Discussion Draft

The Current Debate on 'Climate Change and the Poor': Unfair in the Name of Fairness?

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Much is being written at present about the likely adverse effects of global climate change on human development. In particular, there exists concern that the poorest of the poor, including many people in Africa might suffer from the consequences of global warming. It is being argued that a major focus of international cooperation therefore ought to be on assisting the poor through foreign aid in adapting to, and helping to mitigate, global climate change.

True, global climate change is likely to adversely affect many poor people in developing countries. But is more aid for climate-related international cooperation initiatives the right—the most efficient, effective and fair—policy response to this challenge? The answer suggested in this note is "not necessarily".

Approaching the issue of climate change and the poor from a global public goods perspective would not only be more fitting but also point to policy paths that promise to offer a fairer deal to developing countries *and* be more efficient and effective—making all, poorer and richer countries better off.

1 Identifying the nature of industrial/developing country interactions in the domain of climate change

According to most bilateral and multilateral policy pronouncements, foreign aid is intended to help the poor—because they are poor. In the case of global climate change, however, more than the concern of the richer, industrial countries for the plight of the poor comes into play.

More precisely, an important part of industrial/developing country interactions would, in this case, be appropriately be described either as a compensatory transaction between "polluters" and "affected parties" or as an exchange (or trade) of carbon-related products and services against money between industrial countries (the purchasing and paying party) and developing countries (the providing party). The issue at stake is not aid

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motivated by compassion for the less fortunate ones but fair and efficient provision of the global public good “climate stability”.[1]

This alternative perspective emerges when considering that today’s industrial countries have contributed most to the emission of greenhouse gases and the warming of the global climate. In line with the by now widely accepted principle of “polluter pays” they, therefore, have a special responsibility for initiating corrective action of both an adaptation and mitigation type.

No doubt, many, if not all developing countries have, in one way or the other, also benefited from the technological and economic advancement of the industrial countries. Moreover, some developing countries are rapidly entering the category of the major polluters and will, in due course, also have to shoulder their share of responsibility for corrective action in line with the principle of common but differentiated responsibility of all nations for protecting the environment.

Yet, at least for now, it is up to the industrial countries to take the lead and act as a first mover in tackling the challenge of global climate change. In doing so, they might, besides taking corrective action at home, also interact with developing countries. The purpose of such interaction could be of two main types:

- *To provide compensatory finance*—Industrial countries might compensate developing countries for costs that the latter have to incur due to the formers’ over-extension into the atmosphere, which can be seen as a global commons that ought to be available for all, at least for all in equal measure. Such compensatory finance could be made available for adaptation purposes (e.g. flood control) as well as mitigation efforts that exceed what could be considered a fair national contribution of the concerned developing country to the global public good “climate stability”; and
- *To pay the price for carbon-related goods and services*—In order for industrial countries to meet their international environmental obligations in the most cost-efficient manner, they might sometimes choose to purchase or borrow pollution allowances or buy emission reduction credits from developing countries, who may be the more efficient providers.

In both these cases money might flow from industrial to developing countries. But it would not be aid—not assistance of richer to poorer countries.

Of course, in some instances developing countries may, in addition, opt for allocating some of the foreign aid resources available to them to climate-related activities, if this is in line with their national policy preferences. But in many other instances, the issue at stake would not be foreign aid but the joint—efficient and fair—provision of the global public good “climate stability”. Cooperation around this policy goal would usually be driven not so much by poverty alleviation concerns but primarily by nations’ enlightened

[1] The term “climate stability” is used here to refer to a global policy regime that allows people/countries to avert climate-related shocks that could severely upset their economic conditions.

self-interest and efficiency considerations. In addition, all parties would perhaps seek to work out a deal that they consider to be fair to them, and maybe, even fair to others.

With increasing national openness and globalization, global public goods provision has become an increasingly important second strand of international cooperation besides the first (and often still more familiar) strand of foreign aid.

2 Why a foreign aid approach might not be desirable

But is it really important to draw this distinction between foreign aid and global public goods provision, including compensatory finance and the purchase of carbon-related goods by industrial countries from developing nations? Would it not be much simpler just to think in terms of aid and act through the established foreign aid channels?

The answer is: Yes, it would be simpler. But the potential costs of this (over)simplicity could be significant for the following reasons:

- *Added pressures on the environment*—While official development assistance (ODA) resources have increased in recent years, they are still limited compared to the many demands placed on them. Adding the financing of global environment issues to the ODA envelope thus risks siphoning off resources from poverty-reduction initiatives. To the extent that this occurs, added pressures could be placed on the environment (e.g. as a result of deforestation) and exacerbate the trend towards global warming.
- *Scarce resources might be channeled to the "wrong" countries*—Many industrial "donor" countries today have an aid-recipient list that is designed to target ODA resources to the poorest of the poor countries. These countries may not always be the countries that deserve priority attention from the viewpoint of climate change. To the extent that ODA resources were diverted to countries that are key actors in terms of climate change/stability, poverty reduction may again be undermined. And if such a re-channeling were not to occur, resources may risk being misallocated from the viewpoint of addressing global climate issues in the most effective and efficient manner.
- *Inefficient and ineffective policy instruments may be employed*—Foreign aid involves mainly the transfer of public revenue from richer to poorer nations and action at the national level within developing countries. Adopting a global public goods perspective opens up new, additional policy avenues. Prime among them perhaps is the creation of new markets to trade carbon-related products (e.g. pollution allowances or emission reduction credits) through which also private finance could be attracted to global climate issues.
- *Distorting price and incentive signals might be sent*—The donor-recipient relation in foreign aid is—despite all efforts at strengthening its partnership properties—an essential hierarchical relation. Moreover, it is often a relation between national bureaucracies. Thus, a foreign aid approach to the issue of

> climate change and the poor is perhaps not the best from the viewpoint of getting prices and incentives right, i.e. establishing a fair and attractive level of compensatory finance or a price that encourages an adequate supply of carbon-related products and services. Neither the developing nor the industrial countries may get the "right" signals for determining their level of corrective action. Developing countries may be under-compensated/paid; and industrial countries may lack the incentive to undertake necessary investments in such fields as clean energy technology.

Thus, confounding the foreign aid and the global public goods approach to addressing climate change may ultimately be disadvantageous to all.

3 Making the global public goods (the non-aid) approach operational

A global public goods approach to climate change could be made operational through a few policy steps that most countries would perhaps be able to implement more or less immediately. Of priority importance might be the following eight steps:

- Reconfirming the principle of "polluter pays", including the first-mover responsibility of industrial countries for undertaking corrective action on climate change;
- Placing the primary focus of the international debate on how G-8 member states and other current and future main polluters could best meet their national obligation in terms of emissions reduction, following the principle of common but differentiated responsibility;
- Recognizing that some developing countries can provide important services in terms of emission reductions and help other nations to meet their emission-reduction goals more effectively and efficiently. This opens up new avenues for international trade and calls for added policy attention to the development of efficient new global markets, building on the various pilot initiatives already in place, such as the Chicago Climate Exchange.[2]
- Providing compensatory finance from high-emission nations to developing countries for adaptation and mitigation purposes. The main channel for this purpose could be the Global Environment Facility (GEF), if it were appropriately reorganized. The main reform to be undertaken would be to mandate that the core of GEF financing come from non-ODA sources. Also, the list of "high emission nations" should be periodically reviewed so as to take account of changes in nations' emission levels over time;

[2] Exchanges between industrial and developing countries within the framework of the Clean Development Mechanism (CDM) would not qualify as market transactions, and certainly, not as efficient market transactions, since they typically occur within a limited, bilateral foreign aid framework, i.e. donor/recipient relation.

- Including any climate-related non-aid public resource transfers between industrial and developing countries into the budget of the environment departments/agencies of the "main polluter" countries (and not, as is the practice at present, into the foreign aid budget), fostering enhanced compliance with the stipulation of the 1992 Earth Summit that resources for global environment purposes should be new and additional money—i.e. not be taken out of foreign aid allocations.
- Charging also costs for emissions trading that governments may have to bear to the environment budget and not to the aid budget;
- Recognizing that compensation of poor countries must not only mean transferring public money from richer to poorer countries/governments. Intellectual property rights could also be adjusted to facilitate technological innovation (e.g. in the field of clean energy) and its dissemination and adoption. Or, new climate-related insurance products could be developed and designed so as to also to be accessible to poorer developing countries. And last but not least,
- Forming an international leadership group composed of some 14 to 20 member states to act as a "security council" for climate change issues. Balanced globalization requires combining national openness with new types of national closures, including the reigning in of undesirable crossborder spillovers. It calls for responsive national policymaking sovereignty: national public policymaking nested within global opportunities and constraints. A major purpose of the security council for climate change would be to help create the incentives and mobilize the financial and nonfinancial means for countries to exercise such responsive national policymaking sovereignty.

Conclusion

This paper has explored the nature of the relation between industrial and developing countries in the field of global climate change. The discussion suggests that examining this relation through the lens of global public goods is often more fitting than depicting it as an aid or donor/recipient relation. It also points to policy paths that offer to developing countries a fairer deal than the aid approach and promise at the same time, to be more efficient and effective—hence, better for all.

But why then is the current debate on climate change and the poor predominantly a debate about how to aid developing countries? And why do most of the resources that flow into related initiatives come out of the ODA envelope? The explanation perhaps is that as in many other issue areas institutional change in the environment field is lagging behind changes in reality. The foreign aid system exists. It is money that can be easily tapped to respond to new, emerging challenges—whether they are of a genuine aid type or not.

By now, however, the challenge of global climate change has become so pronounced and urgent that the time may be ripe for making the switch—from accommodating climate issues within the aid framework to accepting that these issues require their own set of policy principles and instruments, if the policy response is to be efficient and effective. And efficiency and effectiveness of policy responses to global challenges usually require policy commitment and ownership on the part of all concerned. The key ingredient of such commitment and sense of policy ownership often is that the envisioned international cooperation arrangement offers significant and fair net-benefits for all. Approaching climate change from a global public goods perspective is more likely to lead to such an arrangement than the current foreign aid approach to the issue.

Making the switch does not imply any major reforms. It primarily implies not confounding climate change with poverty reduction but recognizing it as an environmental issue that ought to be addressed efficiently and fairly.

Adopting a global public goods perspective will also open the door for linking what are at present rather separate responses to climate change, viz. the public policy and the private sector or business side and help create synergy between both.

Considering that the growing urgency of the issue of climate change and also that it is calling for a major change in policy perspectives and approaches, it may thus be desirable to create, as this note recommends, a security council for climate change—a global leadership group that is willing to play a stewardship role and help the international community to break through the current policy stalemates.[3]

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[3] For a more detailed discussion on the points raised in this note, see *Providing Global Public Goods; Managing Globalization* (2003) and *The New Public Finance; Responding to Global Challenges* (2006), both edited by Inge Kaul et. al and published by Oxford University Press.