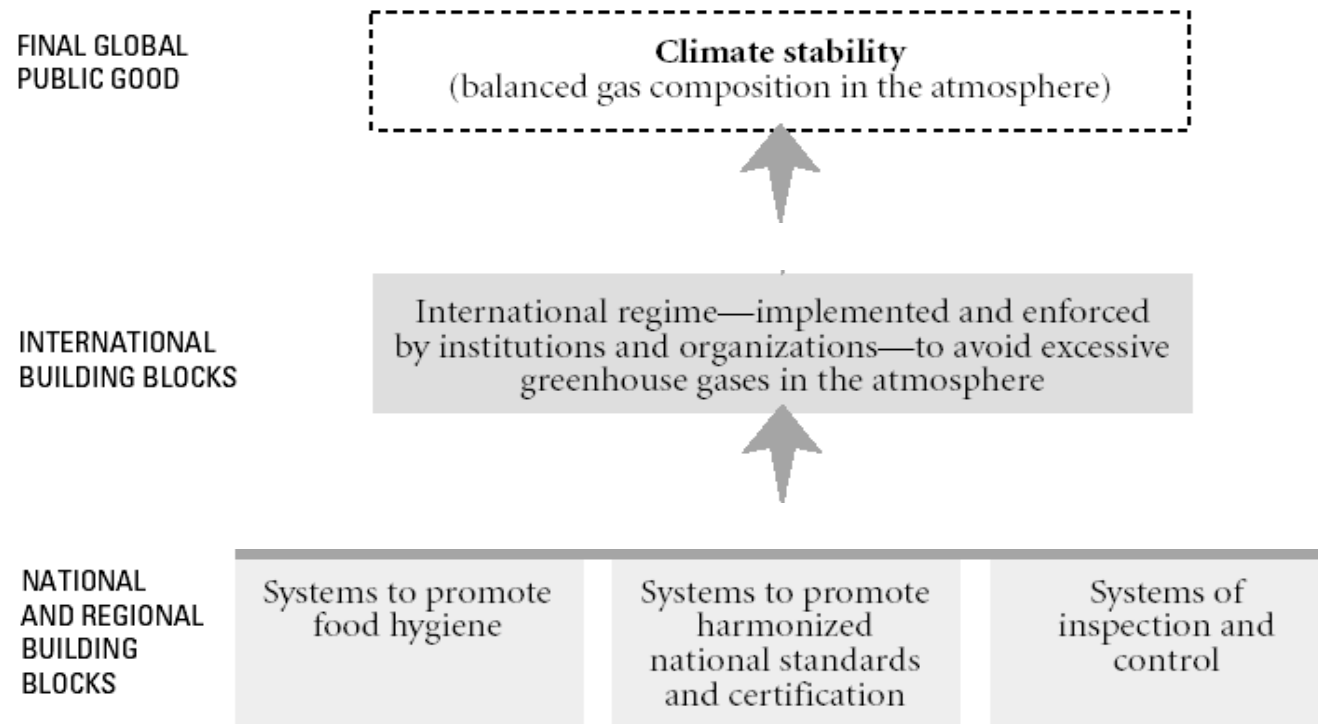
FIGURE 3

Differences between aid and financing for global public goods

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FIGURE 4

Building Blocks of Climate Stability



Source: Kaul and Le Goulven (2003)