



**Addressing vulnerabilities by financing sustainable
development
Lessons for the LDCs**

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Introductory remarks

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Origin of the event

- Publication in French of the book « *Financing Sustainable Development. Addressing Vulnerabilities* »/ « *Financer le développement durable. Réduire les vulnérabilités* », already presented in English at the OECD Forum in June, and at the Addis A UN Conference on financing development
- Meeting yesterday at OECD of the *LDC IV Monitor* in view of the Antalya Mid-Term review of the IPoA, where these issues are to be discussed in several events
- Actually the content of the book is particularly, but not exclusively, relevant for the LDCs, as poor and vulnerable countries



Vulnerability at the heart of the LDC category

- LDCs long time designed as poor (low income) countries suffering from structural handicaps to growth (now to sustainable development), identified by a low level of human capital (HAI) and a high structural economic vulnerability (EVI) (see history and rationale of the category in *Caught in the trap*, 2009, and the evolution of the criteria in Drabo and Guillaumont papers for the *LDC IV Monitor*)
- Now 1/3 (17/48) of LDCs are no longer low income, but most of them, as well as some graduating ones, are still highly vulnerable
- This why the topic of the book mainly concerns LDCs



The message of the book in a nutshell

- What is at stake is financing a sustainable development, in the 3 dimensions of sustainability, economic, social and environmental (mainly climatic)
- Vulnerability is threatening the sustainability of development and has itself 3 corresponding dimensions economic, social and environmental (which can be easily identified)
- So, financing a sustainable development involves to address the various sources of vulnerability by appropriate methods of finance, in a comprehensive framework



Method and structure of the book

- Rather than listing instruments, starting from issues to address, and asking to a number of well known experts (45), from the North and the South, to expose their views on the way to address a specific issue on financing sustainability (in 25 chapters, see table of content)
- Book then divided in four parts, following an overview by eds
- Part I is a map of finance for sustainable development, including a chapter that will be presented by Jean-Michel Debrat on the role of development banks, the 3 other parts are respectively focused on each of the 3 dimensions of Vulnerability/sustainability



Part II: Financing economic sustainability

- May be the more usual, although inadequately addressed, aspect of sustainability
- Includes analysis (and policy recommendations) on debt sustainability in LICs, increase of domestic finance of investment, and tax effort as well, remittances potential and prospects, how financing regional integration can lower vulnerability,...
- ... and an important contribution by 3 authors of OECD on the role of guarantees, here presented by Mariana Mirabile



Part III Financing social and political sustainability

- 6 substantive chapters corresponding to the very different and more and more important aspects of social vulnerability
- How donors can help FS, how to support risk management by the poor, how financial deepening can reduce poverty (and vulnerability), how « aid for trade » can also do it, how pooling the risk is essential in sustainable health financing,...
- ...how impact investment can become a new pattern of development financing, an issue here presented by Jean-Michel Sévérino



Part IV Financing environmental sustainability

- Growing challenge after the COP21, but not only devoted to climate finance, an issue addressed in another Ferdi book
- Among other issues addressed, the optimal mining taxation or more generally the various kinds of innovative finance likely to make development sustainable
- Several aspects of climate finance, as a major way to tackle vulnerability, are of course addressed through the issue of additionality with ODA, the possibility to mobilize SDRs, the reinforcement of REDD+



Not an answer, but an approach, with pending other issues

- Many answers (and questions too) in a global framework
- With the view that there is not a general or common answer, but a need of a set of answers to the challenge of vulnerabilities, a set depending on the structures and policy choices of the countries
- All issues related to vulnerability are not examined in depth in the book, in particular the volume of public finance and its country allocation
- The volume of development finance available for LDCs is an important issue, with the recent decrease of ODA to LDCs, deviating from official targets, with no clear future impact of the new definition of ODA
- Important to see what the new TOSSD concept will involve for LDCs, a concept that will be presented by Philippe Orliange
- Once the definition agreed, should new targets be designed, global and/or for the LDCs?



Taking into account vulnerability in the allocation of ODA between countries

- Important matter of discussion for multilateral assistance
- Ferdi proposal: LDCs identification criteria, because they refer to poverty and (exogenous) structural handicaps to development, in particular vulnerability (EVI), are logical criteria for aid allocation
- Reflected in the UNGA resolution 67/221 on « smooth transition » of graduating LDCs (and in EC new EDF and DCI)
- Dampens the decrease in ODA received by an LDC after its graduation
- Helps to channel ODA towards the LDCs, not only as a whole, but also towards the least developed ones, in particular the most vulnerable, improving the allocation between them
- Extends the “aid preference” to vulnerable countries not classified as LDCs



...and taking into account the vulnerability to climate change in the allocation of concessional resources for adaptation

- Even more relevant if vulnerability considered is the physical, fully exogeneous vulnerability, as measured by an appropriate index
- Vulnerability to climate change not fully captured by EVI
- Would supplement the (limited) principle of 50% of the Green Fund for LDCs and vulnerable countries
- LDCs, on average highly vulnerable to climate change, and would benefit from this allocation, without substitution with ODA
- Whatever the fungibility in the use of resources



3. Using the LDCs identification criteria as aid allocation criteria will make easier scaling up of ODA to LDCs, and enhance its rationale

- LDCs identification criteria, because they refer to poverty and (exogenous) structural handicaps to development are logical criteria for aid allocation
- Underlined in the UN GA Resolution 67/221 on “smooth transition” for graduating countries (§23), “inviting development partners to consider LDC indicators, GNIpc, HAI and EVI, as part of their criteria for allocating ODA”
- It helps to channel ODA towards the LDCs, and towards the least developed ones, improving the allocation between them
- It also dampens the decrease in ODA received by an LDC after its graduation
- And it extends the “aid preference” to vulnerable countries not classified as LDCs
- Would involve a reform in the allocation criteria of the aid supplied by MDBs (improving the PBA)