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Research Report

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On the principles of allocation of concessional finance, in particular from Multilateral Development Banks¹

Patrick GUILLAUMONT



PATRICK GUILLAUMONT, President of FERDI.

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 interlinked². 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.

1. This text is an extended version of a short intervention at a workshop held during the Paris Peace Forum, November 10, 2023.

2 This short note may be seen as a supplement to the Ferdi Policy Brief B246: Guillaumont P. (2023) "Taking into account vulnerability in the global distribution of concessional flows", FERDI Policy Brief B246, April.

► **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 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 the access to CF**

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 multi-dimensional vulnerability have been made recently available, likely to be refined and revised by the MDBs, under the condition they remain structural (or exogenous). 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).

► **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 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 SV). 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.



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