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## Assessing "Aid Selectivity" by Considering the Vulnerability of Countries

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The Paris Summit for a New Global Financing Pact in June 2023 was initially announced as a response to country vulnerabilities, in particular vulnerability to climate change. Support for vulnerable countries remains one of the principles of the Paris Pact for People and Planet (4P) that emerged from this summit<sup>1</sup>. Whatever the sectoral allocations or financial instruments recommended, it is necessary to ensure that the funds mobilised, especially those added to existing funding, will actually benefit vulnerable and poor countries or respond to situations of vulnerability.



1. The four principles are as follows
  - no country should have to choose between fighting poverty and preserving the planet ;
  - each country adopts its own transition strategy, taking into account its needs and constraints to achieve the goals of the Paris Agreement;
  - a shock of public funding is needed to help vulnerable economies lift their populations out of poverty, while protecting the planet;
  - a much greater leverage effect is needed to increase private funding for our global challenges.

...../..... In the early 2000s, when the fashionable idea was to ensure that the allocation of aid favoured the best-governed countries, the concept of “aid selectivity” emerged, with the aim of assessing the extent to which, for each source of aid, flows were well directed towards these countries. This definition of selectivity stemmed from the thesis of Burnside and Dollar (1997, 2000a and b, 2004a and b) that aid would be effective in promoting growth (and thus reducing poverty) only in well-governed countries. It was used by many authors in the 2000s (World Bank, 1998, 2004<sup>1</sup>; Dollar and Levin, 2004; Roodman, 2004; World Bank and IMF, 2004). It can also be found in well-known works on the relationship between aid and poverty reduction (Collier and Dollar, 2001 and 2002). Since 2003, the Center for Global Development (CGDEV) has published the Commitment to Development Index (Robinson, Beata Cichocka, Ritchie and Mitchell, 2021), which aims to rank developed countries according to the contribution of their economic policies to the development of poor countries (aid, trade, migration, investment, security, technology and environmental policy). Until 2021, the aid component included the governance of assisted countries as a criterion for aid selectivity (Birdsall, Mahgoub and Perakis, 2010).

This concept of selectivity, tainted by its connotation of “good governance”, has since been criticised and is no longer widely used.<sup>2</sup> On the one hand, the definition of “good governance” that would be identical everywhere has been

1. The Global Monitoring Report divided aid-receiving countries into two categories of equal size on the basis of CPIA alone, those with ‘good policies and institutions’ and those with ‘bad’ ones.
2. For example, according to the Commitment Development Index published in 2021, which is still designed to compare the efforts of high-income countries to help poorer countries, the quality of financing for development component of this index is measured by six indicators: the degree of linkage of flows, the transparency of aid policy, the proportion of aid going through a multilateral channel, the proportion of projects corresponding to the objectives of recipient countries, the proportion of low-income countries in bilateral aid, and the proportion of countries classified by the World Bank as fragile. The governance of the countries receiving aid is no longer included in the quality of aid (Robinson et al. 2021).

called into question. Above all, it is now recognised that economic growth is only one of the goals of aid, even if poverty reduction is linked to it, and that the effectiveness of aid does not depend solely, or perhaps primarily, on the quality of economic policy. It also (and mainly) depends on the handicaps suffered by the poorest countries that need to be overcome. Structural handicaps are also used by the United Nations to define the category of least developed countries (LDCs). These are the weakness of human capital and the vulnerability of countries. The importance of vulnerability in aid effectiveness is now well recognised (Collier and Dehn, 2001; Guillaumont and Chauvet, 2001<sup>3</sup>; Collier and Hoeffler, 2004 in post-conflict situations).

In an article published in *World Economy* in 2007 (Amprou, Guillaumont and Guillaumont Jeanneney), we proposed a new measure of selectivity that, without abandoning the governance criterion but showing its limitations, simultaneously used other criteria to judge the quality of aid flows’ geographical orientation. These criteria included not only a low level of per capita income and human capital but also the level of economic vulnerability, measured at the time using the indicator calculated by the United Nations Committee for Development Policy (CDP) to identify LDCs. In the early 2010s, work published by Ferdi as an extension of the above-mentioned article made it possible to update the results initially presented in the *World Economy* article (Guillaumont Jeanneney and Le Velly, 2010, 2011). It then became appropriate for selectivity with respect to a vulnerability criterion to be considered as a means of assessing the quality of public funding policies and for any progress made following the Summit to be reported in this respect.

3. This article deals with the shocks to which many developing countries are exposed, either as a result of the variability of commodity prices, or of climatic incidents and natural disasters. In these situations, aid is more effective by preventing the disruption of imports and the cumulative fall in growth, as it reduces the negative impact of vulnerability.

This new concept of selectivity would benefit from the in-depth analysis of the vulnerability of developing countries, particularly in recent years. A country's vulnerability is the risk of its development being hampered by exogenous shocks, whether external or natural. An essential distinction in the use of a vulnerability index in the calculation of a selectivity indicator is indeed between what is exogenous, that is, independent of the present will of countries, and what depends on their will or their present policy. Financing countries according to their vulnerability is only justified if this vulnerability is truly structural and not linked to the countries' current policies.<sup>4</sup> The vulnerability indicator also needs to be multidimensional. Three dimensions of vulnerability are now commonly distinguished, albeit with varying perimeters. For example, if we look at the way in which shocks manifest themselves, we can distinguish (i) economic vulnerability,<sup>5</sup> which is likely to capture the economic impact of various kinds of exogenous shocks (economic, environmental, health-related, etc.); (ii) vulnerability to climate change: because of the major and growing importance of this type of vulnerability, particularly for SIDS, it may be logical and convenient to consider it separately, using purely physical indicators,<sup>6</sup> with the impact of other forms of environmental vulnerability then being captured through the

economic dimension; and (iii) social or socio-political vulnerability, which involves targeting recurring social shocks that reflect the fragility of States, this vulnerability being captured specifically by recurrent violent events, which occur either within the country or at its borders.

The method that we propose for measuring the relative "selectivity" of donors is simple. For each source of aid and for each criterion used, including of course the vulnerability criteria, we calculate a weighted average indicator for recipient countries that is comparable from one source of aid to another. As it is not possible to consider vulnerability independently of the level of per capita income, the calculation must combine the vulnerability indicator with an indicator of low income (in fact its log) or, if we want to take into account a multidimensional measure of poverty in recipient countries, including the weakness of their human capital, it will be possible to use the weakness of the Human Development Index, which combines indicators of per capita income, education and health.

For the calculation, it is of course necessary to know the geographical distribution of the flows from each source of aid, which the OECD should normally have, and the relative shares of each recipient should be used as a weighting coefficient for calculating the average level of income (or HDI) and the average level of vulnerability of the recipients of aid from a given bilateral or multilateral source.

The measure of vulnerability used as a criterion should benefit from the progress made in this area over the last fifteen years, as mentioned above. For example, the United Nations Committee for Development Policy (CDP) has redefined its vulnerability index, and the Commonwealth Secretariat and then the United Nations have developed new multidimensional measures of vulnerability. These new indices meet the criteria required for calculating selectivity,

4. Refusing to isolate what is truly exogenous in vulnerability would run the risk of generating moral hazard, corresponding to the incentive countries would have not to improve their policies to deal with vulnerability. This distinction between structural vulnerability 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 elaboration of a 'universal vulnerability index' for the Commonwealth Secretariat and finally in its contribution to the elaboration of a 'multidimensional vulnerability index' for the United Nations.

5. Economic vulnerability has been used since 2000 by the United Nations Committee for Development Policy as a criterion for identifying LDCs, and the EVI index developed for this purpose has been revised several times. Its latest name is Economic and Environmental Vulnerability.

6. FERDI has developed an indicator of physical vulnerability to climate change, which takes into account two risks caused by climate change: those linked to trend shocks such as rising sea levels, increasing temperatures and decreasing rainfall, and those linked to the intensification of recurrent thermal, rainfall and cyclonic shocks.

namely a measure of structural or exogenous vulnerability, independent of the current will of the countries, to avoid any moral hazard: it is the structural or exogenous vulnerability of the recipient country that corresponds to a need for aid, whereas vulnerability linked to a poor current policy reveals poor governance, which may remain a negative criterion for allocation.

It is of course possible to add a governance or performance criterion to the two previous criteria, which was the basis of the initial measure of selectivity. However, as its assessment remains contested and is not in line with the objective of alignment with countries' political choices, which was one of the principles of the Paris Declaration on Aid Effectiveness, it is conceivable to measure selectivity according to two versions, one including this third criterion and the other not.

Whether we stick to the two criteria of a low level of development and high vulnerability or add a third criterion of governance/performance, it is easy to combine them using the most appropriate type of average and the most appropriate weighting. It is even conceivable to let each user (for their own use, if not for international comparisons) choose the type of average that they prefer, as well as the weighting between the different criteria or even between the components of each multidimensional indicator. The programme was developed at Ferdi and is called "Build Your Own Index". However, if, in the wake of the June Summit, since it was initially conceived as a summit for vulnerable countries, we wanted to ensure the accountability of development partners from this initial perspective, it would be relevant simply to assess the orientation of concessional flows in terms of a multidimensional vulnerability indicator. Each type or source of funding would thus be assigned an average indicator of the vulnerability of recipient countries. Similarly, since vulnerability cannot be the only criterion for allocating aid, the average level of per capita income or human devel-

opment of recipient countries, or their average level of "performance", should be measured and compared. In the same way, it would be possible to monitor the average level of vulnerability of recipient countries in its various dimensions, or any other variable chosen as a criterion, both at the global level and for each source of aid.

Let us add that, since the variables used as criteria are partially correlated, we may also wish to measure not the average impact but the marginal impact of each of them (in this case vulnerability) by estimating econometrically the elasticity of each type of flow in relation to the different variables (including vulnerability) used as allocation and selectivity criteria. By calculating the average vulnerability of recipient countries, we can see the extent to which each source of funding has in fact focused more or less on vulnerable countries according to their level of vulnerability, while the marginal impact of vulnerability (or elasticity) attempts to show the extent to which each source, in its allocation choices according to different criteria, has been specifically sensitive to the degree of vulnerability of recipient countries. This second measure, which depends on the estimation method, can only be complementary to the previous one, the meaning of which is clearer and on which political communication is simpler (see the comparison of the two methods in Amprou et al., 2017; work in progress by Ferdi will present the respective scope of the two methods).

The recommended method is easily applicable to ODA flows. Depending on the availability of statistics, it should also be possible to apply it separately to other categories of flows to the countries for which they are intended: TOSSD and its components, FDI, as well as, in a complementary manner and subject to specific adjustments, flows intended to promote various types of global public goods.

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