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Why creating a general category of vulnerable countries is not suitable

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As part of the preparation for the June Summit on financing, the question was raised as to whether a category of "vulnerable countries" should not be created or recommended. One would first have to ask who would be responsible for creating this category, so that it would be authoritative. Only the United Nations has the legitimacy to do so and a negative answer was given there when the question was asked five years ago. It could indeed be imagined that this position might change. But to understand what is at stake and examine the question in depth, it is necessary to recall this historical point.

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247
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note brève

A recent rejection

In 2018 the United Nations Committee for Development Policy (CDP) linked to ECOSOC and in charge of monitoring the evolution of the category of "Least Developed Countries" (LDCs), by designing the identification criteria and proposing the inclusions into the list and the exits from it, had suggested creating a category of countries "facing extreme vulnerability to climate change and other environmental shocks". It did so apparently to respond to the recurring criticisms made of it on the graduation rules applied to the countries that have already graduated or are in the process of graduating: These were generally small countries no longer being low-income, nor being characterized by a particularly low level of human capital, but still vulnerable with regard to the vulnerability index that the Committee had itself built and is the third criterion for identifying LDCs.

The need for a new category then seemed to be justified only by the difficulty, no doubt overestimated, of modifying the graduation criteria for the LDC category. In fact, such a modification could have been done by aggregating the criteria for identifying LDCs into a synthetic criterion, which would have involved always taking vulnerability into account. ECOSOC having clearly ruled out the possibility of creating a new category of vulnerable countries (E/RES/2018/27), the concern of the countries concerned, the small island States in particular, was expressed through a Resolution of the UN General Assembly calling for the establishment of a "multidimensional vulnerability indicator" that could be used to guide financial flows to vulnerable countries.

Several specific categories for the eligibility to concessional funds

Without a general category endorsed by the UN, development financial institutions having a concessional window have set up conditions of eligibility to this window, what de facto results in specific categories. The main condition generally applied is a maximum level of income per capita, while additional countries may also be made eligible on a discretionary basis. A vulnerability criterion is generally not used as a condition of eligibility, but it could be, combined with the income per capita.

What is today at stake is the creation of a new and general category of vulnerable countries, likely to be used by all the main financial institutions.

Reasons for avoiding to create a new and general category of vulnerable countries

There are in fact severals reasons why the creation of a new category of vulnerable countries is not desirable.

The first, unfortunately illustrated by the experience of the LDC category, the only official category recognized by the United Nations, is that *the use of a category always raises problems at its borders*, in particular when belonging to the category generates specific advantages and exit from it from it is on the agenda. The LDC category is precisely discussed because of this "graduation" issue. Hence the laborious search for "smooth transition" measures. The financial institutions that have set up eligibility conditions for their concessional windows had to use transitory measures for countries no longer meeting these conditions.

The second and most important reason, also illustrated by the case of LDCs, is that the use of a category *tends to make the member countries considered as a block and leads to not differentiating among them.* It is better to differentiate vulnerable countries on the basis of vulnerability criteria than to consider them as a homogeneous whole. This has now become clearer than ever before, thanks to the emerging consensus on a multidimensional indicator of vulnerability.

A third reason for not proposing the creation of a new category relates to a *possible confusion with the category of least developed countries* with which a category of vulnerable countries would inevitably and largely overlap. This overlapping could further contribute to the fragmentation of funding, as far as the creation of a new category would create pressure for a new financial instrument to meet the specific needs of vulnerable countries, needs difficult to distinguish from the needs of LDCs, if not through continuous criteria.

Let us add that, since vulnerability is multidimensional, the wish of a new category might become a wish of several categories corresponding respectively to each dimension, each with the same problems than those identified for a general category, and with an additional risk of category overlapping. Nevertheless, the dimension with regard to which it would be assess an exogenous vulnerability is vulnerability to climate change.

For these three reasons, *the use of continuous vulnerability criteria that can guide the distribution of concessional financing between countries is highly preferable to the creation of a new category*.[1]

If however…

If, however, for political reasons it was really necessary to have a category gathering the most vulnerable countries, a possible solution would be, rather than create a new category, to *revise the category of LDCs, so that it becomes a category of "least advanced and most vulnerable countries"*. This would imply an in-depth, but ultimately quite simple, revision of the criteria for identifying member countries. It would indeed suffice, as indicated above, to aggregate the three identification criteria of the LDCs category into a synthetic criterion where vulnerability would have, alongside per capita income and the level of human capital (the other two criteria) a suitable place. The Committee for Development Policy could commit to this only if it received a specific mandate in this sense from ECOSOC, to which its proposals are intended.

Even if a reform of the LDCs identification criteria in the direction indicated is desirable, it is not sure that it can or even should go as far as a change in the nature of the category, which has gradually imposed itself and around which a series of dedicated international bodies have been established.

Nevertheless, as soon as there is a consensus on a multidimensional vulnerability indicator and criterion, any supplier of concessional finance can use it, according to its own principles, and alongside with other possible criteria such as the income per capita, to set up an indicator threshold determining the eligibility to special financial windows. It can thus design its own category of target countries, while the consistency in the allocation of global financing will not be insured.

In short, to better allocate concessional finance among countries, the effective use by donors, in particular the multilateral ones, of vulnerability criteria continuous, preferably homogenous, and not exclusive of other ones, is more important than the creation of a new category of vulnerable countries or even the transformation of the category of LDCs into a category of "least developed and most vulnerable countries".

1. See on this subject Guillaumont P., «Financing global policies: but for whom?" *FERDI Working Paper* P319 (Work of the International Development Finance Architecture Chair), March 2023 and "How vulnerability should impact the global distribution of concessional flows", *FERDI Policy Brief*, B246, March 2023.

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policy brief 247 April 2023 note brève