

High Level Panel on the Development of a Multidimensional Vulnerability Index – Interim Report

Report Review – Consolidated Comments from ECLAC

Key Points from Interim Report

ECLAC Statistics Division has prepared a proposal for an MVI, with the purpose of addressing the particular situation of Small Island Development States (SIDS). The index proposed by ECLAC focuses on environmental vulnerability to climate change, which is one of the main characteristics that distinguishes SIDS countries from the rest of the world.

The proposal by the High-Level Panel aims at a similar goal, but with a mandate for universality, and therefore more encompassing in its purpose. It addresses vulnerability and resilience, in the economic, environmental, and social dimensions.

- **Need:** The report appreciates the leadership of SIDS in calling for the international community to recognize their unique vulnerabilities and needs. GNP per capita is an insufficient measure of economic development, and often denies SIDS fair/equitable access to concessional resources.
- **Consensus:** However, there needs international consensus on the characterization, measurement, and support for mitigation of SIDS vulnerabilities. Being tasked by AOSIS, the SG recommended the development of an MVI that follows the principles of multidimensionality, universality, exogeneity, availability, and readability – in a process led by member States.
- **Panel:** A High-Level panel was appointed (March-Dec 2022) to make recommendations on a clear MVI and its most appropriate governance and publication arrangements.
- **MVI Structure:** The index focuses on three dimensions of structural vulnerability and structural resilience: economic, environmental, and social. The global level assessment will be complemented with national vulnerability profiles and an MVI dashboard.

Main Gaps in Proposal from the High-Level Panel

1. Omission of discussion of possible cut-off threshold

The motivation for the MVI is to recognize vulnerabilities beyond income and consider them in the criteria of eligibility for concessional financing. The way in which an index can determine access to financing depends on two elements: the ranking between countries and the cut-off threshold that separates the “vulnerable” from the “non-vulnerable”.

In principle, the cut-off threshold is arbitrary, such as is the level of GDP to consider if a country is “developed”. In consequence, the main result of the MVI is to generate a ranking of countries that is different to that based on GDP; that means, that it will improve the position of some countries and deteriorate the position of others.

It seems important that the High-Level Group discusses possible criteria to determine the threshold for eligibility for concessional financing, since the expectation is to increase the visibility of vulnerabilities, and therefore the number of countries that receive concessional financing. The index should contribute to improve access for more countries and try to avoid the conflict of replacing some countries with others in their access to concessional financing.

2. Inclusion of resilience and possible correlation with GDP

The paper proposes a structure that considers two dimensions: vulnerability and resilience. Also, the paper expresses that the MVI should include variables that have a low correlation with GDP. The vulnerability to natural disasters of SIDS is a clear example of this type of indicator.

It is not clear why the resilience aspect should be included in the index. Resilience is not completely exogenous, even if the purpose is to focus on structural elements. Much of it depends on national policies (at least in the medium term). Many indicators to reflect economic and social resilience, such as infrastructure or access to health, are highly correlated with GDP.

This aspect can turn into a weakness of the MVI: if after including several aspects of vulnerability and resilience the index ends up being highly correlated with GDP, it can be used as an argument to validate the use of GDP as a sufficient proxy indicator of development.

3. Limited Literature Review and Proposed Methodology

The interim report is intended as a political document, which will be complemented by a more technical document. However, even this version should provide more detail on the long history of vulnerability indices (as far back as Briguglio 1992), more recent indices developed (e.g., CDB 2019; ECLAC 2022), with a discussion of strengths, weaknesses, indices, and methodologies employed. There is a wealth of previous work to build on.

Similarly, the authors may consider including the specific proposed indicators and methodology under deliberation, so they can be rigorously discussed with technical experts before the final report is shared with the GA. For example, would each component have an equal number of indicators? If not, would the indicators be weighted equally, or will the components be weighted equally? These decisions will strongly impact the ranking and possibly access to concessional resources, so disagreement on the approach could impede endorsement. The draft final report should include a summary of the discussions and decisions.

4. A broader and more up-to-date set of social indicators are required to capture multidimensional vulnerability

- In addition to infrastructure, which is identified by the report as an economic dimension, it is important to recognize national institutional capacities as a social enabler of resilience. The lack of skilled labour in small states is a source of vulnerability including with regards to institutional capacity. An area of concern, the out-migration of skilled labour, often manifested as transfer of human capital to developed countries. One possible result of identifying vulnerabilities through the MVI could be to channel increased cooperation to build institutional capacity and resilience to vulnerable states.
- Despite advances with the 4IR, the proposed indicators make no mention of technology. References to education and literacy may be dated/old-fashioned measures of vulnerability. For example, the Caribbean has high literacy levels but low technology adoption in education and other fields. The Index should adequately capture issues that shape current global asymmetries and vulnerabilities.

5. Data availability requirement

Data availability and production capacity at the country level, needs to be considered in the construction of a global index. However, a strict requirement of data availability for all countries may omit indicators (and nuance) that are critical to some countries due to unavailability available for others.

6. Need to consider access to internal and external resources

At a more general level, it is to be noted that as countries increase their per capita income, they do not have necessarily access to a greater amount of internal and external resources to finance their economic and social development needs and reduce its dependence on official assistance aid and concessional flows.

The evidence shows that access to external resources may depend on a range of factors beyond the criteria of per capita income, including external conditions that are beyond the control of the middle-income countries, such as the credit rating, perceptions of risk, external demand, and the size of the country.

Similarly, the ability to mobilize domestic resources also depends on factors that are not related to per capita income, such as the level of domestic savings, the degree of financial inclusion and the ability of the governments to collect taxes. These are important factors that need to be included more explicitly in the analysis.

Additional observations on vulnerability to external shocks and implications for new international cooperation mechanisms

- In line with the main tenets of the report of the High-level Panel on the Development of a Multidimension Vulnerability Index, ECLAC has long sustained that the development process is not reducible or identifiable with per capita income. Such an approach does not reflect the empirical reality of many countries and particularly, those, of middle income.
- However, the evidence indicates that countries that share similar income levels are characterized by very different realities in their economic and social development, for example, with different levels of access to social protection mechanisms, education and health quality, financial insertion and inclusion, and resilience to deal with economic and social shocks.
- Per capita income evens realities that are in fact heterogeneous and very different because it does not consider the complex and multifaceted character of economic development, or the different needs and challenges faced by middle income countries.
- ECLAC argues that there does not 'exist' a unique, uniform and objective classification for all countries. On the contrary, priorities for development and the weighting of countries social and economic development objectives should be decided at the country level.
- This not only implies that countries must have a proactive role in the determination of their development needs, but also that they should participate and promote political dialogue at various levels to prioritize the areas of cooperation and define the appropriate modalities to put it into practice.
- To capture this complexity and enhance economic and social development of countries ECLAC suggests, that the international cooperation system must adopt an alternative and integrated approach that reflects and evaluates the heterogeneity of countries' needs and, also their differential response capacity.
- To complement the report's views on international cooperation ECLAC argues that:
 - Cooperation mechanisms should involve countries at all levels of development on an equal footing, on conditions of equality, to develop and participate in multilateral and multi-stakeholder partnerships (South-South, triangular, regional, multilateral).
 - Cooperation instruments should consider countries' development priorities and strengthen their capacities to elaborate, implement and evaluate their development policy plans and objectives.
 - Expand the toolkit of instruments to improve international cooperation, including knowledge sharing, public policy dialogues, capacity building and technology transfers, and incorporate a wider range of actors.
 - Strengthen South-South and triangular regional cooperation modalities that complement more traditional forms of cooperation and provide an innovative approach to economic and social collaboration among countries.
- The report correctly argues that vulnerability is a result of exogenous shocks. The intensity of shocks and impact also depend on size and geography. This must be emphasized. Size is not only important for SIDS but also for are countries that are considered smaller economies but are not SIDS (i.e., Central American countries in the case of Latin American and Caribbean).
- For example, smaller economies are price takers and have no influence on the terms of trade. Faced with exogenous prices they cannot rely on price competitiveness to enhance their export performance. Instead, they must focus on competitiveness based on the quality of their

products. Yet the absence of economies of scale leads to higher unit costs as a result of sub-optimal firm size, lack of complementary in tradable activities, domestic production of inputs, and inefficient spatial productive hierarchy. Smaller producers are also seen as a risky financial investment. Finally, small countries have limited natural resource endowments and labour supplies. As a result, they will inevitably produce a narrow range of products.

- Also, size determines the capacity on an economy to achieve sustainable levels of internal and external disequilibria but also sustainable levels of debt. Caribbean SIDS is a case in point. These economies have very high fiscal deficits and deficits on the current account and also levels of indebtedness that are considered unsustainable. Yet because of their size, geography and binding constraints these economies have not been able to reduce their macroeconomic gaps.
- Geographical location hardens these constraints when countries are placed in a geographical area prone to natural shocks and in addition due to their insularity transport costs have higher per unit of traded goods than for other countries. Moreover, high transport costs constrain the development of productive activities such as agriculture and manufacturing that are dependent on imported inputs.
- In addition to considering external shocks as main determinants of vulnerability, the domestic capacity of countries to mobilize resources is also a reflection of vulnerability. Some developing countries do not have a credit rating and thus cannot issue external debt in the international capital markets.