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Financing global policies : but for whom?

Taking into account countries vulnerability

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Abstract

The Summit's focus on financing vulnerable countries or the fight against vulnerability highlights the fact that the allocation of concessional financing between countries must be considered alongside the mobilization of new resources. This note identifies four principles: (i) the countries ultimately receiving this funding must be identified based on criteria rather than categories of countries: the allocation between countries matters as well as the eligibility for this funding; (ii) the vulnerability of countries, if properly defined, is a major criterion for assessing their needs, without being the only criterion for allocation, or even eligibility; (iii) the vulnerability to be taken into account must be multidimensional and not only linked to climate change; (iv) the allocation criteria must be adapted to the goals of the financial instruments, which is illustrated in particular by the case of "climate" financing.

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Following the announcement of a Summit on Financing for Vulnerable Countries, the focus seems to have been on how to mobilise new resources for this purpose. But since the issue is to address the needs of vulnerable countries, or more generally to address the problems that result from their vulnerability, a complementary question is which countries will receive the funding. This question concerns funding not only for economic development and poverty reduction, but also for the promotion of global public goods.

The principles for distributing funding between countries (and their populations) must be discussed and clarified. They must correspond to the very purposes of financing, as presented in the note on this subject "Financing global policies: but why?" by Jean-Michel Severino and Sylviane Guillaumont Jeanneney (2023). The question asked about public financing for development: "why then?" is followed by the question: "for which countries and which populations?

The focus of the Summit on financing vulnerable countries or the fight against vulnerability can only be welcomed by Ferdi, which for the past fifteen years has consistently argued that it is important to take vulnerability into account in development financing, and more particularly in its allocation.[1] We have justified this position on grounds of efficiency, as vulnerability is an obstacle to development, and equity, as addressing structural vulnerability contributes to the equalisation of development opportunities. This note builds on this work and proposes some principles for identifying countries which, because of their vulnerability, should be recipients of the resources mobilised.

(i) Countries receiving funding cannot be identified solely by membership of categories (eligibility) and the rules for allocation within categories are as important as the rules for eligibility for funding.
(ii) Vulnerability, if properly defined, is a major criterion of need for countries, but cannot be the sole criterion for allocation or even eligibility.
(iii) The vulnerability to be taken into account must be multidimensional and not only related to climate change.
(iv) Allocation criteria must be adapted to the objectives of the financial instruments, as illustrated by the case of climate finance.

1. Not enough to refer to categories. Allocation as important as eligibility

Access to concessional finance is usually managed by an eligibility rule that *de facto* establishes a category of countries that benefit from a certain type of finance. This category varies from one financing institution to another. Apart from the LDC category[2] , there is no official category that could be agreed upon. And the LDC category itself, as will be seen, is hardly used or effective in channelling funding outside the UN system.

The exclusive reference to categories of countries for eligibility to financial flows intended for development or the promotion of global public goods has two disadvantages: (i) it does not take into account the heterogeneity of the countries that make up the categories; (ii) it leads to an overlap

[1] See in particular Boussichas M. and Guillaumont P. (Edrs) (2015) *Financing Sustainable Development - Reducing Vulnerabilities* Guillaumont P. "Measuring Vulnerability to Climate Change to Allocate Adaptation Funding", Guillaumont P. Guillaumont Jeanneney S. McGillivray M. and Wagner L. (2017) "How to Take in Account Vulnerability in Aid Allocation and Lack of Human Capital as Well: Improving the Performance Based Allocation", Guillaumont P. Guillaumont Jeanneney S. and Wagner L. (2020) *Measuring Vulnerabilities to Allocate Development Aid, with a Focus on Africa* and (2021)" How to allocate external finance to African countries? The vulnerability challenge. Proposals for the Summit on Financing African Economies".
[2] Officially created by the United Nations (UN) in 1971, its composition has varied over the fifty years of its existence: see Guillaumont P. (2021) "The logic of the Least Developed Countries category over half a century", Guillaumont P. (2009a) *Caught in a trap. Identifying the least developed countries*, Guillaumont P. Edr (2019) *Out of the trap. Supporting the Least Developed Countries.*

of sub-categories. This double disadvantage would be obvious if we were to try to define a category of vulnerable countries.

The heterogeneity of countries within a category

The main criterion for differentiating countries is per capita income, which is the basis for the DAC's definition of developing countries eligible for ODA, as well as for access to the concessional windows of international financing institutions.

Not all international financing agencies have the same rules for identifying countries eligible for concessional financing. For example, the International Monetary Fund for eligibility for the Poverty Reduction and Growth Facility (PRGT) and the World Bank for eligibility for IDA for *low-income countries,* or the African Development Bank for the African Development Fund (ADF) use the same maximum income criterion, but each of these institutions introduces different complementary eligibility criteria.[3] [4] This income criterion is also different from the threshold used by the World Bank Atlas for the definition of low-income countries, which is most often used in international reports and academic literature

The disadvantage of categories is by definition their binary nature. There are always problems for countries that are close to the threshold. Rules are needed to smooth the exit from the category. This is certainly the case when the category is based on income. However, to avoid an excessive threshold effect, the institutions that use it have provided for an intermediate sub-category between purely concessional and non-concessional financing (blending).

In any case, the criterion of per capita income does not in itself allow vulnerability to be taken into account.

Least- developed countries (LDCs) and beyond

The category of LDCs, defined on the basis of specific criteria, including a vulnerability criterion for the last twenty years, could have been a good candidate for identifying the recipients of new funding, but it illustrates the difficulty of using categories.

Most of the discussion on LDCs over the past fifteen years has focused on the conditions for graduation, which were in fact planned in stages, since a country can only be proposed for graduation if it is found eligible for two consecutive triennial reviews of the LDC list by the Committee for development policy (CDP). Other ways were sought to smooth out graduation, particularly for countries that met the per capita income and human capital graduation criteria but were still vulnerable. Therefore, in order to "smooth out" graduation, the UN General Assembly recommended using the criteria that define the category (per capita income, level of human capital and level of vulnerability) as criteria for allocating official development assistance. It is preferable to use the criteria that form the basis of the category on a continuous basis and not in relation to a necessarily arbitrary threshold, provided that they are justified. This is true for financing, but not for other measures, particularly trade measures, which are binary in nature (e.g. access to the "Everything But Arms" scheme offered by the European Union to LDCs).

Another lesson is provided by the experience of the LDCs, towards which the international community, mainly through the OECD Development Assistance Committee, has sought to prioritise

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[3] The classification of countries is updated every year in July by the World Bank. According to the World Bank, in July 2021 Low Income Countries have a Gross National Income per capita of US$1085 or less (Atlas method), while in 2023 for the IMF Low Income Countries eligible for the Poverty Reduction and Growth Facility or for IDA or ADF have a Gross National Income of less than US$1255.

[4] See the IMF document "Macroeconomic Developments and Prospects in Low-Income Countries -2022" which was the subject of a FERDI-IMF-Banque de France seminar on 18 January 2023, available online on the FERDI website.

ODA flows by setting a specific target of 0.15% of national income alongside that of 0.7% for developing countries as a whole: in so doing, priority has been given, with limited effectiveness, to allocating to the countries in the category as a whole, without attention being paid to allocating among these countries according to their poverty and vulnerability.[5] [6]

It is striking that in official UN documents, since the 2015 Addis Ababa Conference on Financing for Development, there are frequent references to "poor and vulnerable countries" or "LDCs and other vulnerable countries", without a defined set of countries being associated with these terms. The broader the category, the greater the risk that the poorest countries in the category will be disadvantaged, as it is there more difficult to appraise and implement projects.

In short, continuous criteria must be defined and agreed upon to guide new financing to poor and vulnerable countries. If, on the basis of these criteria, a new category of countries were to be selected or proposed by the June Summit, it would be desirable that there be coherent complementarity with the criteria for identifying LDCs.[7]

Overlapping sub-categories: the case of "fragile states

In a completely independent way, another reflection has developed on the fragility of states or situations of fragility with a view to adapting international financing to them.

Indeed, as categories based on per capita income did not capture the vulnerability of countries, some financial institutions created a dedicated category for these countries, which was superimposed on the low-income country category.

The concept of fragile states, whose name and content have varied (LICUS, Failed States, Turnaround Countries, Countries in Transition, FCV countries for Fragility, Conflict, Violence) was created precisely to open a financial facility to countries that were particularly fragile and underperforming, but showed acute needs for external financing. These categories are now highly debated because of their arbitrariness and the dichotomous treatment of fragility: not all so-called fragile countries are equally fragile and many of those not so labelled are also fragile to some extent.

On the other hand, the criterion of good governance (or performance), which is traditionally a major allocation criterion for the multilateral development banks (MDBs), is more symbolic than effective. For example, we have shown that in the case of the ADF 13, the existence of the window for countries in transition, defined by a performance indicator (Country Performance Assessment CPA) below a certain threshold (in fact 3.2), led to those just below the threshold (and therefore considered fragile) receiving more aid than countries just above the threshold (therefore having a non-significantly different level of governance, but labelled non-fragile).[8] A similar finding was made for the IDA.[9] [10]

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[5] See the analysis of the impact of category membership on aid flows in Guillaumont P. edr (2019, revised 2023) *Out of the trap. Supporting the Least Developed Countries*, chapter 3 written with L. Chauvet.

[6] The same is true of the new definition of ODA where the calculation of the grant element is based on a higher discount rate for LDCs and other LICs (the latter being less and less numerous) and a much higher grant element threshold for ODA eligibility.

[7] On the criteria for identifying LDCs, their evolution and desirable reforms see Guillaumont P. (2009a) *Caught in a trap. Identifying the least developed countries*, (2018) "Reforming the criteria for identifying least developed countries according to the logic of the category", (2021) "The logic of the least developed countries category over half a century".

[8] See Guillaumont P. Guillaumont Jeanneney S. and Wagner L. (2020) *Measuring Vulnerabilities to Allocate Development Aid, with a Focus on Africa*.

[9] Guillaumont P. and Wagner L. (2015) "Performance-based allocation (PBA) of foreign aid: still alive?

[10] The same will be true for the new IDA-19 envelope created for FCV countries ($18.7 billion) with three pillars (Prevention and Resilience, Continued Operations during Conflict, Post-Conflict Recovery) plus a window for refugees and host communities, which are in addition to the Association's main financing instrument, whose allocations remain based on per capita income and "performance" (CPIA) totalling $43 billion, of which $4.7 billion is planned to go to FCV countries. (See

2. Vulnerability as a criterion of a finance need

Country vulnerability is generally understood as the risk of a country being negatively affected by exogenous shocks, whether natural or external in origin. More specifically, from a development perspective, a country's vulnerability is the risk that its sustainable development will be hampered by the occurrence of exogenous shocks. Vulnerability depends on three categories of factors: the magnitude and frequency of exogenous shocks, a country's exposure to these shocks, and its capacity to cope with them, known as resilience. Apart from the resilience that depends on countries' policies, the factors of vulnerability are of exogenous or structural origin. An extensive literature has shown that exogenous shocks have a significant negative impact on economic growth, poverty reduction and various components of sustainable development. Therefore, as long as it is "exogenous", vulnerability is considered a structural handicap to development, which, independent of the current policies of countries, justifies support from the international community. Taking this vulnerability into account in the distribution of international funding promotes equal opportunities between countries in the long term, which is a principle of international justice.

However, despite the growing importance attributed in speeches and official texts to the vulnerability of countries as an obstacle to their sustainable development, this has not been translated into operational decisions regarding the geographical orientation of financial flows.

Vulnerability neglected as an allocation criterion

The United Nations Committee for Development Policy (CDP) first explicitly introduced a vulnerability criterion in the early 2000s as one of the three criteria for identifying least developed countries, defined as poor countries facing structural handicaps to their development. The adoption of the vulnerability criterion, which has been revised several times, underlines the fact that the vulnerability of countries is now recognised as a structural obstacle to their sustainable development, provided of course that it is defined and measured accordingly: in other words, its assessment should not reflect the influence of the countries' present policies, but should result solely from factors inherited from the past or corresponding to the countries' external environment. This is the only way in which vulnerability, then described as structural vulnerability, which is a criterion for identifying LDCs, is also justified as a criterion for allocating concessional flows: promoting the equalisation of (country) development opportunities at the international level implies mitigating the impact of structural handicaps.

Since then, despite the UN General Assembly resolution cited above recommending that the criteria for identifying LDCs be used as criteria for allocating aid in order to soften their graduation, and despite repeated requests from vulnerable countries to have their vulnerability recognised in the allocation of international resources (particularly from small island states), progress in this area has been limited. Among development finance institutions, only one multilateral development bank, the Caribbean Development Bank, has introduced a vulnerability criterion into its concessional credit allocation formula. Another notable exception is that in 2014 the European Commission adopted an allocation formula for the European Development Fund (then intended for ACP countries, i.e. eligible on the basis of a political agreement, the Cotonou Convention) and for the Instrument for International Cooperation (intended for another set of developing countries)[11] which included the vulnerability indicator used by the CDP for LDCs. A similar, but unpublished, formula was adopted in 2019-2020, supplemented by an environmental vulnerability index, for the allocation of resources

World Bank (2021) *World Bank Group Strategy Fragility, Conflict, Violence, 2020-2025,* p.40 *and* IDA (2019) *he Demand for IDA-19 Resources and the Strategy for their Effective Use,* May, p. 53.)

[11] Prepared by FERDI.

for the new financial cooperation instrument for all countries defined on both a geographical and political basis.

In contrast, the other multilateral development banks (MDBs) have been very reluctant to introduce a structural vulnerability indicator into their allocation formula. An attempt by the African Development Bank[12] that appeared to be on the verge of success in 2019 for the ADF replenishment was abandoned at the last moment. It is important to understand the reasons for this reluctance so that the summit's focus on vulnerable countries does not appear to be a dead end after the fact.

Three bad reasons to avoid taking vulnerability into account in allocation

There are three reasons for the reluctance to take vulnerability into account in the provision of concessional finance.

The first is that introducing a vulnerability indicator into an allocation formula where there is already a per capita income indicator, whose low level is a sign of need, and a governance indicator that is supposed to reflect performance, obviously means reducing the impact of these two other variables in the formula. The relative impact of the various variables in the formula can, moreover, be modulated through the coefficients applied to each of them.

The trade-off between low income and high vulnerability is not in itself the main cause of the reluctance mentioned. But this trade-off is inescapable: when targeting 'poor and vulnerable' countries, one must ask what relative weight is given to low per capita income and vulnerability. It should be noted that within the United Nations and during the search for a new vulnerability indicator discussed below, but also at the OECD through numerous webinars, it is mainly the per capita income "metric" that has been attacked as not reflecting the needs of countries properly on its own, and there has been no consideration of no longer referring to it. Reduced to its simplest expression, the estimation of countries' needs (in terms of concessional flows) should be translated into a formula combining, in addition to the population figure, a low income (or low human development) indicator and a vulnerability indicator. The method of calculating the average (geometric or arithmetic) between these two variables is important and involves a policy choice as to whether the impact of vulnerability on the needs measure should decrease as income increases (geometric average) or whether the two variables should be perfectly substitutable (arithmetic average). The measurement of needs estimated in this way can be used to allocate concessional funds, but also to define, if necessary, a threshold for eligibility for these funds.

The trade-off between vulnerability and governance posed a deeper problem, which concerned the allocation of multilateral concessional funds and not access to them; indeed, eligibility for these funds, unlike their allocation between countries, does not take governance into account. The standard MDB allocation formula is the "Performance Based Allocation" where the performance indicator, derived from the Country Policy and Institutional Assessment (CPIA), gives a major weight to cluster D "Public sector management and institutions", i.e. the "governance" cluster, the most subjective of the four clusters in which the 16 CPIA indicators are grouped. The "performance" index, although much criticised, has taken on a symbolic value to the extent that any modification that could mitigate its impact is felt by the MDB bureaucracy to risk weakening the level of contributions of some major donors, although they are ready in other fora to support the principles of alignment and ownership of the Paris Declaration (2005), to which the PBA is rather alien. This being said, we have been able to show in the case of the ADF and with a constant envelope that, by appropriately adapting the parameters, it was possible to give more to the most vulnerable countries without giving less to the best performing countries (the adjustment being made in particular by reallocating

[12] With the cooperation of FERDI.

within the best performing countries between those which are the most vulnerable and those which are less so).[13] The fact remains that any change in the allocation formula, regardless of the envelope, creates winners and losers, at least in terms of relative shares. Taking vulnerability into account in the allocation is indeed a political choice, which now seems to be affirmed by the very purpose of the summit.

A second reason for the reluctance put forward is the difficulty of measuring vulnerability. Conceptually, vulnerability indicators have made great progress, particularly in distinguishing between what is structural (and usable for an allocation formula) and what is the result of current policy and can be captured by appropriate resilience indicators.[14] Structural vulnerability should be a positive factor in allocation, as opposed to low resilience due to poor policy, which should be a negative factor, as it lowers the level of 'performance'. The reference sometimes made to indices combining these two aspects has led to the rejection of the principle of allocation according to vulnerability, which is suspected of causing moral hazard. The indicators used by the various institutions may not be exactly the same, but they must meet a certain number of common principles which have been well identified in recent work by the United Nations. This is also the case for performance indicators, which may differ from one institution to another while being very similar. The scientific objection therefore no longer seems acceptable.

A third reason for the reluctance mentioned is the nature of the response of the institutions concerned to the problem of not taking into account the vulnerability of countries: they have tended to create special envelopes or to support earmarked funds for different forms of vulnerability, which has led them to avoid introducing vulnerability as a general parameter in their allocation models. We have highlighted the shortcomings of this fragmentation above.

The right answer is to consider vulnerability in its different dimensions, as explained below.

3. Considering vulnerability in its different dimensions, climate not being the only one

A country's vulnerability, to repeat, is the risk that its development will be compromised by shocks of an exogenous nature, whether external or natural. A key distinction for the use of a vulnerability indicator in allocation has been made between what is exogenous, i.e. independent of the present will of countries, and what depends on their will, i.e. their present policy. Granting benefits to countries based on their vulnerability, whether for eligibility or allocation, is only justified if this vulnerability is truly structural and not related to the present policies of the countries. Refusing to make this distinction and isolating what is truly exogenous in vulnerability would risk generating moral hazard, corresponding to the incentive for countries not to improve their policies to address vulnerability. This distinction was inherent in the CDP's definition of vulnerability as a criterion for identifying LDCs, since the aim was to use an indicator of structural vulnerability. This distinction between structural and general vulnerability has been systematically made in Ferdi's work, notably in the construction of an index for the African Development Bank, then in its contribution to the development of a "universal vulnerability index" for the Commonwealth Secretariat, and finally in the development of a "multidimensional vulnerability index" for the United Nations. The report

[13] See Guillaumont P. Guillaumont Jeanneney S. and Wagner L. (2020) *Measuring vulnerabilities to allocate development aid, particularly in Africa, op. cit*.

[14] See in particular, in addition to the work of Ferdi, that of the Commonwealth Secretariat ((2021) *The Commonwealth Universal Vulnerability Index. For a Global Consensus on the Definition and Measurement of Vulnerability* and those of the United Nations (United Nations 2021) *Possible Development and Uses of Multidimensional Vulnerability Indices, Analysis and Recommendations,* conducted in particular by OHRLLS) and Guillaumont P. (2023) *Towards a Multidimensional Vulnerability Index. Six Supporting Notes*, FERDI.

prepared for this purpose[15] clearly sets out the three principles that a vulnerability index for international resource allocation must fulfil[16] (in addition to the need to be simple and based on reliable data, principles common to all indices for international comparison) It must be "universal", i.e. able to show the vulnerability of various types of countries in an unbiased way; it must be "separable", i.e. able to distinguish between what is structural and what is due to the current policy, as has just been recalled; and it must be "multidimensional". It is this multidimensionality that we must now focus on.

The three dimensions of vulnerability to be taken into account

A "high-level panel" set up by the President of the UN General Assembly following a UN resolution is due to propose a "multidimensional vulnerability index". The request initially came from small island developing states to justify more international funding for them because of their vulnerability. The vulnerability they had in mind was of course vulnerability to climate change, to which they feel particularly exposed. But in the end the preliminary work carried out by OHRLLS and the framework imposed on the panel directed its work towards a multidimensional vulnerability, i.e. not limited to climate change. This is more or less the same process that seems to be at work for the summit on financing vulnerable countries. The announcement was made at the end of COP 27 by the President of the French Republic, following on from the Bridgetown Initiative (led by Barbados) in which France had been involved, i.e. with a view to vulnerability to climate change. But it quickly became clear that the Summit was not going to limit itself to this vulnerability alone, however important the criteria were. Two other dimensions of vulnerability quickly emerged.

When the CDP introduced a vulnerability indicator as a criterion for identifying LDCs, it was an economic vulnerability indicator. This indicator has since been transformed into an "economic and environmental" vulnerability indicator, although the latter is only partly justified in this case: the indicator originally included components such as the instability of exports of goods and services, which is strongly influenced by the instability of world prices (but also by the instability of their volume, which is itself linked to climate). The negative and significant consequences of this instability have long been analysed, without the measures taken to deal with them having been fully or truly effective.

At the same time, over the past 20 years, there has been a great deal of reflection on vulnerability specifically as a result of climate change. Various indicators have been proposed, but they generally do not disentangle what is historically the result of climate and what is the result of its change as a result of global warming. Moreover, these indicators often mix perfectly exogenous factors with present and future policy factors. This is why Ferdi has developed a "physical climate change vulnerability indicator" (PVCCI), which is perfectly exogenous, independent of policy and can be used, as we shall see, as a criterion for the allocation of funds for adaptation. Moreover, while vulnerability to climate change is an essential element of environmental vulnerability, it is not the only one, as it can cover elements relating to biodiversity or health.

There is a third dimension of socio-political vulnerability, particularly security vulnerability, which needs to be taken into account, although for this third dimension it may be difficult to disentangle what is truly exogenous and what is the result of current policy. Indices are being developed which attempt to do this, allowing this exogenous vulnerability to be taken into account on an ongoing

[15] United Nations (2021), *Possible Development and Uses of Multidimensional Vulnerability Indices, Analysis and Recommendations* of which P. Guillaumont and L. Wagner are the lead authors.
[16] These three principles are specified in Guillaumont P., Wagner L. (2022) Three criteria that a multidimensional vulnerability index should meet to be used effectively, FERDI Policy brief B234, May.

basis in the allocation of external funding.[17] It was recalled above that the attempt to identify a "category" of fragile states has reached an impasse.

The value of a synthetic multidimensional vulnerability index for the allocation of funding

There are therefore three main dimensions of vulnerability - economic, environmental and socio-political - whose contours may vary, but which are essentially and distinctly reduced to economic vulnerability, physical vulnerability linked to global warming and insecurity. These three dimensions have only recently been taken into account simultaneously and should soon be taken into account through the index currently being developed by the United Nations. A synthetic vulnerability index is all the more justified in that there are many interactions between the different dimensions of vulnerability, which implies avoiding any redundancy between the components of the indices relating to each dimension. It should avoid categorising countries, while allowing the identification of the specific factors of their vulnerability.

Once limited to structural factors, it should be able to be used alongside per capita income as a criterion for estimating the relative needs of each country for concessional resources. This does not exclude the possibility of using each component or dimension of the index for the treatment of financing allocated to specific objectives and to do so on a continuous basis without having to use arbitrary categories of countries. Indeed, the allocation or even eligibility criteria may vary according to the resources mobilised and the objective assigned to them, which we will now see in relation to climate finance.

4. Allocation criteria, in particular vulnerability, adapted to the objectives of the various financial instruments

Allocation criteria should depend on the financial instruments implemented and the objectives assigned to them. At a global level, it is conceivable, as suggested in *Financing Global Policies: But Why*? that a standard be established for all *concessional* financing to countries that takes into account, in addition to per capita income, multidimensional vulnerability as measured by the synthetic index discussed at.[18] It is also conceivable that all major international development finance institutions could be asked to apply this standard or at least to publish the extent to which they meet it, so as to check the overall coherence of the system. However, there are funds dedicated to specific objectives, whether these funds are operational or simply feed the activities of accredited institutions, which are responsible for operational implementation: it may then be logical to differentiate the criteria according to the very purpose of these funds; this is particularly evident in the case of so-called climate finance.

Three types of climate finance are distinguished, depending on whether they are aimed at mitigation, adaptation or compensation for damage, for which the allocation criteria are logically different.

Climate change mitigation funds should firstly meet an efficiency criterion in terms of carbon emission reduction, which may lead to middle-income countries being the main recipients.

[17] This has been done for the Commonwealth Secretariat's 'universal' index (2021), cited above, and is being finalised for the UN's 'multidimensional' index. See also: Feindounou S. and Guillaumont P. (2019) 'The Physical Vulnerability to Climate Change Index: An Index to Be Used for International Policy' and Guillaumont P. and Wagner L. (2022) 'Three Criteria that a Multidimensional Vulnerability Index Must Meet to be Effectively Used'.

[18] Of course, the quality of the policy of the countries financed is also a criterion currently used? Introducing vulnerability does not mean abandoning it. But the question is how to articulate the governance criterion in the allocation with conditionality, which will be the subject of the last session.

However, if we consider that mitigation funds should cover the additional costs of decarbonising equipment compared to cheaper but more CO2 emitting equipment, it seems normal that the level of per capita income and associated vulnerabilities should be taken into account and that low-income countries should not be left out of these funds. The condition would be that these countries draw up sustainable and decarbonised growth plans that isolate the additional costs of implementing green growth. The international community should finance the technical assistance needed to develop these plans.

The financial flows intended for the adaptation of economies to climate change respond to another logic in which the question of vulnerability finds its full place. This is more specifically vulnerability to climate change and, more precisely, as indicated above, that part of this vulnerability which is directly attributable to exogenous manifestations of climate change.

To this end, an indicator of *physical* vulnerability to climate change should be used to modulate flows for adaptation. The Ferdi PVCCI indicator mentioned above takes into account two kinds of risks due to climate change: those linked to trend shocks such as sea level rise, increased temperatures and decreased rainfall, and those linked to the intensification of recurrent thermal, rainfall and cyclonic shocks. This criterion should be combined with a per capita income criterion on which the capacity to respond to climate shocks depends, which would favour low-income countries. As for the application of the vulnerability criterion, it would favour island states, even when their per capita income classifies them as middle or even high income countries.

Compensation for loss and damage is a third form of climate finance. Claimed by the developing countries, which believe that the developed countries are not meeting their commitments to finance adaptation, it was the subject of the creation of a new fund for the compensation of loss and damage linked to climate change in favour of the most vulnerable countries at the last Conference of the Parties in Sharm el-Sheikh. The logic would have it that the allocation should be made according to the extent of the damage, which would be extremely difficult for several reasons. The first is that it is almost impossible to objectively assess the loss and damage by separating out what is due to climate change and what is due to the nature of the climate as it was before it changed. The second reason is that the loss and damage due to climate change is highly dependent on the policy that is pursued by the countries concerned under their own responsibility: systematic compensation carries the risk of moral hazard.

Poor countries have the right to request support from the international community for losses for which they are not responsible, and if these cannot be reasonably assessed, their right is to request this support to adapt to climate change in order to mitigate the loss and damage that may result. Prevention is as important as compensation. It would therefore make sense to use the same allocation principles for "compensation" as for adaptation.

For these allocation rules, which differ according to the purposes of the instruments through which resources are mobilised, to be applied, an overall envelope should be defined for each goal (in absolute terms and in proportion) and an international institution should be responsible for topping up the financing of neglected goals. The same conclusions could be drawn for other areas of public financing for development and/or global public goods, such as health or biodiversity.

Conclusion

The final allocation between countries of the new resources to be mobilised, as well as of the old ones, must be at the heart of a Summit for the financing of "vulnerable countries". This implies an international consensus not only on the rules of eligibility, but also and above all on the criteria for allocation.

In addition to per capita income, which should not be the only differentiation criterion, and if necessary in addition to performance/governance criteria (for allocation, but not eligibility), the vulnerability criteria that should then be taken into account should reflect structural vulnerability, independent of current policy, if the risk of moral hazard is to be avoided; vulnerability linked to poor current policy should instead reduce the performance/governance measure.

In addition, the vulnerability criterion(s) should take into account the various forms of vulnerability that countries face irrespective of their current willingness to do so through specific indicators relating to economic vulnerability, vulnerability to climate change, socio-political vulnerability or fragility linked to exogenous insecurity.

The use of such indicators as criteria for allocating financial flows to developing countries corresponds to a principle of international justice, as well as efficiency, which can ensure the legitimacy of donors.

To be fully consistent, these allocation principles should apply to all existing and new concessional financing. This should lead to significant changes in the allocation modalities and formulas of Multilateral Development Banks that have not yet integrated vulnerability in a clear and transparent way. This should be a condition for them to be legitimate in managing all or part of the new funds mobilised. The prospect of a consensus on a new multidimensional vulnerability indicator (MVI) or at least on the principles of its construction should contribute to this coherence.

To inform the international community on current practices and monitor the implementation of the principles, an index of the quality of allocation against the multidimensional vulnerability criterion should be established annually, which would represent for each donor (multilateral and bilateral) the weighted average level of the vulnerability index in each country funded. This calculation would be part of a new measure of the "selectivity" of concessional flows.[19]

If there were to be a global financial pact between countries in this spirit, whether on a universal basis or more easily between voluntary countries, commitments on amounts could not be separated from commitments on their distribution between countries.

[19] A simple measure whose method has already been proposed and applied: see Amprou J., Guillaumont P. and Guillaumont Jeanneney S. (2007) "Aid Selectivity According to Augmented Criteria"; Guillaumont Jeanneney S. and Le Velly G. (2011) "Aid selectivity indicators".

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