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

April 12, 2021. By Patrick Guillaumont, President of Ferdi.

It is a great honour for us to host this panel on an important topic. This event is a follow-up to the one we organised last October on “Towards LDC5. Recovery from COVID-19. Tackling vulnerability and leveraging scarce resouces” a related topic, also in collaboration with OHRLLS and the OECD Development Centre. Many thanks to these two great partner institutions, in particular to Fekitamoeloa Utoikamanu, USG, HP OHRLLS, with whom we are so happy to collaborate.

In today's session, we are hosted by the UN Financing for Development Forum. We want to go further in the preparation of the next UN Conference LDC5 to be held in Doha. It is indeed time to move from analysis to proposals. The purpose of this panel is to put forward some specific proposals and to discuss them with you.

The perspective is certainly that of the LDC 5 Conference, but there is another, closer deadline, in one month, which is the Paris Summit on the financing the African economies. Most of the LDCs are among them. Paradoxically, it is fortunate that the Covid disaster has shown the potential for mobilising resources and reforming the way they are distributed among countries. Certainly, the vulnerability highlighted by the Covid crisis reinforces the relevance of Ferdi's proposals over the past 15 years to ensure that the allocation of concessional resources to developing countries takes into account their relative level of vulnerability.

Such a reform is important both for LDCs and for other vulnerable countries. There are three reasons for this.

First, LDCs are identified as particularly vulnerable countries and therefore the vulnerability allocation criterion *should enable LDCs to receive more* and move towards the distant, ever recalled, target of 0.15% of ODA to GNI devoted to LDCs. In 2019, we were still at 0.09%. We are now waiting for the figures for 2020.

Second, adopting such a criterion should make it possible *to take into account the relative levels of vulnerability* of the various LDCs, and therefore their needs, which the global target does not achieve.

Third, adopting such a criterion *can help to smooth the transition*, in other words, the graduation of countries that have graduated from the category but are still vulnerable. To meet this objective the UN General Assembly adopted a resolution on the smooth graduation in 2012, in its Paragraph 23, which I quote quite often. This resolution invites partner countries to use the criteria for identifying LDCs, which include the structural vulnerability of countries, as criteria for allocating their aid.

Indeed, for the past 15 years, the idea has come a long way. That is something Ferdi welcomes. We hope that this idea will be clarified and approved at the Doha Conference, or maybe even early next month at the Paris Summit on African economies finance.

Let us recall some of the progress made in recent years:

-In 2014, the European Union implemented an economic vulnerability criterion in its allocation formula for the 2014-2020 European Development Fund (many of whose clients are LDCs), as well as for the DCI;

- Several multilateral development banks have taken this possibility into account, either by explicitly introducing a vulnerability criterion in their formula (Caribbean Development Bank, or to a lesser extent the Asian Development Bank) or by carrying out an in-depth thinking in this perspective (African Development Bank).

The question has been raised more specifically for small island countries through a new resolution of the UN General Assembly last December asking the Secretary-General to develop a multidimensional indicator that could be used for allocation. We'l have the chance d'entendre in few minutes to hear a keynote by Hon. Patricia Janet Scotland, Secretary General du Commonwealth, who will tell uswhat progress has been made by her institution in this direction. I do thank her to be with us today.

The main difficulty, that is not the only one, with a reform that allocates concessional funds based on vulnerability, is obviously that an appropriate indicator must be agreed. This is the subject of intense work at the moment, particularly within the Commonwealth Secretariat. In a few moments, we will have the opportunity to hear a keynote address by H.E. Patricia Janet Scotland, Secretary-General of the Commonwealth, who will tell us about the progress made by her institution in this area. I would like to thank her warmly for her presence.

It seems that the expected indicator must meet three essential conditions:

-It must (in order to result in a higher allocation) be based on *exogenous* components, i.e. independent of the countries' current policy, reflecting both the intensity of the likely shocks and the structural exposure to these shocks, which the countries have in a way inherited. The vulnerability resulting from a bad current policy must instead be considered as an element of poor performance and reduce the allocation rather than increase it;

- The indicator must, as recommended in the recent UN-GA resolution, be *multidimensional,* in the sense that it should cover economic vulnerability to external and natural shocks, physical vulnerability to climate change, and societal vulnerability (i.e. political fragility, captured by recurrent violence). The forms of vulnerability vary greatly from one country to another, and the index has to be able to express the vulnerability of each country in its specificity, while at the same time highlighting the high average vulnerability of LDCs, as well as that of other groups such as SIDS;

-The indicator must remain relatively *simple, based on reliable data* collected for all the countries concerned.

Another difficulty, political that time, may be encountered in a reform of the allocation. This is that increasing the relative share of some countries would involve at the same time decreasing the relative share of others. This obstacle can of course be overcome if the overall envelope is increased, because it can make it possible to maintain the absolute level of the allocation to countries whose share is likely to decrease. This is why the current context calling for increased concessional resources to African countries, and LDCs in particular, provides a unique opportunity for a reform that is fair, effective, and transparent.