INTERIM REPORT OF THE HIGH-LEVEL PANEL OF EXPERTS ON A MULTIDIMENSIONAL VULNERABILITY INDEX (MVI)

UNITED KINGDOM COMMENTS

30 August 2022

The United Kingdom is pleased to see the publication of the interim report from the High-Level Panel on the Development of a Multidimensional Vulnerability Index (MVI), and is grateful for the opportunity to offer our comments.

We are supportive of the role and potential of Multidimensional Vulnerability Indices (MVIs) and affirm the view set out in the Glasgow Climate Pact that vulnerability should be considered in decisions on finance. We have provided preliminary inputs below, and look forward to the final report from the High-Level Panel.

It is difficult to provide detailed feedback without a greater level of detail and further information on some issues, including the choice of individual indicators and weightings. We would be grateful for the details of the proposed approach a substantial period of time ahead of any final decisions, in order to assess our overall view. The following are therefore only interim comments and do not represent conclusive views on the approaches set out in the paper. All of our comments are subject to revision on seeing the more detailed work.

Overall, we think that the balance of the approach is right, and we agree with the intention to measure both vulnerability and resilience and the stated role of this dual approach. That said, we believe that the decision to focus on vulnerability to shocks needs a stronger rationale across the whole document, with a more developed rationale of why shocks are the focus, rather than the long-term development cost imposed on States by virtue of their vulnerability and lack of resilience.

Vulnerability is itself a debilitating development issue. It imposes disproportionate climate adaption and developmental opportunity costs, and contributes to diseconomies of scale, including the disproportionate amount of national effort needed to perform state functions. These and other factors drive long-term problems which may ultimately exacerbate the impact of shocks, but which are themselves significant development challenges. This could be set out more clearly in Section 3 and also in specific areas of the narrative. For example, paragraph 37 should explain why shocks are prioritised above climate stresses that might make prolonged economic stagnation likely. Surely both should be considered as factors affecting decisions on finance?

Paragraph 11: We are not convinced that the argument generally used to explain the use of GNI per capita is that it is the most effective criterion for development finance. A more frequent argument is that it is the most available (for data) and/or that it is readily applicable within most allocation models. The critique of GNI also goes beyond its failure to account for shocks. The report should consider the conclusions of the Dasgupta Review on this issue.

Paragraph 14: A number of Multilateral Development Banks (MDBs) do take vulnerability into account, with some using MVIs and others a mix of MVIs and other indicators. It would be helpful to have specific examples of where organisations hold to the position put forward in this paragraph. One approach used by International Financial Institutions (IFIs) is to distinguish between states based on population size. For example the International Monetary Fund (IMF) has different approaches for micro-states (less than 200,000 people). Has the High-Level Panel considered varying applications of the MVI based on different population levels?

Paragraph 15: The Technical Advisory Group is a co-owned process of both donors and SIDS. The group is therefore a shared group and the reference should be corrected.

Paragraph 15: We would be grateful for clarification of the challenges with the IDA-SIE. What evidence is there that the use of GNI is the main issue with consistency in the SIE? The mix of criteria within the SIE makes GNI only one of several considerations, and we believe that the major challenge to consistency would seem to be the tightly defined geographic focus, which prevents application to other vulnerable small states. Could the High-Level Panel provide further clarification on the arguments in the paragraph, and why geographic consistency is not addressed?

Paragraph 22v: We suggest that the High Level Panel explains what `heavily correlated' means in practice. How have indicators been assessed in terms of degree of correlation?

Paragraphs 31-33: These elements of the interim report cause some concern and raise questions over the ability of an MVI to facilitate judgements around exiting concessional finance. We are concerned that the approach taken in these paragraphs would potentially limit the role of the MVI. We would appreciate greater clarification of the assumption that capturing non-structural resilience would only entail capturing post-shock factors in a very narrow way.

Paragraph 31: Why is the High-Level Panel only considering the need for positive criteria for finance and hence focusing on structural resilience, rather than also considering negative criteria that would better enable the use of an MVI to aid graduation decisions? If the resilience measures do not facilitate the establishment of graduation points, then how will the Panel mitigate against the risks of the stated purpose of the MVI being undermined?

Paragraph 32: This section sets out why measures of non-structural resilience, such as state capacity, are relevant and useful in determining the ability of States to manage shocks. Whether state capacity is structural/non-structural is not a relevant point in this regard – arguably it is structural. Does the logic of this not imply that these factors should be included within the indicators?

Paragraph 33: It is unclear why such factors are excluded, and why the MVI should be impacted by the use of these factors by IFIs within other tools/mechanisms.

As any set of indicators adopted by an MVI are likely to have overlaps and cross-overs with other processes. This is usually not problematic, which is why we find the comments on the World Bank's PBA to be confusing and unconvincing. In particularly we would appreciate a fuller explanation of the suggestion that: *'as quality of policies* *are already reflected in current PBA framework practices the MVI, while acknowledging the critical part of policy performance for overall resilience, does not include non-structural factors of resilience.'*

We believe that the greater priority is to provide a coherent view of both vulnerability and resilience, and as a result the MVI should focus on capturing those factors that will illustrate the degree to which states can `manage' their vulnerability. This suggests that state capacity and policy frameworks would need to be considered. The final sentences of paragraph 33 argue that the functional usefulness of the MVI will be compromised if it is not capturing these practical aspects of vulnerability and using them to inform decisions – which seems contradictory.

Paragraph 50: It is unclear to us whether this is arguing that a State with greater dependence on service industries is less prone to vulnerability and/or shocks than one dependent on primary sectors. We suggest further explanation.

Paragraph 50: The overall balance of this paragraph seems reasonable in terms of risks of economic shocks. However, the rationale is stronger for including these areas as measures of vulnerability rather than as measures of resilience. These factors are relatively weak in setting out the ability of States to manage vulnerability and shocks, but do point to key areas of risk and vulnerability. While the point about debt overhangs is well taken, over the medium-term debt varies significantly and can change fairly quickly through special IFI mechanisms. Therefore, it is important to have a clearer rationale for why debt levels are seen as a better guide than credit ratings (which includes aspects of debt management).

Paragraph 50-52: It is unclear why state capability is not viewed as a key factor to resilience, given the importance of this in assessing ability to manage vulnerability.

While the United Kingdom welcomes the progress made with this interim report, we find certain elements lacking specificity and clarity. We suggest a stronger narrative relating to the approach and the understanding of resilience, particularly in relation to the whole funding allocation cycle and graduation points/markers.

We also suggest that the functionality of the MVI for funding be set out more clearly. Currently, it is not clear that the interim report has captured the supplier perspective (funders) in terms of how allocation models need to work in practice to inform predictable flows of support to partners, while also allowing for adjustments to reflect genuine changes in context. We suggest that the High-Level Panel engage with senior figures in bilateral and multilateral agencies to seek feedback on how an MVI can function practically within financing models.

Finally, we would like to commend the High-Level Panel for the tremendous amount of work that they have put into this interim report. We attach great importance to this process and its outcomes, and the United Kingdom looks forward to future opportunities to input on the development of the MVI.