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Considering vulnerability in the access to concessional finance *for eligibility and allocation*

10 October | 4.45 pm – 5.45 pm

1. Why?

Vulnerability to shocks that does not depend on the present will of governments is a structural handicap to development

3 reasons for considering it in the access to concessional funds:

- *Justice* : tackling vulnerability as a structural handicap contributes to make opportunities more equal
- *Effectiveness* : marginal impact of foreign support higher in vulnerable countries; building prevention/resilience more effective than ex post shock compensation
- *Transparency* : allows one to avoid multiple discretionary exceptions and special windows, having limited impact

2. How?

- As a criterion of *eligibility* to concessional resources (*IDA* and now *IBRD*, *ADF*, *IMF PRGT*, other possible funds, *DAC list*)
- As an *allocation* criterion of such resources between countries: necessary to differentiate according their needs
- Allocation even more important than eligibility, and *complementary* to it if the vulnerability criterion is combined adequately with income p.c...
- ...what may not be the case for eligibility

3. Are there reasons to reject the proposal?

- Does it lower the *weight of performance*? Indeed risk, but simulations for ADF evidence a reallocation within best performers, without a decrease of their share
- Can it be *detrimental to LICs*? No if vulnerability well combined with income p.c.: in a PBA kind of formula the lower income p.c. the higher marginal impact of vulnerability
- Is there a problem of *absorptive capacity*? A donor or recipient problem? Allocation is not commitment
- Can a high vulnerability index have a negative impact on *countries notation*? No it's the opposite if it means higher resources

4. Can vulnerability be appropriately measured?

The vulnerability index should meet *3 conditions* and be:

- *Exogeneous* : the index to be considered should be structural, independent from present policy (to avoid moral hazard)
- *Multidimensional* : to cover 3 main dimensions of vulnerability (economic, environmental/climatic, and social /fragility)
- *Universal* : to be applicable to various kinds of vulnerable countries (Sahel as well as SIDS)

3 conditions already met by Commonwealth UVI and UN MVI

5. Is it politically feasible?

- Has been efficiently done : EU, Caribbean DB,...
- Winner / loser issue: easier to address when the envelope is higher
- Should be adapted to the kind of finance allocated (e.g.: for allocating adaptation funds use a “PVCCI”)
- A right incentive to avoid moral hazard: inclusion in the CPIA of a component for the resilience policy (non-structural resilience), in particular with respect to climate