How can development finance address the vulnerability challenge in LDCs and other vulnerable countries? Improving allocation and supporting structural transformation

2021 ECOSOC Forum on Financing for Development

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1:15 to 2:45 pm New York time - 5:15 to 6:45pm Ouagadougou time - 7:15 to 8:45 pm Paris time

The Covid-19 crisis has further exposed the vulnerabilities faced by LDCs and other vulnerable countries including Small Island Developing States (SIDS). In this context, the LDC5 Conference in Doha in 2022 will be of utmost importance to tailor the international community's support to the most vulnerable countries, with a multidimensional approach. With the LDC5 Conference in mind, Ferdi, the OECD Development Centre and UN-OHRLLS are joining forces to deepen the debate on how development finance can make support to LDCs more adapted to their high vulnerability, with implications for the broader set of vulnerable developing countries.

In the current global context, with overlapping crises, ensuring that resources are channeled to LDCs and other vulnerable countries through the appropriate means becomes crucial. This includes both promoting an adequate allocation of ODA between countries, taking into account their structural vulnerability, and a correct use of the resources, that contributes to the structural transformation and resilience building of the economy.

On the one hand, it is pressing to discuss the impact expected from an allocation of concessional development flows that takes into account the vulnerability of recipient countries. The aim is not to make vulnerability the only criterion, but to ensure that this criterion is well taken into account. This is important for three main reasons. First, the LDCs vulnerability to exogenous shocks (economic, climatic, societal) is highly detrimental to the pursuit of sustainable development and the achievement of the SDGs, what legitimates a high level of ODA to these countries: The 0.15% (or 0.20%) ODA target for LDCs is far from being met, despite repeated international commitments. It is important continuing debating on how to channel resources and refocus concessional funding efforts towards particularly vulnerable countries such as LDCs. Second, the 0.15 percent target is a global target for all LDCs and does not differentiate between LDCs according to their respective vulnerability, which the adoption of a continuous criterion may allow. Thirdly, the adoption of a vulnerability criterion allows for a smooth transition for the countries graduating from the LDC category: A 2012 UN General Assembly resolution on Smooth Transition (A/RES/67/221) invited development partners to consider the LDC criteria (which includes vulnerability) as criteria for allocating aid. By extension, the adoption of a vulnerability criterion would make it possible to respond to a repeated request from SIDS to expand eligibility of concessional finance. The UN General Assembly in Paragraph 8(a) of Resolution A/RES/75/215 requested the Secretary General to present recommendations on the possible development and use of a Multidimensional Vulnerability Index (MVI), which addresses the recognized vulnerabilities of SIDS

in particular, which includes several graduating and graduated LDCs. UN DESA and OHRLLS are coordinating this work in the UN development system.

A consensus must be reached on a "vulnerability indicator" that can be used as an allocation criterion so that an allocation according to vulnerability to be effectively adopted and implemented. Although this vulnerability indicator can be built or adapted differently by different donors, it should have several common characteristics for making its use legitimate. First, and most importantly, the indicator should reflect an exogenous vulnerability, i.e. independent of the current policy of the country, what is called structural vulnerability. Second, the vulnerability taken into account must be multidimensional, i.e. it must cover the three structural factors of vulnerability likely to affect the countries development, namely economic vulnerability to external or natural shocks, physical vulnerability to climate change and societal vulnerability. An example of exogenous societal vulnerability could be country location along smuggling routes of organized crime in the northern triangle. Finally, the indicator must be simple, understandable, and based on reliable statistics. Work is underway to build indices with these characteristics, including an indicator developed by the Commonwealth Secretariat.

On the other hand, LDCs and the international community must identify ways to tackle a critical source of vulnerability: the lack of economic transformation and intrinsic resilience to exogenous shocks. In order to ensure that external concessional finance does serve the final purpose of reducing vulnerability of countries, it is not enough that it is allocated according to their vulnerability. The next step would be to make sure that this finance is tackling the core of these vulnerabilities, which implies a structural transformation of countries making them more resilient to exogenous shock, including by respecting their own choices, i.e. aligned on their priorities.

The next part of the event will examine the most effective ways of using these funds to help LDCs and other vulnerable countries accelerate their development by decreasing their vulnerabilities. This involves tackling the lack of structural economic transformation, on which the reduction of vulnerability depends. Although LDCs are heterogeneous and face different challenges, they generally suffer from weak production and trade diversification, a limited scale capacity and reliance on activities that exacerbate their environmental vulnerability. New technologies could be a game changer, if not used simply to transform LDCs into "markets" for solutions developed elsewhere but as tools to unlock their creative and innovation potential and to open up new forms of networks and partnerships, according to their own policy choices. The discussion will examine how external resources can have a leverage effect on domestic resources both public and private, as well as the capacity of States to stimulate the economic activity and to increase the resilience of countries. It will bring forward the issue of how development finance would better contribute to enhancing productive capacities, a key pillar for the future of LDCs, and to preparing them for graduation.

This webinar should be an opportunity to make concrete proposals with a view to the LDC5 Conference so that external development finance will be channelled in a preventive way to the most vulnerable developing countries, especially the LDCs, and used to tackle their structural and multidimensional vulnerabilities.