



HIGH-LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

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BUILDING BACK BETTER IN VULNERABLE SITUATIONS: SMALL ISLAND DEVELOPING STATES

Monday, 11 July 2022, 3:00 – 5:00 pm

Secretariat Background Note

Executive Summary

The COVID-19 pandemic and its effects in SIDS illustrate how vulnerability to shocks combined with low resilience can have a severe and long-lasting detrimental effect on economic growth and sustainable development. It also reminds us of the multidimensional impact of shocks, and those structural factors lead to high sensitivity and exposure to exogenous shocks. While it is the responsibility of national policies to mitigate the consequences of exogenous shocks, and so make a country more resilient, exogenous shocks threaten economic growth and human development. This is why the fight against vulnerability must be at the heart of international policy aimed at supporting SIDS (and other vulnerable developing countries). In this regard, it has been recognized that a Multi-Dimensional Vulnerability Index (MVI), meeting certain specific criteria and supported by international consensus would be a powerful tool in directing international effort towards integrating vulnerability more centrally into global strategies of UN institutions, international financial institutions, and the work of international development partners.



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Why A Multi-Dimensional Vulnerability Index for SIDS?

COVID-19 has exposed the vulnerabilities faced by SIDS, and has illustrated how exogenous shocks have economic, social and environmental impacts, are often interconnected, and that structural factors lead to a high sensitivity and exposure to these shocks. While it is the responsibility of national policies to mitigate the consequences of exogenous shocks, and so make a country more resilient, history has shown how economic growth and human development are threatened by exogenous shocks of various origins.

The severity of the crisis generated by the pandemic has arguably opened the door for a paradigm shift in the way in which the international community addresses vulnerability reduction and resilience building. In this regard, it has been recognized that a MVI meeting certain specific criteria¹ and supported by a broad consensus would be a powerful tool in directing the integration of vulnerability reduction and or resilience building into global development strategies, including in those strategies pursued by UN institutions, and international financial institutions (IFIs).

Further, by highlighting the connections between the several dimensions of vulnerability, a MVI could help IFIs and other international development Partners recognize that vulnerable countries are facing recurrent exogenous shocks more intensively and that the cumulative effect of those shocks hinders sustainable development. This is particularly relevant when support, notably

¹ See para 80-83 of <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N21/202/37/PDF/N2120237.pdf?OpenElement>



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concessional finance, is conditioned solely on GDP per capita thresholds.



Guiding Domestic and Regional Policies in SIDS

A well designed MVI may also have the added benefit of guiding policy in SIDS as follows:



- Promoting resilient macroeconomic policies. Macroeconomic resilience comprises the policy or other transitory economic, environmental, and social factors that allow a country to be more adaptive and less exposed to an exogenous shock. The more resilient economy will be one that is less exposed due to effective policy implementation.



- Reducing the social impact of vulnerabilities. The effects of exogenous shocks affect the livelihood and security of the poor. The response to these risks could lead inter alia to the strengthening of early disaster response systems, improved climate change adaptation and mitigation and reform social safety nets.



- Strengthening regional partnerships and regional integration. SIDS in the Caribbean and Pacific have long recognized the value of working together. Improving regional integration—for instance, through more intraregional trade and policy ordination—can help these small-size economies build greater resilience and scale, as well as enhance bargaining power on the global stage.



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Allocating international Resources

For IFIs, the issue of allocating concessional funds involves a trade-off between performance criteria and need criteria. Performance - assessed through the three indicators of the Performance Based Allocation (PBA) formula (Performance, Gross National Income per capita, Population) however, currently does not allow for different degrees of vulnerability to be taken into account. For example, SIDS who are vulnerable to disasters whose recurrence severely limits borrowing and debt capacity, are not the poorest or the most fragile. Similarly, the countries most vulnerable to the effects of climate change are not clearly identified through the three indicators of the PBA formula. Thus, as with the treatment of fragility, international financial institutions (IFIs) and the multi-lateral development banks (MDBs) have elected to multiply dedicated windows rather than integrate vulnerability considerations into the PBA.

Integration of an MVI into the PBA formula would allow for recognition of the structural vulnerabilities of SIDS and other vulnerable countries as a part of the allocation criterion for concessional funds. The added benefits of this approach include i) the elimination of the IFI practice of creating categories of countries that are debatable, and that in no way leads to abandonment of the traditional criteria of performance ii) the provision of targeted support for vulnerable developing countries to address their vulnerabilities in a preventive manner and iii) improved transparency of the allocation rules established in multilateral institutions, and minimization of the proliferation of exceptions to the basic rule of performance-based allocation.



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The same principle should guide the ex-post analysis of the extent to which bilateral cooperation benefits countries according not only to their governance and per capita income, but also to their structural vulnerabilities.

Some Recommendations for action

There are likely to be severe structural scars left in SIDS economies following the pandemic. SIDS would need to “build back better”, to innovate and implement bold changes that would boost economic resilience to exogenous shocks e.g. COVID-19 and build diversified economies. Rising debt levels however pose one of the greatest short- and medium-term challenges to the vision of ‘building back better’ for SIDS. Debt-to-GDP ratios for SIDS which were already higher than for other emerging and developing economies before the Covid-19 crisis, have increased drastically in many SIDS in the wake of Covid-19, and are forecasted to remain well above pre-pandemic levels for most SIDS by 2025. As such SIDS are unlikely to be able to grow their way out of debt, given structural challenges and the prevalence of natural disasters. An MVI which enjoys universal consensus, could go a long way in helping to forge universal consensus on vulnerability and how best to support SIDS to address it.

The High-Level Panel on the MVI

Paragraph 8(a) of General Assembly resolution 76/203 in welcoming the Secretary General’s recommendations on the potential development and coordination of work within the United Nations



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system on a MVI for SIDS, including on its potential finalization and use, decided to establish a representative high-level panel of experts co-chaired by two eminent persons, one of whom is from a SIDS. In addition, the General Assembly called upon the President of the General Assembly to appoint the members of the panel and to task them with carrying forward work to finalize the multidimensional vulnerability index by December 2022. The 12 Member MVI Panel was established in February 2022 and is co-chaired by the Prime Minister of Antigua and Barbuda and the former Prime Minister of Norway. The Panel has been working and will shortly release its Interim Report which will include the proposed structure for the MVI.

Key Questions

- How is the elaboration of an MVI by the high-level panel created by President of the General Assembly progressing?
- How do we build international consensus for the use of an MVI?
- How can official financing strategies and mechanisms used to support SIDS, better include vulnerabilities?
- How can resilience building and the development of proactive and preventive strategies become more central in the international strategies pursued in development cooperation