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Towards an Effective Use of a Multidimensional Vulnerability Index in Development Finance

Patrick Guillaumont

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Patrick GUILLAUMONT

with contributions of SOSSO FEINDOUNO,
Sylviane GUILLAUMONT JEANNENEY and Laurent WAGNER



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*Towards an Effective Use of a Multidimensional Vulnerability Index
in Development Finance*

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Foreword

A previous booklet entitled *Towards a Multidimensional Vulnerability Index*, collected six policy briefs that preceded and accompanied the development of a vulnerability index at the United Nations. This index, commonly known as the MVI (Multidimensional Vulnerability Index), was developed by a high-level panel set up for the purpose.¹ FERDI, which had published numerous works on the subject and had provided the lead authors of the United Nations report used to guide the work of the panel², then made a major contribution to the drafting of the report itself through the technical support provided throughout its preparation by Dr Laurent Wagner and Dr Sosso Feidouno, although they were not responsible for the entire report. They are both involved in the reflections contained in this book, as it more particularly appears in several chapters they co-authored.

The problem now is how this index can be used effectively to improve international financing for development, which was the main goal initially pursued. For several years, FERDI has supported the call for the use of a structural vulnerability indicator in the allocation of aid. The adoption of the MVI by the United Nations and the invitation made to financial institutions to move in this direction led FERDI to continue its reflection in this area without delay, in order to show how the index adopted by the United Nations General Assembly (UNGA) - provided that it is adapted to the needs of users - could this time be adopted by them.

This book brings together twelve policy briefs, covering three complementary themes.

The first part deals with the index itself: it starts with a commentary on the index promoted by the UNGA, showing how it should be adapted to be acceptable and usable by the international financial institutions (IFIs); It then highlights the value of a “continuous” approach, in which financial contributions can be modulated through a (“discontinuous”) approach that seeks to directly define groups or categories of countries according to their level or form of vulnerability; it also shows

1. . United Nations (2021) *Possible Development and Uses of Multidimensional Vulnerability Indices, Analysis and Recommendations*, report prepared by UN-OHRLS under the direction of Tishka Francis and Sai Navoti, with Patrick Guillaumont and Laurent Wagner as lead authors.
2. . United Nations (2024) *High-Level Panel on the Development of a Multidimensional Vulnerability Index: Final Report*, New York, United Nations, 120 p.

how such an index (in this case adapted) can be used by a donor country in a bilateral context to define a list of “priority countries”.

The second part, which forms the heart of the book, explores the reasons of equity, efficiency and transparency for which the use of a structural vulnerability index would make it possible to improve access to concessional financing from the multilateral development banks, by modifying not only the rules of access to this financing, but also and above all its allocation between countries, and how a PVBA could replace the PBA.

Leaving behind the ex ante perspective of the previous section, the third part considers how ex post a multidimensional vulnerability index can be used to assess the selectivity of aid, i.e. the extent to which vulnerability is effectively taken into account by the donor in allocating resources. In particular, it involves the method proposed for comparing the actual behaviour of bilateral donors and multilateral donors, in particular the multilateral development banks, thereby revealing the lack of a vulnerability index in their allocation formula. A final note shows the use that can be made of the structural vulnerability index in the analysis of countries’ structural transformation processes.

8 Lastly, one brief annex reproduces the text of a speech given recently at the United Nations, that provides a summary presentation of the ideas presented in the previous chapters.

Part 1

An Index and Categories

The Multidimensional Vulnerability Index Under the Lights: For What Purpose?¹

It has been a long road to arrive at the Multidimensional Vulnerability Index, now known as MVI. For more than 30 years, Small Island Developing States (SIDS), at international meetings dedicated to them, notably in Mauritius in 2005 and Samoa in 2014, have been calling for an index that would show their high vulnerability and could be used to channel more resources to them. The impetus for the development of such an index was given by UN General Assembly Resolution 75/215 in December 2020 inviting its Secretary-General to make recommendations to establish a “Multidimensional Vulnerability Index for Small Island States, including its potential finalization and use”.

The first outcome of this resolution was the preparation and publication of a report prepared by UN-OHRLLS as part of its mandate to coordinate the SAMOA Pathway² and entitled *Possible Development and Uses of Multidimensional Indices. Analysis and Recommendations* (United Nations, December 2021).

This report reviewed the existing indicators similar to an MVI and set out the criteria that the MVI should be met. In addition to the criteria that any composite indicator must meet, i.e. the availability and statistical reliability of its components on the one hand, and its clarity and transparency on the other, three essential and specific criteria were put forward: (i) be multi-dimensional by covering the three dimensions, economic, environmental and social; (ii) be universal, i.e. cover all categories of developing countries and not only small island states, which was the condition for being able to compare the vulnerability of these countries with that of others; (iii) to be separable in its components between the factors that were truly exogenous in relation to the present policy, factors also known as structural factors, and those that depend on this policy, which was on the condition that

1. This text, originally published as a policy brief, was contributed by Sosso Feindouno. See also: Guillaumont P. (2024) “The Multidimensional Vulnerability Index under the lights: for what purpose?”, FERDI *Policy Brief* B270, July.

2. As noted by the report “Patrick Guillaumont and Laurent Wagner are the lead authors of this report under the direction of Tishka Fancis and Sai Navoti”.

the exogenous or structural part could be used as a criterion for the allocation of external resources, without moral hazard³.

These three essential principles that underpin the MVI were included in the roadmap given by the President of the General Assembly to the High-level Panel that was established to develop a multidimensional vulnerability index. This panel of 12 members chosen from the names proposed by the States met for 18 months from the beginning of 2022. Its report was released in the fall of 2023 and its final version published in February 2024 as the *High-Level Panel on the Development of a Multidimensional Vulnerability Index* (United Nations, 2024), referred to here as *HLP MVI*.

The panel should be congratulated for the important and outstanding work done both conceptually and statistically. This work is an essential reference for researchers and policy makers who are concerned about the structural vulnerability of countries and wish to take it into account in their work or decisions. However, there does not appear to be a full consensus on the outcome, nor does it appear to be able to be used as such to allocate more resources according to the vulnerability of countries. In order to assess the use that can be made of the *HLP MVI*, it should be noted both that its analysis of vulnerability factors meets the criteria set out above, but also includes few debatable choices. These choices explain some anomalies found in the ranking of countries, which have attracted various criticisms both within and outside the United Nations, and may jeopardize the use of the index, at least in its current form, by international funding sources. As the report is based on a distinction between structural factors of vulnerability and structural factors of lack of resilience, we consider these two parts of the report in turn before presenting some remarks on its results and the use that can be made of them.

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► Rather Well Met Criteria for Designing the Index

Compliance with the three criteria of multidimensionality, universality, and exogeneity seems to have been a constant concern of the authors during the drafting of the report. The scope of the three dimensions (economic, environmental, and social) can certainly be defined in various ways. Rather than a classification according to the source of the shocks, a classification according to their manifestation (economic, environmental, and social) was preferred, which proved to be relevant.

The principle of *universality* has been fairly well respected, despite the fact that the index was built at the request of Small Island Developing States. The pressure

3. We highlighted with Laurent Wagner the scope of these three criteria, in Guillaumont and Wagner (May 2022), after presenting them to the panel at its opening session.

to have an index that is of primary concern to them has given way to the obvious fact that, in order to serve these countries as a priority, their vulnerability must be comparable in a fair manner with that of other countries. However, LDCs, perhaps not sufficiently involved in the development of the index, expressed some reservations about the reliability and true universality of the index.

The principle of *multidimensionality* of the index has itself been well respected, even if the indicators of the social dimension have failed to integrate the recurrent domestic violence which is a structural component of the fragility of States. The coherence of the two principles of universality and multidimensionality has been ensured through the use, relevant although sometimes misunderstood, of a *quadratic average* to aggregate the indices of the various dimensions of vulnerability⁴: this kind of average is what makes it possible to highlight a significant vulnerability specific to a country in a given dimension, for example an island or a semi-desert, even if it is low in the other dimensions.

The *exogenous* criterion was the most difficult to meet, as the boundary could sometimes seem uncertain between what is a matter of present policy and what is due to past policies, which is inherited by the current governments and constitutes for them a structural factor. But it is an essential criterion for the index to be used as a criterion for the international allocation of concessional resources, without creating a moral hazard problem (i.e. without creating an incentive in a recipient country to increase its vulnerability): in case of doubt, the right way to draw the line between what should or should not be considered structural was to ask whether it is logical that an increase in the level of the component indicator envisaged should lead to an increase in the level of aid to a country. It is for this reason, for example, that income inequality should rightly not be included⁵ (and not, as stated in the report, due to a lack of statistics).

In this regard, there was a discussion on the desirability of including the export rate of goods and services as a component of economic vulnerability. This variable, included in the preliminary version, was ambiguous, because both structural and the expression of an openness policy. So it was opportunely removed from the final version, but it could just as opportunely have been retained as a multiplicative variable of the instability of exports of goods and services, an undisputed structural factor of vulnerability, the impact of which depends on the exposure of countries to this type of shock, i.e. the export rate. On a related subject, it is surprising that the instability in migrants' remittances, a major source of foreign exchange earnings for some countries, has not been considered in the same way as exports of services, itself weighted by the share of these flows in domestic product. These are details among others, not undermining the HLP MVI.

4. Recommended and applied by FERDI for several years (cf. Guillaumont, 2022a).

5. Cf. Guillaumont, 2022b.

▶ A Debatable Treatment of Resilience

While the analysis of structural vulnerability in its three dimensions is generally satisfactory, the same cannot be said for resilience, which is referred to in the report as structural resilience. The treatment of resilience in HPLMVI raises several important issues.

The first is the result of the artificial symmetry that the report sought to introduce between the three dimensions of structural vulnerability and the supposed dimensions of structural lack of resilience.

Resilience, which is the country's ability to cope with shocks, is partly structural and partly attributable to the country's policy. As far as the structural part is concerned, there is no reason to take up the distinction between the three dimensions of structural vulnerability (economic, environmental and social) and to match them with three "similar" dimensions of structural resilience. The main structural factors of resilience (infrastructure and human capital) are essentially the same regardless of the kind of shock, and there is no clear logic in the division of components between the three dimensions.

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Moreover, the way in which the components of structural resilience were aggregated was based on a quadratic average, as for the average of the components of structural vulnerability, without any reason to operate in this way: the quadratic average was appropriate for structural vulnerability because, as has been pointed out, its different components are not perfectly substitutable for each other, whereas they are for structural resilience, especially since, as we have just indicated, the boundaries between these three arbitrarily assumed dimensions are uncertain. In short, if a structural resilience indicator were to be introduced in the MVI, it would have been more relevant to do it whether as a fourth dimension, or as a multiplicative coefficient of structural vulnerability (both solutions are included in the Commonwealth Universal Vulnerability Index, which also clearly distinguishes between structural resilience and "policy" resilience and measures the latter by a specific index).

Another problem, linked to this artificial symmetry, is the number of indicators chosen on the resilience side, which was chosen equal to the number of structural vulnerability indicators, i.e. 13, which brings the total number of indicators to be manipulated to construct the index to 26. This is a far from the recommendation of simplicity and transparency contained in the UN report of December 2021, prior to the establishment of the HLP. The parsimony of a composite indicator determines its transparency. And, if the objective is to have an indicator that can be used in a formula for allocating concessional funds by multilateral banks, a high number of components will be seen as an obstacle, as already heard from these institutions.

In order to ensure that the MVI is likely to be used for allocation, the number of components covered by the lack of structural resilience should be reduced by first removing those components that cannot be considered really independent of the current policy and will never be used as arguments for increasing the allocation of funding. The most obvious is the low proportion of women in parliaments (indicator 26). But other components fall under the same criticism: which institution will agree to allocate more to a country that is reducing its forest cover (indicator 20) or even decreasing its investment rate (indicator 16)?

Finally, the treatment of resilience in the *HLP MVI* could have been lightened not only by removing those components that are not clearly exogenous, but also by merging elements that could find their place in structural vulnerability as well as in the lack of resilience. It is traditional in vulnerability analysis to include both the magnitude and probability of shocks, and the countries' exposure to these shocks, as is done in the CDP Economic and Environmental Vulnerability Index (EVI). However, it must be recognized that the distinction between exposure to shocks and lack of structural resilience is sometimes uncertain⁶.

The report's proposal to supplement the index with a vulnerability and resilience profile, as is done by the CDP for countries graduating from LDC status, could help to move in this direction of simplification. It should also make it possible to identify the political drivers of resilience and lower vulnerability.

► Is the Proof in the Pudding?

The classification by groups of countries (SIDS, LDCs, LLDCs and all developing countries, themselves classified by per capita income level) is in line with what could be expected, as shown in Table I on p. 43. The SIDS group is clearly the most vulnerable, both in terms of the median and the mean, followed by the LICs group or the LDC group, the difference being more significant for the median than for the average.

But there are significant anomalies at the country level. These have provoked negative comments on the index, which, if not corrected, risk undermining its credibility and thereby weakening the principle of using such an index in a formula for allocating concessional funds. The panel chose not to show the ranking of countries for the different indicators, probably fearing too specific reactions or because the differences in rank correspond in some cases to very small differences in the value of the indicators. But if the objective is to see the *HLP MVI* used as one of the criteria for the allocation of concessional funds between countries, it is

6. For example, the concentration of production is one of the indicators of lack of resilience, and the concentration of exports is one of the indicators of vulnerability.

obviously the level of the indicator in each country that matters and transparency is then required.

As an example of an anomaly, let us note the case of Nepal, found (even if slightly) “less vulnerable than India” (in 110th place instead of 108th for India)! If only structural vulnerability (without resilience) had been retained, Nepal would have been considered more vulnerable (ranked 98th versus 137th for India). Even if this ranking is high, it raises questions for the HPMVI, as it had done in the past for the level of the EVI used by the CDP for the graduation of this country from the category of LDCs (cf. Guillaumont, 2017, 2019): nor the very significant shocks that are likely to be repeated in this country represented by the fall in migrant remittances (the main source of foreign exchange) during the Middle East crises, neither the terrible (and recurrent) earthquake of 2015, nor the risk of glacial lake outbreak flood (GLOF) due to global warming (which could have been included by extending the flood risk for low elevated coastal areas) had a significant impact on the Nepal level of the *HLP*MVI. Looking for anomalies would have made it possible or perhaps will make it possible in the future to improve the indicators.

If the minor modifications suggested above were implemented, it would greatly mitigate some criticisms that have been identified. An even more convincing and operational result could be achieved by using the only part of the MVI dedicated to structural vulnerability for the allocation of concessional funds.

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It should be noted that the ranking by country groups would not be fundamentally changed, but the main anomalies by country could be avoided.

► The Way Forward

In order to avoid getting bogged down in the MVI adoption process and to find a real consensus on the MVI and how it can effectively contribute to a better allocation of concessional resources to poor and vulnerable countries a simple solution could have been looked for.

One solution, suggested above, would have been to focus on the “structural vulnerability” part of the index as an allocation criterion, leaving aside the “structural resilience”, which would be presented for information purposes, as a complement of the vulnerability and resilience profiles, the development of which would be strongly recommended. The lack of structural resilience, as analysed in the MVI is too debatable to be to be used as such for the allocation of concessional resources and could be taken into account by another way in the formulas used by the main multilateral donors. But it was difficult that the UNGA agreed to express an critical opinion on the content and related use of the HLP MVI.

Another solution would be to present the HLP MVI as an example illustrating what a multidimensional vulnerability index could be, emphasizing that it is up to the various financial institutions that agree to take structural vulnerability into account in their allocation to establish their own index “in the spirit of the MVI”, i.e. in accordance with the principles that underpin its development: multidimensionality, universality, exogeneity (cf. Guillaumont, 2023a et 2023 b). For these institutions the UNGA would only recommend using an index built according to these principles. At the same time, these institutions would be recommended to refine the analysis of resilience by distinguishing between structural and policy resilience. The normal complement to the inclusion of structural vulnerability (and lack of structural resilience) in their allocation formula would indeed be to take into account the resilience policy in the assessment of “Performance”, which is a traditional and important variable of such a formula (precisely qualified as *Performance Based Allocation, PBA*). The resilience policy is not included as such in the performance index and is no more analysed in the HLP report.

Finally, as an extension of the previous proposal, it would be appropriate to refer to the declaration entitled *MDBs Vision Statement*, adopted at the Paris Summit in June 2023 for a new global financial pact and now supported by the Paris Partnership for People and Planet (4P), which states: “*MDBs could explore a common definition of vulnerability taking into account the UN workstream in that regard and to develop common guidelines for the targeted use of concessional finance to address vulnerabilities*” (para 4.c). Followingly, it could be recommended that a joint working group be set up by the main multilateral development banks, to which the United Nations, through OHRLLS and/or UNDESA, could provide assistance. The experts nominated by these institutions would be invited to agree on the kind of index likely to be used if they wish to do so.

Without flexibility in the MVI design and content, there is no chance that the MVI as such be used by the MDBs for their policy, except to argue that the whole principle of an allocation according vulnerability is inappropriate.

In any case, it would obviously be needed that the unit in charge of implementing the MVI should have, under the control of a group of experts, probably the *Independent MVI Advisory Panel* provided for in the report, the full freedom to improve it according to the scientific criticisms it has aroused.

Further comments will be submitted after the adoption of the resolution on the MVI by the UN General Assembly.

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Why Creating a “General Category” of Vulnerable Countries is Not Suitable, but...⁷

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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► 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

7. This text was originally published as a policy brief: Guillaumont P. (2023) "Why creating a general category of vulnerable countries is not suitable", FERDI *Policy Brief* B247, April.

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.

Moreover, there is an almost general category, defined by the OECD Development Assistance Committee (DAC), in fact a list of countries where the concessional flows received can be counted as ODA. This list, which includes all developing countries except those with a high per capita income, has itself been discussed: first on the occasion of the exit of a small island country that had reached the high-income threshold but remained vulnerable, then as other countries appeared able to cross the threshold that separates high incomes from intermediate incomes, some of which can also be considered vulnerable.

► Several Specific Categories for the Eligibility to Concessional Funds

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Without the creation of a general category stamped by the United Nations, the financial institutions, which have special counters for the granting of concessional resources, establish conditions of eligibility for these counters. These conditions lead de facto to the creation of categories specific to the institutions. The eligibility of countries is generally subject to the existence of a per capita income level below a certain threshold. Other countries may be added at the discretion of the countries thus identified. The vulnerability criterion is not generally used as an eligibility condition, but could be, as we indicate in fine.

The question being asked today is the creation of a new general category of vulnerable countries, which could serve as a reference for all financial institutions.

► Reasons for Avoiding to Create a New and General Category of Vulnerable Countries

There are in fact several 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 cat-*

egory 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*.⁸

► If However... Transform the LDC Category?

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

8. 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.

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 even 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.

► Ensure That Vulnerability Is Recognised in the Eligibility Rules for Concessional Financing From Various Donors?

Moreover, once an agreement has been reached on the principles of a vulnerability criterion that can be used for this purpose, each donor can use it as it sees fit (according to its governance), possibly with other criteria, such as per capita income, to set the eligibility conditions for funding or special measures. It then defines its own category of priority countries, although without a guarantee of global consistency in the allocation of funding. This is the approach adopted by France, as explained in the following chapter.

This approach can even become multilateral if, as discussed by the OECD Development Assistance Committee, vulnerability is taken into account alongside income for the concessional flows received by a country to be considered as ODA. This is an indicative eligibility, as each donor is obviously free to grant concessional support to a country not on the list of 'eligible' countries, which will not then be counted as ODA.

In any case, vulnerability cannot replace per capita income. And the two criteria can be combined in two different ways. One may be described as complementary: a country is eligible with regard to one or the other criterion, possibly vulnerability, leading then to create a category of vulnerable countries, which is not really desirable, as we have seen. In the other way, which seems more flexible and logical, the eligibility criterion is a combination of vulnerability and income (for example, according to a geometric average, that limits the substitutability inherent in the arithmetic average). On this question of eligibility, see the next chapter.

▶ The Categories Are for Eligibility, Not for Allocation Between Countries

In short, in order for concessional financing to be better allocated among countries, it is more important that donors, especially multilateral ones, effectively use vulnerability criteria that are continuous, and not exclusive of other criteria, than create a new category or even transform the LDC category into a general category of least developed and most vulnerable countries. Specific categories combining income and vulnerability can nevertheless be useful in defining eligibility for a particular type of funding.

Designing a List of “Priority” Countries for Bilateral Aid

Methodological Note with Reference to French Aid⁹

in collaboration with SOSSO FEINDOUNO

The aim of this note is to provide an analytical framework for a bilateral donor, in this case France, wishing to draw up a list of priority countries for its aid in a rational way, based on transparent political choices. Drawing up a list of priority countries for French aid, intended to complement in a coherent way the 44 least developed countries (LDCs) which have already been officially selected, is based on choices that are both technical and political. The principle is to add a certain number of vulnerable countries, with the aim of eventually obtaining a round number such as 16 or 26, among the small and medium-sized countries that are particularly vulnerable. It is proposed that the simulations be carried out using the structural vulnerability index (FSVI) developed by FERDI’s Observatory of Vulnerability and Resilience.

This index, which is based on the same principles as the United Nations’ Multi-dimensional Vulnerability Index (MVI), while correcting certain methodological shortcomings, has been supplemented and adjusted according to two major criteria: low per capita income, to give priority to the poorest countries, and small demographic size, to give priority to small countries, many of which are Small Island Developing States (SIDS). A more donor-specific adjustment margin was also considered. In the case of France, the possibility of giving a certain preference to French-speaking countries was thus examined.

Two main options emerge from the many simulations carried out, each based on a distinct logic, with the choice between them remaining fundamentally political. The first option, which corresponds to simulations that differ only in the

9. This text was originally published as a policy brief: Feindouno S., Guillaumont P. (2025) “Designing a List of ‘Priority’ Countries for Bilateral Aid. Methodological Note with Reference to French Aid”, FERDI *Policy Brief* B279.

maximum per capita income threshold used for this variable (either that of the Development Assistance Committee (DAC) or 1.5 times its value), sets a population ceiling of 100 million, in line with the criterion used to identify LDCs. The second option limits eligibility to countries with a population of less than 10 million. The first option leads to a list that is more consistent with the group of LDCs.

► The Context of the Study

The starting point for this study the desire of one country, in this case France, to draw up a list of priority countries for the allocation of its official development assistance, which would explicitly take into account the vulnerability of recipient countries and replace a previous system.

At its meeting on 18 July 2023, the French government's Interministerial Committee for Cooperation and Development (CICID) adopted the following resolution, made public in August 2023:

"A target for the concentration of the State's financial effort has been introduced to enable a gradual increase in French ODA devoted to the LDCs over the period 2024-2027:

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- o *As far as bilateral aid is concerned, the government will ensure that at least 50% of the State's financial effort goes to the LDCs from 2024, on the basis of a forecast of appropriate use of the various instruments (loans, grants, etc.). As regards multilateral aid, France will also defend in the relevant fora a financial effort benefiting the LDCs of at least 50%.*
- o *In line with international discussions and work, the government will update the indicator for the concentration of the State's financial effort if the definition of vulnerable and fiscally fragile countries is revised from 2025. This definition could already include certain member countries of the SIDS (Small Island Developing States) group"¹⁰*

In short, the CICID called for a list of countries for which at least 50% of official concessional financing for development would be reserved. The principle adopted for this list was that it should include all LDCs and a complementary list of other particularly vulnerable countries, defined in an appropriate manner.

This request provided an excellent example of the use that could be made of an internationally recognised vulnerability index such as the MVI by a bilateral donor. This is why FERDI took the initiative of drawing up this methodological note,

10. Cf. CICID, 2023. See the full document: https://www.diplomatie.gouv.fr/IMG/pdf/orientations_cle017322.pdf.

which was its sole responsibility. Its possible use by the French government and the simulations which were then carried out by FERDI at its request are of a different order and naturally remain confidential since they are intended to inform the government with a view to a political decision. However, the method described has a more general scope, illustrating the possible use of an indicator such as the MVI in the context of bilateral aid.

► On the General Principle of a List of Priority Countries

Drawing up a list of priority countries for concessional financing (in other words, a list of countries eligible for such financing) without clearly defining the criteria on which it is based cannot lead to a political consensus. In the absence of explicit criteria, such a list may even weaken the scope of the priority it is supposed to express by erasing the differences between the countries included or not in it. On the other hand, a list drawn up and ordered according to transparent criteria makes it possible not only to distinguish between countries according to their position with regard to these criteria, but also to choose a threshold for closing the list (eligibility condition) at a level that depends on the number of countries that is wished to include. The use of continuous criteria is preferable to categories, the latter being justified only in relation to the criteria on which they are based (Guillaumont, 2023).¹¹

Moreover, consensus between countries is only really necessary in the case of multilateral aid, which justifies the use of a formula to express it. In the case of bilateral aid, while the donor's preferences may be discretionary, they can also be summarised in a transparent formula, possibly aligned with those of international institutions. It is also legitimate for bilateral aid to openly take into account, alongside universal criteria, other specific criteria linked to the history and geography of the donor, for example linguistic or cultural links.

A list of priority countries is the expression of a policy. This policy must be able to be expressed in simple terms, even in a line or a sentence, which can then relatively easily correspond to a formula, giving it a rigorous foundation.

► The Principle Adopted by the French Authorities

Let us start from the principle, apparently shared by the French authorities, that a list of priority countries for French aid includes the 44 LDCs¹², supplemented by

11. See Guillaumont, 2023a.

12. Following the recent graduation of Sao Tome and Principe on 13 December 2024, the number of LDCs now stands at 44.

a list of other “particularly vulnerable” countries. The reference to the LDC category is in itself a significant recognition of a United Nations governance, or at least a recognition of the validity of this category for development financing (not currently shared by the Bretton Woods institutions). The supplementary list, the number of which is subject to discretionary choice, should make it possible to include countries which, although not on the list of LDCs, have comparable needs for concessional financing. The target of particularly vulnerable countries should logically mark a continuity with the category of LDCs, which have themselves been designed as poor countries facing strong structural handicaps to growth and development, notably because of their vulnerability. It should be remembered, however, that a high level of vulnerability does not prevent a country from “graduating” from this category, if its levels of per capita income and human capital are no longer deemed to be low. Extending the list of priority countries beyond the LDCs thus opens up access to concessional financing to countries that are not or are no longer LDCs, but are still fairly highly vulnerable. It is therefore relevant to check the consistency between the list of LDCs and the supplementary list.

► Choosing a Vulnerability Index

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A clear choice must be made as to which vulnerability index to use. This should be an index of structural vulnerability, i.e., one that is relatively stable and clearly independent of the current political will of the countries concerned (also referred to as exogenous vulnerability), in order to avoid any moral hazard. Structural vulnerability differs from general vulnerability, which also includes elements linked to current policy. The indicator chosen must therefore meet three fundamental criteria^{13,14}: (i) exogeneity: it should reflect characteristics that are independent of the countries’ current political will; (ii) universality: it should be possible to apply it to all developing countries, and not just to a specific category; (iii) multidimensionality: it should cover the three main dimensions of vulnerability: economic, environmental and social (or societal).

Most of the available indices do not meet these conditions, particularly that of exogeneity, because they are not strictly structural, even though some can be interesting indicators of general vulnerability (such as the ND-Gain index).

As far as we know, only three composite indicators (to which FERDI has contributed) meet the three conditions mentioned above: the Economic Vulnerability Index (EVI)¹⁵ used since 2000 by the United Nations Committee for Development Policy to identify LDCs, which has been modified several times, but which is only

13. See Guillaumont and Wagner, 2022.

14. See United Nations, 2021.

15. See <https://www.un.org/development/desa/dpad/least-developed-country-category/evi-indicators-ldc.html>.

weakly multidimensional; the Universal Vulnerability Index (UVI) developed by the Commonwealth Secretariat¹⁶ in 2021, and finally the Multidimensional Vulnerability Index (MVI) recently adopted by the United Nations.¹⁷

In line with the choice made by France to build a list starting from the list of LDCs - the official United Nations list - it is quite logical that the supplementary list should be based on the United Nations MVI¹⁸ or on an index of its choice derived from it. However, a different view could arise if, in drawing up this supplementary list, France wanted to focus on one dimension of vulnerability, namely, as is sometimes suggested, vulnerability to climate change. FERDI has set up an indicator that can be used for this purpose, the PVCCI¹⁹, proposed as a useful criterion for allocating funds for adaptation to climate change, but not for drawing up a list of structurally vulnerable countries in the different dimensions. Moreover, following a FERDI recommendation, the MVI aggregates its components using a quadratic mean so as to give each country the greatest impact on the dimension(s) of vulnerability where it is strongest, which makes it possible to have a high vulnerability index for countries such as small island states that have a very high vulnerability to climate change, without having a high vulnerability in the other two dimensions.²⁰

The calculations were based on a corrected version of the MVI, using preliminary data from the FSVI (FERDI Structural Vulnerability Index) developed by FERDI as part of its Vulnerability and Resilience Observatory. Based on the same fundamental principles as the United Nations MVI, the FSVI makes a number of improvements to the latter. These include better treatment of resilience, a more rigorous aggregation method, combined with a more parsimonious choice of the number of components, and the inclusion of both internal and regional exogenous violence. In addition, it removes some indicators deemed less relevant, such as the proportion of women in parliament, in order to reinforce its structural and exogenous character.

► Drawing up a List of Other Vulnerable Countries

Once the vulnerability index has been chosen, there are two possible solutions for drawing up the list of vulnerable countries in addition to the LDCs. The first is to base the list exclusively on the vulnerability index selected, while the second

16. See: <https://sdgs.un.org/sites/default/files/2021-09/The%20Commonwealth%20Universal%20Vulnerability%20Index.pdf>.

17. To find out more about the MVI and its construction methodology, see: https://www.un.org/ohrrls/sites/www.un.org.ohrrls/files/final_mvi_report.pdf.

18. Before the MVI was officially available, simulations had been carried out using the Commonwealth's UVI, which is based on similar principles.

19. See Feindouno, Guillaumont and Simonet, 2020.

20. See Guillaumont, 2023b.

also takes into account the countries' per capita income. The second solution has been chosen to take better account of countries' structural handicaps and needs.

Indeed, the first solution, in which membership of the LDC category and the vulnerability index are two independent and complementary eligibility criteria for inclusion on the list of priority countries, leads to the inclusion of vulnerable countries regardless of their level of per capita income (or their level of human development), and therefore regardless of the factors other than vulnerability which determine the need for support to these countries. These factors are taken into account, albeit imperfectly, in the identification of LDCs.

This is why it seemed preferable, for the classification of vulnerable non-LDCs, to set out various formulations combining in a single index both the low level of per capita income (or human development) and the structural vulnerability of countries, both of which are themselves included in the criteria for identifying LDCs.

To these two variables has been added a variable representing the small demographic size of the countries, in order to give preference to small countries, small size being itself a source of vulnerability, not necessarily fully taken into account in the available indices.

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Finally, as a priority list of countries eligible for French aid, a "cultural" preference may be given to French-speaking countries, the degree of which is itself adjustable. More generally, a donor specific preference may be explicitly recognised, depending on the policy choices of the donor, besides the more universal criteria such as income per capita and structural vulnerability. In this more general framework, the French-speaking preference would be only one of the donor specific preferences, among other possible ones, indeed a quite natural one in the case of French aid.

The index used to classify countries will therefore be a function of the three variables of low per capita income, structural vulnerability and small population, plus a donor specific adjustment parameter. There are several possible formulations: LDC+ other poorest and most vulnerable countries; LDC+ other poorest and most vulnerable countries of small or medium size; LDC+ other poorest and most vulnerable countries of small or medium size, with a "discretionary" preference for a specific group of countries, such as French-speaking countries. In addition to the LDCs, the countries included in these latter formulations are then classified according to an "adjusted vulnerability index" (based on income level, demographic size and possibly a donor-specific preference, e.g for French-speaking countries).

These expressions correspond to formulas containing the following variables and parameters: low per capita income Y (expressed as an index), V the structural

vulnerability index, low population P (itself expressed as an index²¹), belonging to the group of “preferred” countries, such as French-speaking countries (introduced in the form of a specific weighting). As the per capita income and vulnerability variables (as well as the small population size variable) should be considered as interactive (multiplicative), with the impact of vulnerability increasing as income decreases, a geometric form should be used.

$$\text{Adjusted Vulnerability Index} = \sqrt[3]{Y * V * P} \quad (1)$$

$$\begin{aligned} &\text{Adjusted Vulnerability Index, supplemented by} \\ &\text{a specific preference coefficient (e.g. French-speaking)} = \\ &\alpha * \text{Adjusted Vulnerability Index} + \beta * \text{specific preference coefficient} \\ &\text{With } \alpha + \beta = 1 \end{aligned} \quad (2)$$

This formulation is consistent with and complements the definition of LDCs, as the criteria for identifying LDCs are complementary and not substitutable, contrary to what an arithmetic average would imply.

The result of these formulas is an *adjusted vulnerability index that serves as a “priority status” index*. The ranking of countries according to this index reflects their relative need for concessional financing, but in no way provides an estimate of the absolute value of this need.²²

It is then possible to select the number of countries for the complementary list of 44 LDCs, depending on the target set.

► Indices Other Than Vulnerability Used for Simulations

Per capita income is preferred to the UNDP Human Development Index (HDI),²³ which includes per capita income and the level of human capital (education and health)²⁴. In fact, the vulnerability index used, the FSVI, like the MVI, includes elements corresponding to the level of human capital in its structural component, and more specifically in its part relating to the lack of structural resilience. Per capita income must be expressed in log and the corresponding index established using

21. This index is the complement to 100 of the population log index, whose figure has itself been limited to between 1 million and successively 10 and 100 million.

22. A graph can illustrate the consistency of the supplementary list thus established with the list of LDCs by ranking the countries (LDCs as well as non-LDCs) according to their index in descending order.

23. UNDP: United Nations Development Programme.

24. Simulations were also carried out using the Commonwealth Secretariat’s UVI, alternating between per capita income and the human development index, and adapting the composition of the UVI index for each country accordingly.

the max-min method. The maximum initially used corresponds to the threshold established for a country to move out of the group of middle-income countries into the group of high-income countries, a threshold used by the OECD's Development Assistance Committee (DAC) for a developing country no longer to be considered an ODA recipient²⁵ (set for fiscal year 2024 at \$13,845). However, in response to the desire of some high-income but highly vulnerable countries to still be considered eligible for ODA, the per capita income index can also be calculated using a maximum equivalent to one and a half times the previous threshold, i.e., \$20,767. The data on per capita income comes from the World Bank and are calculated using the Atlas method. They correspond to a three-year average (2021-2023).

The population figure, i.e., the size of the country, must also be expressed in logs (because of the wide dispersion of the variable) and by taking the complement to 100 of the log population index as a low population index. This index has itself been calculated by successively taking a population of 100 million and a population of 10 million as the maximum. The first threshold is justified by the desire to exclude from the list large countries with a population of more than 100 million, in line with the practice of the CDP²⁶, which since 1991 has excluded countries with a population of more than 100 million from inclusion in the LDC category (with an exception initially made for Bangladesh). The second threshold, of 10 million, might be justified if, on the contrary, the government's choice was to give absolute priority to small countries below this threshold.²⁷ The population data suggested to be used correspond to a three-year average (2021-2023) calculated on the basis of statistics from the Population Division of the United Nations Department of Economic and Social Affairs (DESA).

As for the donor specific preference, such as the French-speaking preference, which the French government may legitimately wish to introduce, it has not been included as a fourth variable in the formula (which uses a geometric mean), but as a coefficient applied to it for all the countries concerned, in an additive manner. Several coefficients can be used, for example 15%, 20% and 25%...²⁸

It is then possible to carry out a number of simulations combining the different hypotheses indicated above, giving preference of course to those for which political preferences have been expressed by the State.

To check the consistency between the list of non-LDCs selected in this way and that of the 44 LDCs, it is possible to compare the distribution of the index be-

25. ODA: Official Development Assistance.

26. CDP: Committee for Development Policy.

27. Remember that because of the multiplicative nature of the formula, a country that reaches 10 million has a zero value for its smallness index, which in turn leads to a zero value for the adjusted composite vulnerability index.

28. The Francophonie criterion may include the (56) full members of the OIF. Or all countries where the share or the population speaking French is above a given threshold.

tween the LDCs and the non-LDCs selected, according to one or other formula, and to see the extent to which they significantly differ.

▶ Annex

How does FSVI differ from MVI?

Before discussing the differences between these two indices, it is worth highlighting what they have in common. The MVI and the FSVI are structural vulnerability indices based on the common principles of exogeneity of components, multidimensionality and universality. Both aim to capture the structural vulnerability of countries independently of their current policies. Due to their characteristics, these indices are intended to guide the allocation of resources to the most vulnerable countries. They are based on quantitative data from reliable and recognised sources. Unlike many other indices, the MVI and the FSVI adopt a transparent calculation methodology, facilitating their replication. The overall results of the two indices are similar: the Least Developed Countries (LDCs) and the Small Island Developing States (SIDS) are among the most vulnerable countries. However, differences appear in the country rankings, where the FSVI offers consistent, more robust and less questionable results.

Despite these similarities, the MVI has certain technical and methodological limitations that the FSVI corrects. These adjustments relate to several aspects. First of all, the MVI adopts a symmetry between vulnerability and resilience, which raises a methodological problem: the elements of resilience, whether structural or not, have a cross-cutting character, making it possible to mitigate or absorb various kinds of shocks. The FSVI adopts a more parsimonious approach by using a reduced number of components, facilitated by the removal of the symmetry between vulnerability and resilience.

Furthermore, while the MVI systematically uses the quadratic average, the FSVI combines several types of averages according to their relevance in each case. It uses the quadratic average for the measurement of vulnerability in order to better reflect the dimension in which each country is most vulnerable (as well as its components), the geometric average for resilience components, due to their cross-cutting nature, and the arithmetic average for the overall combination, guaranteeing consistency between the pillars.

As for the environmental dimension of vulnerability, the FSVI incorporates specific risks such as glacial lake outburst floods (GLOF), which are absent from the MVI, in addition to the risks present in the MVI. This inclusion reinforces the universality of the index. As for social and societal vulnerability, while the MVI is lim-

ited to regional or neighbourhood violence, the FSVI also takes recurrent internal violence into account, recognising its structural nature²⁹. Moreover, with regard to economic vulnerability, unlike the MVI, which only considers the concentration of export products, the FSVI also incorporates market concentration, thus offering a more comprehensive assessment of economic risks.

Finally, for the sake of parsimony and in order to fully respect the principle of exogeneity of the components, the FSVI excludes the indicator of women's representation in parliament. This indicator, although important in itself, does not directly reflect structural vulnerability and could introduce a risk of moral hazard or perverse incentives in the allocation of resources.

In short, the FSVI³⁰ corrects some limitations of the MVI by proposing a more robust approach that is better adapted to the structural characteristics of vulnerable countries. It introduces methodological and conceptual improvements that strengthen the consistency of the index and its relevance for the allocation of international resources.

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29. As shown in Feindouno & Wagner, 2020.

30. The FSVI will be presented in detail as part of FERDI's Observatory of Vulnerability and Resilience, which is currently being finalized.

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Part 2

An Index for Allocation

Taking into Account Vulnerability in the Global Distribution of Concessional Flows³¹

In the run-up to the Paris June Summit, the question of mobilizing new resources to finance development and global public goods seems to receive much more attention than the way in which these new funds, like the old ones, are allocated among countries.

If there is to be a “financial pact”, it should be with countries, for whom allocation is crucial. Some priority is to be given to countries that are vulnerable to varying degrees to exogenous shocks, external or natural.

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► Why Vulnerability Matters and Should Be Taken into Account in Aid Policies

Vulnerability is the risk of a country being affected by shocks of exogenous origin. It depends on the likely size of shocks, on the exposure of the country to these shocks, and on its capacity to cope with them, the so-called resilience. Vulnerability may take various forms according to the origin of the shocks (external, natural, policy related)...

The negative impact of these shocks, either linked to the instability of the price of commodities or to the recurrence of droughts or to natural disasters or to conflict has long been established in the literature. Their negative impact has been evidenced on economic growth, but also on various aspects of sustainable development (poverty, inequality, as well as on governance, quality of policy, corruption...).

31. This text was originally published as a policy brief: Guillaumont P. (2023) "Taking into account vulnerability in the global distribution of concessional flows", FERDI *Policy Brief* B246, April.

Shocks and related vulnerability are *felt to be of increasing importance*, in particular with respect to climate change, what motivates the international pressure to see them better taken into account, and also with respect to insecurity.

▶ Three Reasons to Clearly Take Vulnerability into Account: Justice, Effectiveness and Transparency

First, justice: vulnerability has been seen as a *structural handicap* to growth, which justifies a support from the international community to make countries *opportunities more equal*. It is in this spirit that vulnerability has been introduced as one of the criteria for identifying LDCs.

The second reason is about *aid effectiveness*. It has been shown in the literature that development assistance is marginally more effective in countries facing shocks, because at the macro level it acts *ex post* as a stabilizer. And *ex ante* it may or should be seen as a kind of insurance mechanism or safety net, particularly needed in poor and risky countries, threatened to fall in poverty trap. At the microlevel it may be also the role of aid to support relevant insurance schemes in vulnerable countries.

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A third reason to clearly take vulnerability into account in the design of aid policies is that it could make this design *more transparent* and avoid the proliferation of exceptions and specific facilities. The countries specificity and needs can be addressed otherwise in the design and management of operations.

▶ How to Clearly Take Vulnerability into Account

Vulnerability can be made an operational concept for the repartition of concessional funds by two ways: by the rules of *eligibility* to these funds and by the rules of *allocation* of these funds among countries. Categories are needed for eligibility, criteria for allocation.

There is no satisfactory category to address vulnerability.

The Least Developed Countries (LDCs), the only official UN category, relies on three criteria among which vulnerability, the other two being income pc and human capital. But this does not prevent many non-LDCs, especially those graduated or graduating from the category, from being highly vulnerable. The category could be extended to the non-LDCs most vulnerable countries, thus covering the least developed and most vulnerable countries (LDVCs). But it would involve to significantly change LDCs identification rules.

The Multilateral Development Banks (MDBs) have indeed defined the countries eligible to their concessional windows (IDA, ADF). They have done so on the basis of a group of “low” income pc, to which they have added on an ad hoc basis a complementary list of generally small countries, which partly corresponds to situations of vulnerability.

They have also identified a group of “fragile states”, with varying names and content, used as a means of taking a specific form of vulnerability into account, the weakness of the state, by opening a specific window for these countries: FVC (Fragility Violence and Conflict) at IDA, TSF (Transition States Facility) at ADF.

Even applied to other forms of vulnerability (climate) with specific facilities, *creation of new groups is not enough to fairly address vulnerability* in the allocation of funds.

First it raises the question of the respective thresholds of access and exit (any country is either inside or outside), even if it can indeed be answered by intermediate zones or transitory measures. Second adding various sub-categories accentuates the risk of a lack of global consistency, with inequitable effects.

Third and above all, the creation of new groups leaves *unsolved the issue of allocation between countries* (within the groups or sub-groups) as to some trade measures. In short, even if categories are useful for eligibility to specific windows, *continuous criteria of allocation among countries, notably including vulnerability, are clearly needed.*

▶ Wrong Reasons of a Reluctance to Use Vulnerability Criteria in Allocation

However, until now, MDBs have been reluctant to introduce vulnerability into their Performance Based Allocation (PBA) formula (except the Caribbean Bank of Development, a similar exception being that of the European Commission since 2014 for its development funds). *Why this reluctance? Few bad reasons given.*

One is the fear that the introduction of vulnerability criteria will be at the expense of the performance criterion. It should be underlined that the vulnerability considered is an exogeneous vulnerability (beyond the present will of the country). Moreover it has been shown that the two criteria may be made perfectly compatible and that the PBA can effectively be transformed in a Performance and Vulnerability Based Allocation (PVBA).³²

Another is to say that the allocation is often only partially used, due to a low

32. In the formula it can be managed without lowering the share going to the most performant countries. At the same time the vulnerability linked to present policy (the weakness of resilience policy) should be included as a negative factor of performance.

absorptive capacity of recipient countries, the responsibility for which is indeed shared between donors and recipient countries, questioning the operating mode of the MDBs and their risk aversion.

A third reason seems the risk that a display of vulnerability levels affects the notation of countries by agencies. Agencies anyway are quite aware of the vulnerabilities of countries. The fact that these vulnerabilities are taken into account an allocation formula can be seen as showing there is indeed an insurance mechanism at work likely to lower the impact of vulnerability. And most vulnerable countries wish their structural vulnerability to be recognized. It can also be said that being recognized as vulnerable for exogenous reasons is less stigmatizing than being included in a group of “fragile states” (whatever the name they are given).

Finally a practical reason seems due to the fear of not being able to establish a robust and consensual indicator of vulnerability, a fear that should disappear with regard to the great deal of work done to design truly exogenous vulnerability indices.

▶ How Can Vulnerability Be Measured to Be a Relevant Criterion for Aid Allocation?

A major process of elaboration is ongoing at the UN at the request of the small islands states to promote a so called “multidimensional vulnerability index” (MVI), which is to be available around the time of the summit after consultation with member countries. (The Commonwealth Secretariat a little earlier produced a similar work, called “Universal Vulnerability Index”).

Alongside the usual requirements of a composite index (availability of reliable data and relative simplicity) this composite indicator must and will have 3 specific features.

- (i) It has to be *exogenous or structural*, reflecting factors beyond the present control of countries, to be used effectively as a financing criterion (without moral hazard);
- (ii) It should be “*universal*”, what means relevant for various kinds of vulnerable countries, and not only the Small Island Developing States (SIDS);
- (iii) Then it must be *multidimensional*, i.e. it should include an *economic dimension*, which has been identified and analysed for a long time, but also an

environmental dimension, and more particularly the *vulnerability to climate change*, and finally *a social dimension or exogenous socio-political fragility* (such as revealed by the presence of violence and insecurity at the borders, or the recurrence of epidemics).

There is no need of a specific health dimension of vulnerability, because health-related vulnerability is captured by various ways through the three dimensions noted above.³³

The index being finalized at the UN will probably meet these principles and could serve as a reference at the Paris Summit.

To be noted, the vulnerability to climate change has been the main driver for the consideration of vulnerability (The Summit was announced at the end of COP27), but it has rapidly been agreed in building a relevant index that it cannot be limited to that dimension.

► The Allocation Criteria (and Indicators) Should Be Adapted to the Objectives of the Various Financial Instruments

This seems obvious for climate finance.

If it is a question of *mitigation*, the allocation criteria must first aim at *effectiveness*. But credits for mitigation must also provide concessional financing for the additional costs of using low-carbon technologies in LICs, according to income per capita and possibly vulnerability criteria.

For the allocation of *adaptation* credits, the vulnerability criterion is particularly important: it must rely on a *physical vulnerability to climate change index*, totally exogenous and capturing the main physical manifestations of climate change in the country, as done by the FERDI PVCCI.

For the compensation of losses and damages, the evaluation of these is almost impossible, as it is difficult to distinguish what is the result of *climate change* (for which the countries of the North are responsible) and what is due to the *climate*

33. Adding a fourth (health) dimension would be both difficult and redundant. First, it is difficult to assess the probability of health shocks, as done for the economic and climatic shocks, although the third or social dimension may include a component such as the number of deaths due to the recurrence of epidemics. Second, the economic consequences of health shocks are captured through indicators of economic vulnerability. Third health indicators are to be included as components of the “structural resilience”. Indeed the notion of “health vulnerability” is ambiguous: it refers not only to possible consequences of health shocks, as just explained, but also to the health consequences of any kind of shocks (external, or climatic, or socio-political).

in its historical component, and also as it is difficult to distinguish in the losses and damages *what is really exogenous and what is due to the management of risks by the countries and their preparation: a preventive approach is as important as curative action*, which could still lead to allocate (in part) according to the physical vulnerability to climate change.

► Recommendations

The final allocation between countries of the new resources mobilized, as well as of the old ones, should be at the heart of a Summit intended to reshape international financing and address vulnerabilities of developing countries. This *involves an international consensus on the rules of eligibility to the concessional resources, and above all on continuous criteria for their allocation among countries.*

In addition to per capita income, which should not be the only differentiation criterion, *vulnerability criteria likely to reflect a structural vulnerability*, independent of current policy are to be taken into account. Vulnerability linked to a bad current policy should, on the contrary, diminish the measure of performance/governance and affect allocation in the opposite direction.

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The structural vulnerability criterion *must capture the various forms of vulnerability* that countries face, still independently of their present will, through specific indicators related to economic vulnerability, vulnerability to climate change, social vulnerability, which includes the fragility linked to exogenous insecurity.

To be fully consistent, these allocation principles should apply to all existing and new concessional financing. This *involves significant changes in the allocation formulas of MDBs concessional windows*, where vulnerability has not yet been clearly and transparently integrated. This could condition their legitimacy to manage all or part of the new funds that will have been mobilized. The prospect of a consensus on a new multidimensional vulnerability index (MVI) or at least on the principles of its construction should contribute to promote this consistency.

In order to *inform the international community about current practices* and to monitor the implementation of the principles set out, *an index of the quality of allocation with regard to the multidimensional vulnerability* criterion would be established annually. It could be for each donor (multilateral and bilateral) the weighted average level of the vulnerability indices for each recipient country. This calculation would be part of a new measure of the “selectivity” of concessional flows.

Of course, allocation is not all what matters. Besides allocation among countries (in part) according to vulnerability, MDBs should be invited to focus their opera-

tions into *directions leading to risk reduction* in vulnerable countries, and also to report on this matter.

If there should be a global financial pact between countries, the commitments on the amounts mobilized and the instruments implemented would have to be accompanied by commitments on the rules for their distribution between countries.

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On the Principles of Allocation of Concessional Finance, in Particular from Multilateral Development Banks³⁴

Allocation is here understood as allocation among countries, while it is sometime taken as allocation between projects or operations. Intercountry allocation is an essential issue for concessional resources that are scarce. This note presents few remarks on the allocation of concessional resources an issue that has until now been rather neglected compared to their mobilization, although the two are interlinked. Since MDBs are the main supplier of these resources to countries, and, as multilateral, should have agreed and transparent rules of allocation, the following remarks mainly apply to them.

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► Allocation Should Follow Different Rules According to the Goals of the Resources to Be Allocated: Financing Development or Global Public Goods

Any system of intercountry allocation of concessional finance (CF) should indeed combine considerations of justice (needs) and effectiveness (or performance), in a way that depends on the pursued goal: each allocation system should fit for purpose. Allocation criteria cannot be the same when the main goal is the development of recipient countries or when it is the preservation or the promotion of a Global Public Good (GPG). As for GPGs, the need is first global, so that the effectiveness criterion of allocation should be predominant compared to country needs. For instance, allocation criteria for mitigation of climate change cannot be the same that criteria for development assistance or even for adaptation to

34. This text was originally published as a policy brief: Guillaumont P. (2023) "On the principles of allocation of concessional finance, in particular from Multilateral Development Banks", FERDI *Policy Brief* B259, December. It is an extended version of a short intervention at a workshop held during the Paris Peace Forum, November 10, 2023.

climate change. Consequently, the envelopes of CF devoted to GPGs should be distinct from CF mainly focused on countries development. In what follows, we essentially only consider the later kind of CF.

► **Income per Capita and Structural Vulnerability Should Be Jointly Considered as Criteria for Access to Concessional Finance**

For the access to the CF aiming at the development of recipient countries, in order to fit country needs, income per capita should not be the only criterion of eligibility and allocation. With regard to the severe handicap resulting from the recurrence of exogenous shocks and the exposure to these shocks, and as repeatedly advocated by a broad range of developing countries, the income per capita should be supplemented by a criterion of structural vulnerability of countries (i.e., the vulnerability of countries that is independent of their present will). This vulnerability should be measured along its three main dimensions: economic, environmental/climatic and social (fragility). Indices of multidimensional vulnerability have been made recently available, likely to be refined and revised by the MDBs, under the condition they remain structural (or exogeneous). Nevertheless, when the access to concessional funds is specifically devoted to adaptation, only the physical vulnerability to climate change might be considered (along with income per capita).

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► **Vulnerability Should Be Considered for Allocation, Not Only for Eligibility**

Considering vulnerability for the access to CF devoted to the development of countries involves that it becomes a criterion of allocation of these resources between countries and not only a criterion of eligibility (eligibility only would generate a risk of captation of CF by middle income vulnerable countries). To be sure that in the allocation of concessional resources among countries the structural vulnerability (SV) criterion is favourable to poor countries, this criterion should be considered jointly with income per capita. In the choice of the formula to be used, the impact of SV should be all the more important that the income per capita is lower (in other words, the higher the income per capita, the lower should be the impact of an allocation). This can be easily obtained with usual kinds of allocation formulas.

► Vulnerability in the Allocation Rules Would Materialize a Preventive Approach

Taking into account vulnerability in the allocation rules would change the usual “Performance-Based Allocation (PBA)” into a “Performance and Vulnerability Based Allocation (PVBA)”. It would underline the role of concessional finance for enhancing the resilience of vulnerable poor countries, what is not the case of the various schemes of ex post support available after the shocks occur. Compared to these schemes it is a more preventive treatment of vulnerability. It would also meet the will, often expressed, that concessional finance be used for derisking private investment, since the more vulnerable the countries, the higher their need for derisking.

► A Common Allocation Framework Among MDBs is Needed

For the global consistency of the allocation of CF aiming at development, it would be relevant that the MDBs (which are the major source of CF) adopt a common framework of allocation relying on income per capita and SV (as well as performance) even if there may be some small differences or specificity in their own assessment of the criteria, in particular of SV (as it is already the case for performance). It may be the responsibility of the World Bank to open the path.

As for the allocation of CF to GPG, the need of coordination is even greater. It may involve strong institutional arrangements among donors.

Waiting for these coordination and arrangements, a reporting of the allocation of multilateral development assistance among countries according to their income per capita and their structural vulnerability could be immediately implemented.

Using a Multidimensional Vulnerability Index in a Performance Based Allocation

Main Issues to Be Addressed³⁵

– in collaboration with Laurent WAGNER

► Present Context of a Long-Standing Issue

The issue of introducing a vulnerability indicator in an aid allocation formula such as the Performance Based Allocation (PBA) used by several Multilateral Development Banks (MDBs) has been discussed for a long time. Three reasons make it particularly desirable to now reconsider the issue.

First is the need to follow-up the “MDBs vision statement” from the *Paris Summit for a New Global Financing Pact* of June 2023, in which the multilateral banks agreed to explore how they could consider multidimensional vulnerability in concessional finance, while taking into account the work of the United Nations. Second, in July 2024, the United Nations General Assembly adopted a resolution promoting a “*multidimensional vulnerability index*” and inviting international financial institutions to consider using it “as appropriate, as a complement to their existing practices and policies”, which is mainly related to concessional financing. More recently in the perspective of *the FfD4, the 4th UN Conference on Financing Development* to be held next July, the Secretariat of 4P (*Paris Pact for People and Planet*) that supports the follow-up of the 2023 Paris Summit has reaffirmed its wish that this proposal be considered in order to direct financing to those countries most in need. Third, within this framework, many countries, as well as several international institutions (The Commonwealth Secretariat, Organisation internationale de la francophonie – OIF, African Union, etc.), have expressed their own

35. This text was originally published as a policy brief: Guillaumont P., Wagner L. (2025) “Using a Multidimensional Vulnerability Index in a Performance Based Allocation”, FERDI *Policy Brief* B28o.

interest for such a reform, by which vulnerability would be taken into account for the allocation of multilateral development assistance.

While there are many ways by which development finance can consider the structural vulnerability of countries, using a multidimensional and structural vulnerability index, possibly adapted to the objectives and mandate of each organization, should enable a preventive and transparent ex-ante allocation policy. In so doing it cannot of course replace ex-post instruments to address the most severe shocks that countries have to face unexpectedly.

The present Brief mainly relies on a vast body of works over the past decade and published by the authors as books and papers in academic journals (see Guillaumont, Guillaumont Jeanneney and Wagner, 2017, 2020), and FERDI *Policy Briefs* B246, B259, B278).

► What is the Performance Based Allocation?

The Performance Based Allocation (PBA) is a simple mathematical formula developed and used by Multilateral Development Banks (MDBs) to allocate multilateral concessional resources on the basis of “performance”. Although the various formulae used have evolved over time, the core principle of the PBA has been maintained through the years thanks to its appealing emphasis on performance.

The origin of the PBA can be traced back to the late ‘70s when it was first implemented at the World Bank, for the allocation of the credits from its concessional window, the International Development Association (IDA). For the geographical allocation of development assistance by a multilateral institution, rather than leaving it to be governed by discretionary practices, the PBA made it easier to find a consensus among board members in the apparent simplicity of a mathematical formula, where roughly the amount A_i allocated to a country i is a function of population size, Gross National Income per capita (GNI pc) and an assessment of public policy and institutional performance ³⁶:

$$A_i = f(\text{Performance}, \text{Income per capita}, \text{Population})$$

While today’s practice, still relying on a formula, has become more complex, the core message of the PBA has remained the same for almost 40 years. The goal of the PBA is to reward well performing countries by allocating a larger amount of aid, according to their “Country Policy and Institutional Assessment” (CPIA) which represents the alleged quality of their public policy and institutions or, in other words,

36. The distinction between loans and grants is based on other criteria afterward.

their commitment to development. Performance is measured from the CPIA and its components³⁷. Therefore, since the beginning, PBA and CPIA are joint products.

The real debate about the PBA and its embedded vision of aid effectiveness has come under scrutiny essentially since the late '90s and the release of the 1998 World Bank report *Assessing Aid*, reiterating the conclusions of a paper by David Dollar & Craig Burnside,³⁸ according to which aid is more effective in countries with better policies. This paper, strongly debated in the academic literature, aimed at providing econometric evidence directly supporting the PBA, and propelled a renewed interest for the PBA as the right allocation methodology for the concessional windows of the Multilateral Development Banks (MDBs). Soon after, most of the MDBs, as well as some other multilateral agencies which had adopted the PBA, gathered in a kind of PBA club: 1999 for African Development Bank, 2000 for Caribbean Development Bank, 2001 for Asian Development Bank, 2002 for Inter-American Development Bank and 2005 for International Fund for Agricultural Development.

However, these various PBA formulae have not remained the same for all this time, which may be seen as a natural consequence of the shortcomings of such a restrictive formula. First the design of the formula has changed, either in the way by which the performance indicator is built or in the coefficients applied to the variables of the formula. Second, PBA formulae appeared to be not flexible enough to deal with some special attributes of recipient countries — too small, too big, highly indebted, fragile, conflict-afflicted, or post-conflict countries to name a few which warrant special treatments and tend to escape the general PBA. This led most MDBs to add an extended list of exceptions and special funding windows to the PBA to deal with particular cases, while performance was kept as the main guiding principle for aid allocation (or was supposed to be). Nevertheless, the main reason for it has changed over time: Instead of being a direct factor of aid effectiveness, the PBA is meant to be an incentive to the adoption of better policies, and reflects the feeling that giving more aid to countries considered as the “best performers” will drive other countries to become more virtuous. This is a significant change from the PBA initial philosophy, in which aid effectiveness depended on the quality of economic policies and not the other way around. Since better policies are good for growth, encouraging them could become an indirect driver of growth.

Although the impact of governance on aid effectiveness has been challenged in the academic literature, there is a consensus that aid effectiveness depends on

37. The Country Policy and Institutional Assessment (CPIA) rates IDA countries, on a 1–6 scale increasing with the quality of governance, against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

38. Initially a 1997 World Bank working paper, then published in the *American Economic Review* in 2000.

some specific characteristics of recipient countries (see a survey in Guillaumont & Wagner, 2013). Among these characteristics, vulnerability to exogenous shocks has received increasing attention. These exogenous shocks are of various origins: economic (e.g., deterioration of terms of trade), climatic (e.g., drought), security (e.g., violence imported from neighboring countries), health (e.g., deadly epidemic breaks out). The structural vulnerability resulting from the recurrence of these shocks are handicaps to growth and development, that generate *aid needs*, as does low income. Moreover, vulnerability to shocks is a factor that also improves *marginal aid effectiveness*, as good governance is supposed to do. In this framework, aid can have a macroeconomic impact on growth thanks to its stabilizing effect. More broadly aid dampens the negative impact of shocks on development.

► Why to Introduce Vulnerability in a PBA?

The allocation of concessional funds involves a trade-off between performance criteria and need criteria, the main difficulty being that those countries with the greatest needs (the poorest and most vulnerable countries) are often countries deemed to be the least performing. To overcome this difficulty and tackle other issues that escape the performance-based allocation (PBA), specific facilities have been added to the basic allocation framework. However, the specific funding windows for countries facing a specific kind of vulnerability (either to climate change or for state fragility, for instance) do not allow for the different degrees of vulnerability to be taken into account, either between countries that are said to be the most vulnerable and benefit from the funds, or between other countries that are also vulnerable to some extent. Specifically, the most vulnerable countries, especially to natural disasters whose recurrence severely limits borrowing and debt capacity, are not always the poorest. Similarly, countries most vulnerable to the effects of climate change or subject to unfavorable regional dynamics (i.e., cross-border terrorism) are not clearly identified through the three indicators of the PBA formula (Performance, GNI pc, Population). A reason why, as noted above, the major development banks have elected to multiply dedicated windows rather than integrate indicators reflecting these new challenges directly into the PBA.

A “Performance and Vulnerability Based Allocation”

A simple and coherent solution, however, is to recognize the structural vulnerability of countries, which does not depend on their current policies, as a criterion for allocating concessional funds. This can avoid resorting to categories of countries that are always debatable, and in no way leads to abandoning the traditional criteria of performance (or governance), which can be improved, and income per capita. Due to many developing countries being hindered by acute and multidimensional vulnerabilities (economic, environmental, social), it has become essen-

tial to help them deal with their vulnerabilities in a preventive manner, knowing that almost all of them, albeit in varying forms and degrees, are vulnerable to exogenous shocks and stressors. This would mean moving from a “Performance Based Allocation” to a “Performance and Vulnerability Based Allocation” (PVBA)³⁹. In this case, the amount of aid allocated to a country i would be a function of, an assessment of public policy and institution (for “performance”), structural vulnerability, besides income per capita and population size, such as:

$$A_i = f(\text{Performance}, \text{Vulnerability}, \text{Income per capita}, \text{Population}).$$

Relying on fair, effective and transparent principles

Taking structural vulnerability into account in the allocation of aid relies on fair, effective and transparent principles. It is equitable because structural vulnerability in its various forms is a handicap for sustainable development and international justice aims at equalizing opportunities between countries. It is also effective, not only because, as recalled above, aid has a higher marginal effectiveness in situations of vulnerability, by helping to cushion shocks, but also and even more because it leads to a preventive treatment of vulnerabilities (enhancing resilience and limiting the higher costs associated to the ex-post handling of shocks). Finally, it is a way to improve the transparency of the allocation rules established in multilateral institutions, where to respond to specific country needs there has been a proliferation of exceptions to the basic rule of performance-based allocation, leading to its lack of transparency in practice, and to the fact that it is applied only to a limited extent. Taking structural vulnerability into account in a logical and simple framework alongside performance makes it possible to better reward true performance while more equitably considering countries’ needs.

And allowing to go beyond per capita income and categories

In the current architecture of development finance, the access to concessional finance is essentially based on the categorization of countries in a dichotomous way, mostly based on a per capita income threshold. However, the complexity of the issues combined with the multiplication of development objectives has led to a proliferation of instruments for which countries are eligible or not, without taking into account in any way the continuous nature and complexity of all the interactions between structural handicaps. Thus, the use of per capita income for eligibility purposes hides a very large heterogeneity in terms of structural vulnerability between countries, notably small island states, which although among the most vulnerable in the world, do not have access to concessional financing or

39. The same principle should guide the ex-post analysis of the selectivity of the various donors in judging the quality of the allocation of their aid between countries according not only to their governance and per capita income, but also to their structural vulnerability.

debt relief mechanisms. Taking vulnerability into account not only as a criterion for allocation but also for access to concessional resources (i.e., eligibility) would allow for a more equitable distribution.

▶ A Relevant Vulnerability Index

The challenge: assessing structural vulnerability

If there were to be agreement on the principle that vulnerability combined with low average income justifies relatively more aid and should simultaneously guide allocation between countries, one of the key challenges would be to agree on the best way to measure vulnerability. Such a consensus on an indicator should be possible, provided that its purpose and method are well established, particularly for its use as an allocation criterion. In this context, building an index that could be used for aid allocation is of critical importance.

For that, the needed vulnerability index should meet three specific criteria (Guillaumont and Wagner, 2022), in addition to the usual conditions that any composite indicator must satisfy with respect to the availability and reliability of the data, as well as its clarity and transparency. We briefly recall here these three specific criteria: the index should be multidimensional, universal and structural or separable (i.e., able to isolate structural from non-structural vulnerability).

The index should be truly multidimensional

While there may be a debate about the number and scope of the various dimensions of the vulnerability index, three main dimensions have emerged to ensure an optimal balance between the need for diversity and for simplicity: economic, environmental and social. These three dimensions correspond to three clearly identifiable categories of shock. The key is to avoid redundancy of components and to assess separately the three dimensions identified, keeping in mind they may be interrelated. The three dimensions are to be aggregated in such a way that a high vulnerability in only one dimension is adequately reflected, even if vulnerability appears low in another or the other two. This means that the three dimensions are not perfectly substitutable and that the index must aggregate them accordingly.

A first dimension is *economic vulnerability*, which is the traditional dimension of macroeconomic vulnerability illustrated by the Economic Vulnerability Index (EVI) that has been used since 2000 by the UN Committee for Development Policy as a criterion for identifying LDCs, revised several times, and recently renamed “Environmental and Economic Vulnerability Index” (EEVI), so that it is likely to capture the possible economic impact of various kinds of exogenous shocks (economic,

environmental, health, etc.). A second dimension is *environmental vulnerability*, which has to be focused on vulnerability to climate change, because of the major and growing importance of this vulnerability, especially for SIDS, that it is logical and convenient to consider separately, through purely physical indicators, while the impact of other forms of vulnerability due to environment can be captured through the economic and social dimensions. Finally, the third dimension is *social vulnerability*, targeting recurring social shocks and their exposure to these shocks.

The index should be universal

The initial request from the UN General Assembly referred mainly to the vulnerability of small island developing states., with the intent to show the high vulnerability of these countries and to use the index as an argument for special support to them, especially with regard to development financing. For the index to provide such a support, it is necessary that the vulnerability of SIDS can be fairly compared with that of other developing countries, some of which may also be highly vulnerable, albeit in different ways. For this reason, the Commonwealth Secretariat proposed the concept and measurement of a Universal Vulnerability Index (UVI). It is precisely because the index is multidimensional that it should be universal. This leads to re-emphasizing the need to highlight the vulnerability of countries in their specific dimension. When in the MVI the different dimensions are aggregated, more impact will be given to those components that reflect higher vulnerability (thanks to the use of a quadratic average).

The index should be “structural”, not including present policy factors

A country's vulnerability depends on the one hand on structural and other exogenous factors, i.e., factors that are beyond the present control of governments, and on the other hand on factors that are linked to their present policies. The vulnerability to be taken into account in order to justify a higher aid allocation (or a preferential treatment such as that given to LDCs) is only that vulnerability which does not result from the weakness of the present policy, which makes this criterion essential for the index to be used for aid allocation.

Disentangling the structural or exogenous factors of vulnerability from those due to current policy is not always easy, but absolutely necessary. The exogenous or structural vulnerability results both from the recurrence of shocks, which reflects their probability, and from the exposure to the shocks, which determines their potential impact and corresponds to structural features inherited from the past. As for resilience, i.e., the ability to cope with shocks, since it itself depends both on structural (or inherited) factors, and on the current policy, to guide allocation only (low) structural resilience must be considered, either within structural vulnerability or alongside it.

Meeting the principles with the “HLPMVI” or a “generic MVI”?

These three essential principles were included in the roadmap given by the President of the General Assembly to the High-level Panel that was established to develop a multidimensional vulnerability index and published its report in February 2024, referred to here as HLPMVI (High-Level Panel Multidimensional Vulnerability Index) (United Nations, 2024).

The HLPMVI is based on a conceptual framework which captures two pillars or domains of vulnerability: (i) structural vulnerability, linked to a country’s exposure to adverse external shocks and stressors, and (ii) (lack of) structural resilience, which is associated with the (lack of) capacity of a country to withstand such shocks. The conceptual framework elaborates the three dimensions (economic, environmental and social) of sustainable development both for structural vulnerability and structural resilience. While this work is an essential reference for researchers and policy makers who are concerned about the structural vulnerability of countries, there does not appear to be a full consensus around the structure, content and country results of the HLPMVI, notably when it comes to the main MDBs. However, as recognized by the UNGA Resolution, the HLPMVI should be seen as a “living tool” from which MDBs can develop their own vulnerability indices better reflecting “as appropriate” their mandates and sensibilities. For this reason, in what follows we use the word MVI in its generic meaning, as an index meeting the three principles underlined above (multidimensionality, universality, and exogeneity or separability), either the HLPMVI or an index “in the spirit of the MVI” specific to each MDB or common to several of them⁴⁰⁴¹.

▶ Choice of a Formula

To combine the criteria, in most cases GNI per capita (GNIpc), population size and performance, and derive each country’s share in total allocation, the weighted average of the criteria can be arithmetic or geometric. Historically, PBA_i , the country’s PBA score is given in most cases by a geometric average⁴²:

$$PBAScore_i = Performance_i^\alpha \times GNIpc_i^\beta \times Population_i^\epsilon$$

40. In several works FERDI uses an index called FSVI (FERDI Structural Vulnerability Index), more parsimonious than the HLPMVI and intended to be more consistent with the three principles quoted above, in particular that of exogeneity.

41. Another example of an index trying to meet the three principles is the “Universal Vulnerability Index” of the Commonwealth Secretariat (2022).

42. Or by an arithmetic average $PBAScore_i = (\alpha Performance_i + \beta GNIpc_i) \times Population_i^\epsilon$. While an arithmetic average seems simpler, the geometric one is preferable and closer to the present practices.

What in a "PVBA" would give:

$$PVBAScore_i = Performance_i^\alpha \times Vulnerability_i^\delta \times GNIpc_i^\beta \times Population_i^\varepsilon$$

The coefficients α , β , δ , and ε represent the weight given to each criterion. The higher the weights the higher impact each criterion has on the country's allocation score. The country's share in total allocation is given by $PBAShare_i = PBAScore_i / \sum_i PBAScore_i$ ⁴³.

With this formula the elasticity of allocation with respect to each criterion (for instance vulnerability) is constant and independent of the level of the other criteria (for instance policy), but the marginal contribution (or partial derivative) of a criterion depends both on the level of the criterion and on the level of the other criteria. (see Guillaumont, Guillaumont Jeanneney and Wagner, 2020). This has important policy implications as explained below.

In fact, it is the balance chosen between the coefficients of the three criteria that drives the allocation. In the context of the PBA, the performance assessment has been given an overwhelming weight historically. However, as noted above, it also led to the introduction of a series of exceptions and special procedures to adapt the PBA and make it workable. We argue that a simpler and more coherent solution would be to recognize the structural vulnerability of countries as an additional criterion for allocating concessional funds. This prevents resorting to categories of countries that are always debatable, and in no way leads to abandoning the traditional criteria of performance (or governance), which can be improved, and income per capita. As stated above, this would mean moving from a "Performance Based Allocation" to a "Performance and Vulnerability Based Allocation" (PVBA) where:

$$A > 0, \delta > 0, \beta < 0 \text{ and } \varepsilon > 0.$$

One of the key questions would then be how to determine the right value for the weight, δ , given to vulnerability in the PVBA. It is obviously a choice of each MDB committed to use a vulnerability index in its PBA.

Another political choice for each MDB will be to determine which of the special windows or arrangements brought into its PBA in order to avoid its shortcomings can be phased-out, for the reasons recalled above (need of transparency and

43. The PBA generates *relative allocations*: it means that $PBAShare_i$ for country i is not only a function of the three criteria for country i but also of the relative rank of those criteria compared to all other eligible countries.

need to differentiate between unequally vulnerable countries). A sensitive issue is in particular the choice of the level of the base allocations (IDA) or minimum allocations (African Development Fund), precisely set up (and increased) to favor small (so vulnerable) countries⁴⁴.

► Responding to Possible Objections

Three main objections are sometimes raised against a reform of the PBA by including an index of vulnerability in the allocation process, and call for answers. These answers may rely both on political arguments and on a proper interpretation of the formula itself.

Does the PVBA imply to weaken performance considerations?

A PVBA allows for relative allocations to be redirected to some extent from least vulnerable to most vulnerable countries. Can it be done without really weakening the role of performance? Of course, the result depends on the average of the value given to the coefficients of the various variables of the formula. More important to note, with the PVBA formula, as it stands, vulnerability and performance reinforce each other: the marginal impact of vulnerability on allocation is higher the higher the level of performance (and the marginal impact of performance is higher the higher the level of vulnerability). Moreover, as shown by a simulation of a PVBA for the African Development Fund (see Guillaumont, Guillaumont Jeanneney and Wagner, 2020) it is possible to leave the share of best performers unchanged, by redirecting among best performers (from the less vulnerable to the more vulnerable), and similarly within the share of poor performers. The incentive part of the allocation model is maintained, while it becomes more equitable, and transparent.

Does the PVBA introduce distorted incentives?

Another concern, somewhat linked to the previous one, the moral hazard that would result from the inclusion of a vulnerability indicator in the allocation formula, namely the risk that the recipient countries weaken their effort to lower their vulnerability. This objection is unfounded insofar as the vulnerability index is designed to be independent from the present policies (the principle of exogeneity, as explained above, it is a structural indicator). And to go further and ensure a good coherence of a PVBA formula with regard to vulnerability, we suggest that the performance measurement should itself include an assessment of the quality of the resilience related policies implemented in the country.

44. "Base allocation" is added to the PBA, while the "minimum allocation" replaces the PBA when the PBA results in a lower amount than this minimum.

Why introducing vulnerability may not be detrimental to low-income countries

A major concern expressed about the reform proposed (initially by the SIDS) is that the addition of the vulnerability criterion will lead to diverting part of the allocation to the benefit of vulnerable middle-income countries and to the detriment of LDCs and LICs. There are two answers to this. One is that the most vulnerable among middle-income countries are very small countries whose allocation can be increased through an improved eligibility without a significant impact on the bulk of other allocations. The other and more important answer is: if the PVBA is applied with the PBA current formulation, the marginal impact of the vulnerability criterion is higher the lower the per capita income. This is in line with the text of the UNGA resolution which emphasizes that the MVI is not a substitute but a complement to the per capita income.

The political economy issue: The pace of reform and its urgency

The difficulty with a reform of the allocation rules is that it may be politically difficult to implement on a constant budget basis, since, while it increases the share of some countries, it decreases that of others. The mobilization of increased resources could politically facilitate a reform of their allocation, so that the resulting decrease in the relative share of some countries may not correspond to an absolute decrease, if it is mitigated by an additional transitional support provided to the countries concerned. It seems that the time is right to take advantage of the impetus given by the reform of the international architecture and the increase in concessional resources, if it is not threatened in the present context. The reform here proposed may even appear a minor one compared to the unexpected consequences of the ongoing changes in the international architecture of development finance, and a way to increase the role of transparent rules instead of discretionary allocation decisions.

▶ Testing the Impact, a Condition for the Reform

In spite of robust academic work, stakeholders still need to be convinced of the rationale of a reform relying on an appropriate index of structural vulnerability taken into account both for eligibility (to concessional financing) and even more for its allocation between countries. A recent study by FERDI shows that ODA presently allocated by MDBs to individual countries is not significantly correlated to their MVI or a similar index (see Feindouno and Guillaumont 2025a).

The reform is not only desirable, it is also feasible, as shown by the fact that some multilateral development banks, such as the Caribbean one, already use an index in their allocation formula, that the European Union itself has been doing so for a decade, even if not with the best indices, and that at the bilateral level a country like France wishing to set up a list of priority countries has decided to retain the LDCs and a complementary list of vulnerable countries identified mainly through an index close to the MVI (see Feindouno and Guillaumont, 2025b)⁴⁵.

The institutions that already use a vulnerability index for allocation purposes and even more those that are invited to do so, may refer to the MVI in a flexible way, as a “living tool” (as stated in the UNGA resolution), according to their objective and mandate, in other words they can only be led to use an index “in the spirit of the MVI”, granted it is based on its three fundamental principles: to be multidimensional, universal and exogeneous, i.e., structural.

The issue is therefore now how MDBs that wish to improve their aid allocation criteria can agree to do so by introducing a relevant index of structural vulnerability into their allocation formula, making it a “PVBA” (Performance and Vulnerability Based Allocation). One key issue would be to show through clear and transparent simulations that a PVBA, for which the weights given to performance, vulnerability and income are appropriately balanced, can generate reasonable allocations while putting a more direct, consistent and transparent emphasis on vulnerability in its various dimensions and where it represents a major concern.

The improved framework would help to develop proactive and preventive strategies to assist vulnerable countries cope with external shocks. While ex-post interventions and humanitarian support are important tools, the international strategy to address structural vulnerability must also rely on policies aimed specifically at reducing exposure and improving resilience. A better and more transparent focus on vulnerability would enhance aid effectiveness by supporting countries to address the drivers of vulnerability, to measure related impacts and to strengthen resilience. The PVBA would generate an improved complementarity between the country allocation derived from the formula and additional funds targeting specific issues.

45. Other institutions such as the African Development Bank or the Asian Development Bank use a vulnerability index as part of their allocation framework, albeit outside of their main allocation formula, mainly to better target small States.

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Part 3

An Index for Accountability

Assessing “Aid Selectivity” by Considering the Vulnerability of Countries⁴⁶

in collaboration with Sylviane GUILLAUMONT JEANNENEY

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 summit⁴⁷. 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.

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, 2004⁴⁸; 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

46. This text was originally published as a policy brief: P., Guillaumont Jeanneney S. (2024) "Assessing 'Aid Selectivity' by Considering the Vulnerability of Countries", FERDI *Policy Brief* B261.

47. 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.

48. 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.

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.⁴⁹ On the one hand, the definition of “good governance” that would be identical everywhere has been 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, 2001⁵⁰; Collier and Hoeffler, 2004 in post-conflict situations).

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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.

49. 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).

50. 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.⁵¹ 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,⁵² 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,⁵³ 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.

51. 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.

52. 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.

53. 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.

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, 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 development 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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Do Multilaterals Allocate Their Concessional Resources According to Countries' Vulnerability as Well as Their Income?

Comparison with Bilaterals Through a New Measure of Selectivity⁵⁴

in collaboration with SOSSO FEINDOUNO

Following the Paris Summit for a Global Financial Pact and the United Nations resolution on the adoption of a Multidimensional Vulnerability Index (MVI), multilateral development banks (MDBs) have been called upon to integrate structural vulnerability into the allocation of their concessional resources. Assessing their commitment and accountability cannot be limited to examining the tools and allocation rules they have adopted; it is also necessary to analyse ex post the extent to which financial flows have actually been directed according to the structural vulnerability of recipient countries.

To this end, we revisit and refine a measure of aid selectivity based on vulnerability, initially proposed by FERDI, using the newly adopted United Nations MVI and an improved version of this index. This approach enables us to compare the actual allocation behavior of MDBs in distributing concessional flows, both in relation to other multilateral institutions and bilateral official development assistance (ODA) sources. This exploratory analysis shows that, while recipient countries of MDBs' ODA are, on average, more vulnerable than those receiving bilateral ODA, major MDBs do not systematically differentiate their allocations according to the degree of vulnerability of recipient countries. The method applied here, based on ODA flows, is subject to methodological refinements and can be extended to a broader or different scope, depending in particular on the progress expected in measuring the Total Official Support for Sustainable Development (TOSSD).

54. This text was originally published as a policy brief: Feindouno S., Guillaumont P. (2025) "Do Multilaterals Allocate Their Concessional Resources According to Countries' Vulnerability as Well as Their Income? Comparison with Bilaterals Through a New Measure of Selectivity", FERDI *Policy Brief* B278.

▶ Current Context of the Problem

The Paris summit for a “Global Financial Pact”, initially aimed at financing vulnerable countries, gradually expanded its scope, evolving into the “Paris Pact for People and Planet” (the 4P). Nevertheless, the question of how vulnerability could be taken into account in the financing for development agenda remained a central concern. The importance of this issue was further reinforced by the debates surrounding the preparation and subsequent adoption of a Multidimensional Vulnerability Index (MVI) by the United Nations General Assembly, along with an invitation for multilateral development banks (MDBs) to use it as a criterion for allocating their concessional resources. In order to assess the potential impact of such a reform, it is first necessary to examine whether, in their current practices, these institutions already take vulnerability into account, along with the level of poverty, when allocating their concessional resources. Given their specific role in this domain, it is also useful to compare their practices with those of bilateral donors.

The debate is thus taking place at two levels: first, the reform of MDB allocation rules, which can be described as an ex-ante perspective; and second, their ex-post accountability regarding their actual practices, including the implementation of the rules they are supposed to have adopted. This analysis falls within the latter perspective (allocation accountability) which, twenty years ago, was examined under the term ‘selectivity’, though with reference to objectives other than tackling vulnerability. This approach has been much less followed than that of ex ante allocation criteria, particularly regarding vulnerability.

This is illustrated by the OECD’s 2024 report on multilateral cooperation: *Multilateral Development Finance 2024*. It provides a rich and detailed analysis of the evolution of this cooperation, making it an essential reference. The report highlights the impact of recent crises as well as ongoing efforts to reform the international development finance architecture. Two main chapters are devoted to distinguishing between funding received by multilateral institutions and funding disbursed by them. However, the crucial question of how this funding is allocated across countries, which is essential for assessing their strategy, is barely mentioned.

In particular, the question of the extent to which multilateral cooperation favours vulnerable countries, which was at the heart of the 2023 agenda, is not directly addressed. Two uses of the term “vulnerable countries” are to be considered in the OECD’s 2024 report. The first reference served to emphasise that it is logical for vertical funds to provide substantial concessional support to the “poorest and most vulnerable countries”. This is illustrated by considering the correlation between the commitments of these funds and, on the one hand, the Gini coefficient and, on the other hand, the poverty ratio of the recipient countries. These

correlations are then compared with those found for the World Bank Group, the United Nations and the MDBs. There is therefore no debate on vulnerability, and the correlation with a Gini coefficient is fundamentally ambiguous (should it be strong or weak?) (Cf. Guillaumont, 2023).

A second reference to the most vulnerable countries appears at the top of the recommendations. It is suggested that the capacity of the (multilateral) system to support the poorest and most vulnerable countries should be preserved, but without any diagnosis of the system's current contribution in this area. The report's authors therefore suggest that "*an evaluation be commissioned through the G20 or any other relevant global forum to understand the impact of recent and ongoing reforms on aid allocation across sectors, region and country groupings*". This suggestion opportunely raises the question of how accountability should be ensured for the commitments made to reform the international development finance system, particularly with regard to the stated intention of meeting the expectations of vulnerable countries (Guillaumont and Guillaumont Jeanneney, 2024).

This note is an initial contribution to this discussion. It examines the extent to which multilateral sources of financing, and by comparison bilateral sources, take into account the vulnerability of countries, as well as their level of poverty, in the allocation of their concessional resources.

To answer this question, we need to provide a number of methodological details that will determine the relevance of the analysis.

► Methodology

What measures of vulnerability are used?

Since we are carrying out a quantitative analysis of the behaviour of bilateral and multilateral donors, we need to take into account the different dimensions of vulnerability and therefore refer to a *multidimensional vulnerability index*, without forgetting that there are non-quantifiable factors of vulnerability, which are not strictly comparable but should ideally be captured in vulnerability profiles. In this context, the vulnerability to be taken into account as an allocation criterion is *structural vulnerability*, i.e., *vulnerability* that is independent of the current policy and measured by indicators that reflects this characteristic.

The most prominent index currently is the one recently produced by the High-Level Panel set up at the United Nations at the request of the General Assembly, and adopted in August 2024: the MVI (*Multidimensional Vulnerability Index*). However, this index has a number of shortcomings, particularly when it

comes to guiding the allocation of resources (see Guillaumont, 2024). This is why we also use the index constructed by FERDI as part of its Observatory of vulnerabilities and resilience, based on the same principles as the MVI, but corrected for its main shortcomings. This index is referred to here as the FSVI (*FERDI Structural Vulnerability Index*).

Whether we are talking about the MVI or the FSVI, we obviously do not imagine that the sources of funding have taken such indicators into account in their decisions, but we are trying to reveal donor behaviour as a function of their own implicit perceptions of country vulnerability.

What flows are we talking about?

This analysis applies first and foremost to flows of concessional resources (classified under Official Development Assistance – ODA), as these are the flows explicitly or implicitly guided by donor policies for allocating scarce concessional. MDBs often use allocation formulas to distribute these resources. However, it would also be valuable to examine at a later stage how these financing sources allocate non-concessional resources and whether there is complementarity between the allocation patterns of concessional and non-concessional flows.

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The analysis is first carried out at a global level, with all multilateral flows compared with all bilateral flows, according to the disbursement statistics produced by the OECD. Given the heterogeneity of these flows and donor behaviors, the analysis is then disaggregated to focus on major sources of multilateral financing, particularly the concessional windows of multilateral development banks such as the International Development Association (IDA) and the African Development Fund (ADF), as well as the United Nations Development Programme (UNDP), European institutions, and the broader allocation patterns of the United Nations system.

To mitigate the influence of annual fluctuations in disbursements and to better reflect consistent donor behavior, the study uses cumulative or average disbursements over a three-year period for each donor-recipient pair. The main reference period is 2020-2022, but for comparative purposes over time, a three-year period from 10 or 15 years earlier could also be analyzed to identify potential changes in allocation patterns.

Which method?

The method of analysis used is a measure of what we have called a 'new selectivity', i.e. a selectivity of aid according to vulnerability and per capita income, described in several works, initially in an article in *World Economy* (Amprou, Guillaumont P. and Guillaumont Jeanneney, 2007) and, more recently, in publications by FERDI

(see FERDI *Policy Brief* B261, reproduced in Boussichas and Guillaumont, 2024). This method is twofold, and it is important to specify the meaning of each of the two modalities in order to characterise the allocation of each “donor”. The first is based on an analysis of the ‘average profile’ of recipient countries, i.e., the average level of vulnerability and poverty of the beneficiaries of funding from a donor or group of donors. This is done by calculating the average vulnerability of beneficiaries, weighted by the relative size of the flows allocated by that donor to each country. This measure makes it possible to compare the selectivity of different donors, but does not provide information on the way in which each donor differentiates its allocations according to the vulnerability or poverty of each country. The average level of vulnerability of recipients is calculated independently of the average level of poverty.

The second approach looks at the ‘marginal impact’ of vulnerability and poverty on the allocation of resources. It examines the extent to which each donor differentiates its allocations according to the vulnerability and income of recipient countries. This method could be described as “differential selectivity”, as opposed to the first approach, which corresponds to “average selectivity” based on recipient profiles.

These two approaches are complementary: the first gives an overall view of the profile of beneficiaries, while the second enables us to understand the degree of differentiation in the allocation of funds according to vulnerability and poverty.

The average vulnerability profile v_i of the lessor or group of lessors i is given by:

$$v_i = \sum (V_j * \omega_{ij})$$

Where V_j is the MVI or FVI score of the recipient country j , ω_{ij} is the share of flows allocated by the donor or group of donors i to the recipient country j .

Similarly, the per capita income profile y_i of the lessor or group of lessors i is given by:

$$y_i = \sum (Y_j * \omega_{ij})$$

Where Y_j is the level of per capita income (GNI pc) in the recipient country j , ω_{ij} is the share of flows allocated by the donor or group of donors i to the recipient country j .

It should be noted here that the indicator chosen to take into account the country’s poverty is per capita income, and not the poverty rate. This choice is

explained by the fact that the poverty rate depends on both average income and income inequality. However, inequality as such is not a criterion justifying an increased allocation of aid to a country. This distinction has already been discussed in the analysis of vulnerability indices (see Guillaumont, 2023).

For the second method, where the objective is to measure the differential (or marginal) impact of vulnerability and income on the allocation of resources between countries by a donor or group of donors, we estimate a function in which the amount of aid per capita received by each country from a donor depends on both per capita income and vulnerability. This model is written as:

$$\log(A_{ij}/P_j) = \alpha V_j + \beta \log Y_j + \varepsilon_{ij}$$

Where A_{ij} represents the total amount of aid allocated by the donor i to the country j , P_j the population of the country j , V_j the vulnerability score (MVI or FSVI), Y_j the per capita income of the country j , and ε_{ij} the error term.

The coefficients α and β can then be used to interpret the marginal impact of the explanatory variables on the allocation of aid. When the function is estimated in logarithms, the coefficients correspond to elasticities, which is the case for the relative variation in aid compared to a relative variation in income. In the case of a semi-logarithmic estimate, they take the form of semi-elasticities, which is the case for the relative variation in aid for an absolute variation in vulnerability, which is an index with bounded values.

This second method makes it possible to analyse the behaviour of each lessor independently of the others, while offering the possibility of comparing their behaviour through the level of estimated elasticities. In addition, it allows the results obtained to be compared with a normative allocation model, in which target coefficients would be set as objectives according to income or vulnerability.

To describe the actual behaviour of funding sources, the first method may seem simpler and more robust, as it is based solely on descriptive statistics that allow comparisons between funders. However, it does not allow us to disentangle the respective impact of income and vulnerability, two variables that are partially correlated, which is made possible by the second method, which uses econometric estimation, the results of which are certainly more or less significant. Above all, the two methods do not serve the same purpose. The first highlights a selectivity or average preference for vulnerable countries, while the second measures a selectivity or differential preference, i.e., the way in which a donor modulates its allocations according to the degree of vulnerability of the beneficiary countries. In a way, the second method provides another form of descriptive statistics, but

it differs from explanatory models of aid allocation, which seek to identify all the factors influencing donors' decisions. In this case, only those factors that correspond to shared objectives and that require donors to be held accountable are taken into account. This distinction between different approaches to the analysis of aid allocation has been highlighted in several studies (see McGillivray, 2000; Guillaumont, 2020).

► Presentation of Results

Average vulnerability and poverty profiles by donor

The main results are presented in **Table 1**. The MVI profile (FSVI, FERDI Structural Vulnerability Index) reflects the average vulnerability of recipient countries, weighted by the relative share of flows they receive from each donor (or group of donors); it expresses the average preference of each donor in terms of vulnerability. Similarly, the poverty profile measures the average per capita income level of recipient countries, again weighted by the relative shares of allocations; it reflects the average preference of each donor in terms of poverty.

Table 1. Average vulnerability profile and income of recipients according to donors

Donor	MVI profile of donor <i>i</i> ($v_i = \sum(v_j \times w_{ij})$)	FSVI profile of donor <i>i</i> ($v_i = \sum(v_j \times w_{ij})$)	Poverty profile <i>i</i> ($y_i = \sum(y_j \times w_{ij})$)
Multilateral donors	46.45	42.48	2413.32
IDA	55.2	51.08	1042.9
FAD	54.72	52.14	1013.02
Asian Development Bank	52.57	45.71	1453.51
Caribbean Development Bank	59.46	56.66	8727.43
Inter-American Development Bank	48.83	54.16	2890.68
United Nations	48.65	44.41	2313.05
UNDP	53.53	50.29	1633.51
FIDA	54.99	49.66	721.44
European institutions	32.86	28.21	4013.95
Bilateral donors	46.43	42.21	2950.94
France	46.79	42.22	4245.66
Germany	45.22	39.9	3642.88
Japan	48.54	40.8	2217.19
Sweden	46.45	45.27	2298.98
United Kingdom	51.45	46.26	2401.87
United States	46.97	43.42	2701.29

Box 1. How can the profile of the European institutions be explained?

In the early 2010s, the European Union made a clear commitment to take vulnerability into account when allocating its aid flows. However, according to the results presented in the text, the EU tends to concentrate its aid on countries that are on average less vulnerable than multilateral aid as a whole, and with a higher average per capita income. This paradoxical result can be explained by several factors.

Firstly, variables other than income and vulnerability come into play in the allocation formula, including governance, but this is also the case for the MDBs, with IDA or FAD. Furthermore, when we move from the potential allocation formula to disbursements, aid allocation decisions are often influenced by geopolitical considerations and the strategic interests of its member states. As a result, countries of economic or geopolitical importance to Europe, particularly those located close to it (such as the Balkan or Mediterranean countries) or with strong historical links with certain Member States, may receive a greater share of aid than the formula would suggest, even if they are less vulnerable.

Another explanatory factor lies in the conditions of eligibility for concessional financing. As a result of these conditions, recipients of European aid have, on average, a lower level of vulnerability than recipients of other sources of multilateral aid. On the other hand, as will be shown below, the EU seems to show real differentiation in the allocation of its aid between eligible countries, according to their relative level of vulnerability. This sensitivity to differences in vulnerability contrasts with the allocation of the concessional windows of the multilateral development banks, which, as the results of the second method show, do not systematically take vulnerability into account in the actual distribution of resources.

The first finding is that there is, on average, no significant difference between all bilaterals and all multilaterals in terms of the average vulnerability profile of recipient countries, whether using the MVI or the FSVI. A more detailed analysis of the average vulnerability profiles of recipient countries for IDA, ADF, IFAD and UNDP also shows a high degree of similarity, although these institutions are distinguished by a relatively higher average level of vulnerability than that of multilateral donors as a whole. This difference can be explained by the fact that the United Nations system as a whole includes organisations whose objectives are not exclusively development-oriented and that grant subsidies to countries that are not necessarily very vulnerable. As we shall see, these same countries are not necessarily low-income.

The results obtained for the main MDBs contrast with those of the European Union, which has a relatively lower average level of vulnerability among its beneficiaries. At first glance, this finding may seem paradoxical, given that the European Union, along with the Caribbean Development Bank, is one of the few institutions to explicitly include a vulnerability indicator in its allocation criteria. However, this apparent contradiction can be explained by several factors, which will be detailed below (see **Box 1**).

The gap between the average preference of all multilaterals for low-income countries (average profile of \$2,415) and that of the major institutions mentioned above (around \$1,000 for IDA and the ADF) is even greater. At the same time, the average preference of multilaterals for low-income countries remains slightly higher than that of bilateral donors, with the latter showing an average per capita income profile of \$2,953, and even around \$4,000 for European institutions. This suggests that, while bilateral donors direct their aid to countries with an average level of vulnerability similar to that of multilateral aid recipients, they nevertheless give priority to higher-income countries. The differences observed can be interpreted as reflecting donors' distinct trade-offs between vulnerability and poverty. They are also the result of the income thresholds applied for eligibility for concessional funds, which are generally lower for multilateral development banks than for European institutions. Once these thresholds are exceeded, MDBs intervene through other financing windows that are not ODA in the strict sense. An analysis of the average profile of donors over the period 2020-2022 shows that institutions such as the UNDP, IDA and the African Development Bank direct a significant proportion of their resources to the most vulnerable and poorest countries. However, on average, multilateral donors as a whole, of which the MDBs are only a fraction, do not differ significantly from bilateral donors in terms of the average vulnerability of recipient countries. On the other hand, they do differ more markedly in terms of the average income of recipient countries, which is lower in the case of multilateral funding. As for the European institutions, they seem to direct their ODA towards countries with a relatively higher income and a lower level of vulnerability. This does not mean, however, that they do not differentiate their allocations according to vulnerability, as we can see from the box and the results of the second method.

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Differentiated (between countries) or marginal impacts of vulnerability and per capita income

The averages observed above do not provide any information about the sensitivity of allocations to differences in vulnerability between eligible countries.

Table 2 presents the results of the regressions using the MVI as the vulnerability indicator and those obtained using the FSVI. The choice of one or other of the two vulnerability indicators does not affect the main conclusions regarding the allocation of aid. The trends observed with the two indicators are broadly similar.⁵⁵

With regard to the coefficient of the vulnerability index, for all multilateral donors as well as for all bilaterals, the results show that the MVI (or FVI) score is significantly positive, with a greater impact for multilaterals than for bilaterals.

55. In both cases, introducing the population log alters the results because of the relationship between vulnerability and the population log, whose coefficient is always highly significant and negative.

Table 2. Marginal impact of vulnerability and per capita income on allocated resources

Donor	Vulnerability index	MVI & per capita income log	
		MVI - Score	Log of per capita income
Multilateral donors	MVI	0.0413***	-0.236**
IDA	MVI	0.0123	0.165
FAD	MVI	0.0183 [†]	-0.277
Asian Development Bank	MVI	0.143***	-1.936***
Caribbean Development Bank	MVI	0.00177	0.289
Inter-American Development Bank	MVI	0.0925**	-1.154**
United Nations	MVI	0.0369***	-0.480***
UNDP	MVI	0.0361***	-0.793***
FIDA	MVI	0.0365***	-0.801***
European institutions	MVI	0.0296***	-0.284***
Bilateral donors	MVI	0.0249***	0.0344
France	MVI	0.000594	0.0245
Germany	MVI	0.00703	-0.0672
Japan	MVI	0.00876	-0.0358
Sweden	MVI	0.0268***	-0.631***
United Kingdom	MVI	0.012	-0.296**
United States	MVI	0.0317***	-0.289**

Donor	Vulnerability index	FSVI & per capita income log	
		FSVI - Score	Log of per capita income
Multilateral donors	FSVI	0.0379***	-0.140*
IDA	FSVI	0.0115	0.193
FAD	FSVI	0.00776	-0.0795
Asian Development Bank	FSVI	0.127***	-1.530***
Caribbean Development Bank	FSVI	-0.0476	0.996
Inter-American Development Bank	FSVI	0.0867***	-1.142***
United Nations	FSVI	0.0346***	-0.402***
UNDP	FSVI	0.0325***	-0.719***
FIDA	FSVI	0.0271***	-0.612***
European institutions	FSVI	0.0267***	-0.208**
Bilateral donors	FSVI	0.0254***	0.0572
France	FSVI	-0.00102	0.0469
Germany	FSVI	0.00457	-0.0252
Japan	FSVI	0.0083	-0.019
Sweden	FSVI	0.0266***	-0.594***
United Kingdom	FSVI	0.00463	-0.182*
United States	FSVI	0.0324***	-0.260***

Elasticity in relation to per capita income differs even more markedly between multilaterals as a whole, where it is significantly negative, and bilaterals as a whole, where it is not significant. Since our objective here is to characterise the behaviour of the various multilateral (but also bilateral) players, we need to examine the behaviour of specific institutions in relation to overall flows. There are two possible scenarios.

The two major concessional funds, the IDA and the ADF, even though on average they give greater preference to vulnerable countries than other donors, do not in fact differentiate their ODA support according to the degree of vulnerability of the recipient countries. This can be attributed to the fact that they do not use a vulnerability index in their allocation formula that would allow this differentiation to be made. A similar observation applies to the Caribbean Development Bank, which uses its own index, but which is very different from the multidimensional vulnerability indices considered here. Furthermore, the results obtained for this institution are based on a limited sample of countries, which may limit their robustness.

In contrast, UNDP and IFAD allocations, which each show an average preference for vulnerable countries, appear to be sensitive to the respective degree of vulnerability of the recipient countries. The contrast is even sharper with the situation of the European Union, whose average preference for vulnerable countries is low, but which is very sensitive to the degree of vulnerability of the various recipient countries. This sensitivity can be explained by the use of vulnerability indices in the formula for allocating concessional funds.

As far as bilateral donors are concerned, the extent to which vulnerability and per capita income are taken into account in the allocation of aid varies considerably from country to country. Bilateral aid does not seem to follow a systematic and linear logic based on these criteria, which underlines the importance of institutional frameworks and strategic choices specific to each donor. However, an in-depth analysis of the institutional perimeters within which ODA is allocated would be necessary to better interpret these disparities, which is beyond the scope of this study.

All in all, the analysis shows that it is not enough for an institution to set up mechanisms to take into account the vulnerability of countries for its allocation to be proportionally adapted to the degree of vulnerability of the beneficiaries. This appears to be the case for the concessional windows of the World Bank and the African Development Bank, which, although they direct a significant proportion of their aid to vulnerable countries, do not modulate their allocation according to the level of vulnerability of the different beneficiaries.

▶ Comments

The preceding analysis presents a tool for the accountability of the policies followed by the MDBs in relation to the objectives assigned to them, at least for their concessional windows, of tackling the vulnerability and poverty of countries. This tool, which FERDI intends to promote and apply to different sources of financing, does however face a series of questions, which are only outlined here, and which will need to be answered. These questions relate simultaneously the nature of the flows considered, the objectives pursued and the indices used according to these objectives.

Flow perimeter

The flows considered above, whether multilateral or bilateral, are concessional or ODA flows. However, the problem of allocation between countries does not only arise for the concessional windows of the MDBs, which are clearly governed by allocation rules. For the other flows they pay out, although there are no pre-defined allocation rules, we can nonetheless observe, *ex post*, an effective distribution of resources between recipient countries. It would therefore be relevant to extend the analysis to non-concessional flows in order to assess whether they follow similar logics or whether they reflect other types of donor preferences.

Objectives and indicators

A differentiation must also undoubtedly be made according to the objectives pursued. We have used the multidimensional vulnerability index in the case of ODA. But if we consider, for example, the case of flows for adaptation to climate change, the question arises - and this is a matter of debate - of using a climate change vulnerability index instead, and if the flows are for the purpose of mitigating climate change, the reference to a country's vulnerability, even if multidimensional, is no longer necessary. Extending the method to the flows covered by the TOSSD would therefore require a geographical breakdown and a breakdown by purpose of the financing listed under this indicator, information that is not yet available in detail

The question of performance

Finally, should the selectivity with regard to poverty and vulnerability be supplemented by a selectivity based on performance, which was dominant in the analyses and judgements of 20 years ago? The perspective adopted here is that of selectivity on the basis of countries' needs (poverty and vulnerability). The reference to performance, which is still very much present in *ex ante* allocation rules, can very easily be introduced into the first method used here, that of the average profile, whatever reservations may be expressed about the performance indicator

used and its ability to represent a criterion of efficiency in allocation. However, its introduction into an allocation function (second method) risk modifying the nature of the results, due to the correlation that may exist between the performance indicator, the vulnerability indicator and the income indicator. In short, if the objective is to assess selectivity according to the needs of countries as defined by the international community, income and structural vulnerability elasticities are sufficient. If, on the other hand, the aim is to develop an optimal allocation model that takes into account both countries' external financing needs and the effectiveness of their use, the issue becomes more complex and controversial. It is therefore essential to clearly define the purpose of the exercise.

Functional form

This being the case, the definition of elasticities or coefficients that characterise the behaviour of aid sources, particularly multilateral sources, is open to discussion and improvement. For example, whether the relationship characterising need as a function of income or vulnerability is fully linear, as is assumed here, or needs to take another form.

► Provisional Conclusions and Implications

This note, covering the period 2020-2022, shows that, overall, multilateral donors, particularly the MDBs, have allocated relatively more concessional resources to poor and structurally vulnerable countries than bilateral donors over this period. However, while this trend is clearly observable, the difference in terms of the vulnerability of beneficiaries is sometimes limited and varies depending on the institutions in question.

On the other hand, these same MDBs do not seem to differentiate their allocations between the countries they support according to their respective degree of vulnerability. This finding reflects the fact that their allocation model does not explicitly and continuously take into account differences in structural vulnerability between countries, even though these differences can now be measured using indices such as the MVI recently adopted by the United Nations, or an improved version of it. This observation could serve as an argument for these institutions to integrate structural vulnerability more systematically into their allocation rules

The results based on the average income and vulnerability profiles of the recipient countries reveal differences in eligibility for the funds under consideration; however, the marginal impacts resulting from the estimation of a two-variable function reveal, on the contrary, differences in allocation behaviour between countries. These conclusions are valid only for the analysis period studied. It

would be relevant to extend this analysis over a longer period in order to identify any changes in donors' allocation strategies. Such an approach would make it possible to better capture temporal dynamics and provide a more robust and complete view of trends in the allocation of concessional resources according to vulnerability and poverty criteria.

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Structural Vulnerability and Transformation: Their Links and the LDC₅ Monitor Consistency⁵⁶

The purpose of the LDC₅ Monitor is twofold: firstly, to assess the vulnerability of LDCs and the means used to deal with it, and secondly, to examine the structural transformation of LDCs in line with the Doha Development Agenda (DDA). Vulnerability and structural transformation, neither of these terms, although used since the early days of development economics, is used in a perfectly clear and unambiguous way, while their importance is largely recognised. And the link between the two needs to be clarified.

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► Structural Vulnerability

The concept of vulnerability refers to the risk of a country's development being hampered by shocks of exogenous origin. This concept and the means of measuring it, for LDCs as for other groups of developing countries, have made significant progress in recent years. There now seems to be a consensus that the measure of vulnerability should be universal (applicable to different categories of countries and comparable between them), multidimensional (economic, environmental and social) and available in two versions, one purely structural and the other more general (see Guillaumont and Wagner, 2022). In the context of the Monitor, we are primarily interested in structural vulnerability, i.e., vulnerability that is independent of the present will of governments or that they have in some way inherited as a result of history or geography - in short, exogenous vulnerability. It

56. This text was first prepared for the meeting organised by OECD Development Centre, FERDI and UNU-WIDER, "LDC₅ Monitor: Defining its scope and uses" (7 March 2024, Helsinki), following the "Second LDC Future Forum: Innovation for structural transformation in LDCs" (4-6 March 2024, Helsinki) organised by UN-OHRLS and the Ministry of Foreign Affairs of Finland, in partnership with UNICEF, FERDI, UNU-WIDER and OECD Development Centre.

Cf. Guillaumont P. (2024) "Structural vulnerability and transformation: their links and the LDC₅ Monitor consistency", FERDI *Policy Brief* B265, March.

was with this in mind that the *Multidimensional Vulnerability Index* (MVI), prepared under the aegis of UN OHRLLS and UNDESA by a High-Level Panel convened for this purpose from 2022 to 2023, was developed and proposed to the President of the United Nations General Assembly, and published in its final form in February 2024 (United Nations, 2024).

Even when we agree that the desired vulnerability index must have the three characteristics indicated above (universality, multi-dimensionality, exogeneity), there may certainly be differences of opinion in the choice of the most relevant components⁵⁷ and in the way they are measured. It is desirable to move towards a consensual index, but it is easy to imagine that each institution required to use this type of index can configure it in its own way as long as the three characteristics indicated are retained. It should also be noted that there are two other indices which claim to have the desired characteristics, the one drawn up by the Commonwealth Secretariat (UVI, *Universal Vulnerability Index*) (2021) and the one used by the United Nations Committee for Development Policy to identify the LDCs, although the latter is much less multidimensional than the other two (an index introduced in 2000 and transformed several times). In order to monitor changes in the structural vulnerability of LDCs over the course of the Doha Development Agenda, it would seem logical to use an index meeting the basic principals of the MVI but revised with respect to the main criticism it raises. FERDI will be able to adjust and update regularly such an index for the Monitor.

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► Structural Transformation

The notion of structural transformation itself has a long history. Very fashionable today, often presented as new and the essential condition for sustainable development, it is in fact as old as development economics. In its early days, 70 years ago, a particularly renowned author such as François Perroux repeatedly stressed that development involved structural transformation. And similar remarks could be found among many other "pioneers" of development economics, as well as in the major texts that have fuelled the evolution of this discipline. For some economists, the term is now the key to sustainable development. But for others, it is an "*auberge espagnole*", in the sense that everyone finds in it what he brings to it or wishes to put into it. It is certainly possible to include all sorts of transformations (economic, environmental, social) under this expression, multidimensional as is vulnerability. The obvious implication is that structural change can only be a good change, i.e. change that promotes development, perhaps forgetting that what is considered good change can vary over time or according to ideological positioning (e.g. spe-

57. Due to differing views on the MVI among UN member states, two facilitators have been appointed to find a consensus on what will be presented to the General Assembly.

cialisation based on comparative advantage versus diversification). It should be added that the right structural transformation today is a "green transformation", which brings it closer to the notion of energy transition. But here again an ambiguity arises: while in North thinks of growth leading to carbon neutrality (and therefore geared towards mitigation), the South more spontaneously considers growth that is resilient to climate shocks (and therefore geared towards adaptation).

For many economists, however, the notion of structural change has a precise meaning. It is a reallocation of factors of production from the least productive sectors to the most productive ones. It is therefore possible to attribute part of economic growth to this structural change, with the other part resulting from productivity growth in each sector (which is quickly described as technical progress). This type of measurement can lead to apparently curious results, particularly for LDCs, as highlighted by Alassane Drabo in *Out of the Trap* (Guillaumont, Edr, 2019): the growth observed in LDCs since the turn of the century is more due to productivity progress in each sector than to structural change, understood in the sense of reallocation of factors between sectors. In fact, this traditional definition of structural change as a factor of growth is somewhat too horizontal and linked to the very broad segmentation of the sectors considered. From a less horizontal, more sectorally focused and more dynamic perspective, structural change implies just as much, if not primarily, an increase in productivity in the least productive sectors. Take the case of agricultural development, which is essential in many LDCs. Increasing productivity in the agricultural sector is obviously necessary both to feed the country's population without making it too dependent on the outside world, to provide the jobs for young people that urban expansion is unable to offer, and to reduce poverty, which is higher in rural areas. This increase in agricultural productivity obviously implies real structural change (in rural infrastructure and services, in access to energy and credit). This is also the case for agroindustrial activities, the "industrialisation", which is sometimes taken for structural transformation, being a change in the production process as well as the broadening of a sector. We cannot, therefore, limit ourselves to a "inter-sectoral" approach to structural change.

The (green) structural transformation of LDCs, as used here, is therefore the set of transformations that affect the overall productivity of the economy, whether through inter-sectoral labour migration or intra-sectoral productivity growth (and which respond to the challenges of climate change, through a contribution to mitigation and/or an adaptation strategy).

As there are various forms of structural transformation, for this transformation to be truly sustainable, it must correspond to the preferences of the countries concerned, which is a precondition for ownership, or in other words that it is endogenous.

► What Are the Links Between Vulnerability and Structural Transformation?

The links between vulnerability and structural transformation are fundamental and work both ways.

Vulnerability in its various dimensions is clearly unfavourable to structural transformation and growth, for two reasons which have long been at the heart of the analysis of the effects of instability (particularly export instability) on development. The first is that it increases uncertainty, heightens the sense of risk and slows down investment, particularly in rural and fragile areas, where the risks are particularly high, and which are considerable in the LDCs. The second reason is linked to the lasting effect of shocks due to the asymmetry of the effects of positive and negative shocks: this has been evidenced many times over on variables such as school enrolment, child survival, or on the macro-economic level of debt and the budget deficit (Guillaumont, 1985, 2009, 2023). In short, the asymmetric effect of shocks is that negative shocks not only reduce current income (what could be offset by positive shocks), but also, and above all, irreversibly affect human and material capital.

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Conversely, structural change is needed to reduce vulnerability and build resilience. Not just any structural transformation, of course. A good definition of structural transformation is probably one that reduces structural vulnerability, a major handicap to development. It is for this reason that (structural) vulnerability was introduced in 2000 by the CDP as one of the three criteria for identifying LDCs. Admittedly, vulnerability as it was measured at the time was imperfect (Guillaumont, 2009) and has remained so despite the improvements made, but the important thing was that this vulnerability was identified as a structural obstacle to development. As a result, most of the components of the structural vulnerability index, the current CDP index or the MVI, can be considered as elements whose modification corresponds to a structural transformation favourable to development. Admittedly, they do not all lend themselves to immediate action or reduction, precisely because they are structural, but they are indeed medium or long-term targets: for example, reducing the concentration of exports or acting on other factors of instability (in exports, agricultural production, etc.) or structural political fragility (which reduces recurrent violence). Similarly, improving resilience factors (in particular human capital and infrastructure) is largely a structural transformation, since they are also factors of increased productivity (Guillaumont, 2023b). Finally, the link between vulnerability and structural transformation needs to be assessed in its regional context, since regional integration can be both a powerful factor in reducing vulnerability and in structural transformation, particularly for small countries.

► So, What Is the Task of the LDC5 Monitor?

These two types of link show that the two areas proposed for the LDC5 Monitor are closely linked and complementary. The work that will be carried out by the Monitor, with a sharing of tasks, will enable us to take a fresh look at the implementation of measures in support of the Doha Development Agenda by examining whether they help to reduce structural vulnerability, increase resilience and thus enable a structural transformation leading to an acceleration of sustainable development in the LDCs.

It is important to examine how international support measures affect this dual interaction.

It is clear that the Monitor cannot deal with all aspects of structural vulnerability and transformation in all LDCs, which implies examining virtually all aspects of development. There are other institutions with a mandate to do this, and all the capacity to do so (UN-OHRLLS, UN CDP, UN DESA, UNCTAD, etc.). The Monitor's task is to focus on indicators relating to the links between vulnerability and structural change, and on related policies. Its specific feature is that it does this in close association with think tanks based in the LDCs, which is made possible by their membership to the Monitor. For example, within the framework of the LDC5 Monitor and following on from the work carried out for the MVI, it will be possible to establish indicators of the selectivity of financial flows for all LDCs, taking into account the vulnerability of recipient countries, as the FERDI has planned to do (Guillaumont and Guillaumont Jeaneney, 2024), and also to help establish dynamic profiles of vulnerability and structural transformation for a few LDCs.

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Using the MVI for the FfD4

Allocution at the UN FfD4 Third Preparatory Committee, 10 February 2025

The *key objectives* of this meeting are indeed important, as are the *key questions* we are invited to address. Promoting the MVI is a welcome means of integrating the needs of vulnerable countries into the agenda of the FfD4.

10 years ago, at the Addis Ababa conference, the question of how financing for development could contribute to the fight against vulnerabilities was clearly posed. Following several initiatives have been taken in this regard, while at the same time, the vulnerability, in its various dimensions, has become a more crucial and urgent issue. Actually, the international financial institutions have introduced various modalities or innovations to address vulnerability in their financing mechanisms (including special windows for fragile states or states in transition, such as FCV, facilities to compensate for shocks, such as CRW, etc.)

What characterizes the whole set of these measures, which are dispersed and probably not very transparent for the countries concerned, is that:

- they are *more curative than preventive* and that
- they are *not consistently tackling the structural vulnerability of countries in its various dimensions (economic, environmental, societal)*
- and they *do not differentiate their support according to the respective degree of vulnerability of the countries.*

This is the reason why they do not use an index such as the MVI and why a more comprehensive and preventive approach needs to use it. What is missing (in the architecture of international development finance) *is to quantitatively take into account structural vulnerability in the access to concessional financing thanks to an appropriate index.*

The adoption of the MVI by the UNGA, which recommends its use by financial institutions, marks a strong step in the will to fill what is missing. It is in line with the “MDBs vision statement” adopted at the 2023 Paris Summit for a New Global Financing Pact, inter alia inviting the MDBs to consider vulnerability for the access to concessional funding, while taking into account the work of the United Nations.

But there is still a long way to go to bring the practice of the international financial institutions closer to the wishes expressed in the UN GA Resolution. The preparation of the FfD4 Conference should make it possible to move in this direction by building on the dialogue already underway. Let me recall that in October 2023, during the IBW Annual meetings in Marrakech (and at the same time as the publication of the HLP report on the MVI), two World Bank Executive Directors took the initiative with FERDI to organize an event where 2 main MDBs VPs in charge of concessional funds, the USG RF here and other representative of international institutions (Commonwealth) agreed to discuss how to take vulnerability into account in access to concessional financing. It is this dialogue that must now be continued and deepened at an operational level.

There are several reasons to move forward effectively and quickly in this direction:

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- 1) Besides the opportunity offered by the preparation of FfD4 (and the parallel debate on the reform of the international financing architecture), *the recent risk of a drastic reduction in the volume of concessional financing, raises more than ever the problem of its allocation between countries, which has so far been less addressed than that of its mobilization.*
- 2) In spite of a robust academic work, stakeholders still need to be convinced of the *rationale* of a reform relying on an appropriate index and consisting of taking into account structural vulnerability, *both for eligibility to concessional financing and even more so for its allocation between countries.* A recent study by FERDI shows that ODA presently allocated by MDBs to individual countries is not significantly correlated to their MVI or a similar index
- 3) The reform is not only desirable, *it is also possible*, as shown by the fact that some multilateral banks, such as the Caribbean, already use an index in their allocation formula, that the European Union itself has been doing so for 10 years, even if not with the best indices, (and that at the bilateral level a country like France has decided to consider as priority countries the LDCs and a complementary list of vulnerable countries identified in particular through an MVI index).
- 4) For institutions that already use a vulnerability index for allocation purposes and even more for those that are invited to do so, they will refer to the MVI,

if they do, in a flexible way, as a “living tool”, according to their objective and mandate, in other words to use an index “in the spirit of the MVI”, based on its three fundamental principles: multidimensionality, universality and exogeneity, i.e., structural character.

The issue is therefore now how MDBs that do not yet do so can agree to introduce a Structural vulnerability index into their allocation formula, which is the PBA, making it a PVBA.

Here we have to face three objections, often heard and likely to be raised even more in the current situation, to which an adequate formulation of the PBA must make it possible to respond:

- 1) One is the strong commitment of donors to the criterion of performance. not to be discussed here (We are not discussing here, the merits of the criterion of performance supposed to be correlated with effectiveness in an allocation formula, that could just as well be conceived as a formula representing the needs of countries, but it is clear that it will not be questioned today). What is important to show is that the addition of vulnerability in the formula will not necessarily reduce a relevant impact of performance on allocation, as we did in the past in the case of the African Development Fund (without the reform being adopted at that time).
- 2) Another is the fear that the addition of the vulnerability indicator will lead to diverting part of the allocation to the benefit of vulnerable middle-income countries and to the detriment of LDCs and LICs. (There are two answers to this: one is that the most vulnerable in middle-income countries are very small countries whose allocation can be increased through enlarged eligibility without significant impact on the rest of the allocations. The other more important answer is that) if the PBA is applied in its current formulation, the marginal impact of the vulnerability criterion is higher the lower the per capita income The text of the resolution emphasizes that the MVI is not a substitute but a complement to the per capita income.
- 3) The third objection is that of *moral hazard* that would result from the inclusion of a vulnerability indicator in the allocation formula, namely the risk that the recipient countries weaken their effort to lower their vulnerability. This objection is unfounded insofar as the vulnerability index is well constructed as being clearly independent of the present policy (principle of exogeneity, it is a structural indicator). *And to go further* and ensure a good coherence of the formula with regard to vulnerability, we suggest that the performance indicator should itself include the resilience policy led by the country.

These questions seemingly technical raise the issue of the criteria for the allocation of concessional funds, which should be addressed in the Seville declaration. On this issue the position of the member countries, in particular the recipient countries, should be taken into account, as they have already expressed it in various fora (Doha LDC5, Paris Summit, Marrakech meetings, and here at the previous preparatory committee), with the support of FERDI.

Towards an Effective Use of a Multidimensional Vulnerability Index in Development Finance

A previous collection of policy briefs accompanied the work of the High-Level Panel convened by the United Nations to develop a Multidimensional Vulnerability Index (MVI). This index has since been adopted by the United Nations General Assembly and is attracting renewed attention. It is more relevant than ever to reflect on its scope, its potential for evolution, and how it can be used to inform development financing.

The briefs gathered in this volume examine the added value of a structural and multidimensional vulnerability index—not only for the possible definition of country groupings, but above all for the fair and effective allocation of multilateral concessional financing. They also seek to contribute to the foundations of a new donor “selectivity,” based on transparent and rational criteria.

At a time when the overall volume of available funding is under threat, the question of how to allocate resources has never been more critical.

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