

## **Putting the Glasgow Climate Pact into Action: Using a Multidimensional Vulnerability Index (MVI) in development and climate finance**

SUMMARY REPORT – MAY 2023

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### **EXECUTIVE SUMMARY**

On Wednesday 3<sup>rd</sup> May 2023, ODI's Resilient and Sustainable Islands Initiative (RESI) hosted a roundtable '*Putting the Glasgow Climate Pact into Action: Using a Multidimensional Vulnerability Index (MVI) in development and climate finance*', aimed at providing a forum for candid discussion on the development of an MVI.<sup>1</sup> Stakeholders were asked to comment on the technical robustness of the index and steps needed to build requisite political support for the MVI to be adopted and, ultimately, implemented.<sup>2</sup>

The roundtable included a technical discussion on how the MVI has been developed under the Terms of Reference (ToRs) laid down by the UN General Assembly (UNGA); and a policy discussion reflecting on challenges of implementation and where application of an MVI could have most traction.

Stakeholders agreed that the work undertaken so far by the High-Level Panel (HLP) demonstrates the importance of agreeing an MVI, but that it remains a work in progress. Designing any MVI necessarily involves technical choices that have consequences. It is tricky to capture the heterogeneity of Small Island Developing States (SIDS) based on a single metric. Suggestions were put forward as to how the index could be improved technically—inevitably with implications for its political acceptability.

The MVI must be fit for purpose, with robust indicators of structural vulnerability that cannot easily be discredited. The HLP may need to make subjective calls about inclusion of indicators and sources of data. Unless it passes 'the smell test', the MVI will be subjected to sustained criticism, emboldening its opponents and undermining its chances of being adopted.

Its value must be clearly presented in terms of SIDS' special case for development: their development challenges are diverse and multifaceted and the MVI is a tool to help meaningfully address their vulnerability in a context where no single measure can apply.

The immediate priority is to ensure that the MVI is fit and ready to be adopted by the UNGA at some point. Further work can then be carried out to test and refine the indicators and index. Filling data gaps will be key, and work is needed to build institutional capacity to support data collection in SIDS.

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<sup>1</sup> RESI is supported by the UK Foreign, Commonwealth and Development Office (FCDO).

<sup>2</sup> Participants included representatives of the UN high-level panel (HLP); various UN agencies; other multilateral organisations, international financial institutions (IFIs) and multilateral development banks (MDBs), such as the World Bank, International Monetary Fund (IMF) and Commonwealth Secretariat; donor governments; the Alliance of Small Island States (AOSIS); regional organisations; and SIDS governments.

## I. What is vulnerability and why does it matter for SIDS?

1. SIDS are amongst the most vulnerable globally to climate change and other external shocks. Their size, location and other special characteristics make development, debt and disasters considerably more expensive—relatively speaking—than for other states.
2. Since the 1990s, SIDS have sought special and differential treatment (SDT) based on their unique vulnerabilities, with mixed success. The category of ‘small vulnerable economies’ (SVEs) was created in international trade, but had limited legal purchase. Overall, SIDS have not enjoyed much in the way of SDT compared to, for example, the least-developed countries (LDCs). There is, however, increasing acceptance amongst International Financial Institutions (IFIs) and other donors that traditional measures of need (i.e those based on GNI per capita) are not appropriate on their own, and some have even created a special category for SIDS or small states in recognition of this.
3. UN adoption of an MVI would present an opportunity for SIDS’ SDT to be properly considered. The stakes are high and the case for an MVI is compelling, as climate change risks, especially, intensify with potentially devastating consequences for SIDS. But the broader political question remains as to how an MVI can be used to unlock resources to help SIDS build greater resilience.

## II. Principles and rules of the MVI

4. According [to the UN](#), the MVI is a vital tool to ‘help small island nations gain access to the concessional financing that they need to survive the climate catastrophe, to improve their long-term national planning, service their debts, and sign up to insurance and compensation schemes that may be their last hope when the waters rise’.
5. The development of the [MVI](#) is guided by the Terms of Reference for the HLP and the Secretary-General’s Report on the potential development, finalization, and use of a Multidimensional Vulnerability Index (MVI) for SIDS. It is structured around six guiding principles and two pillars, which are:<sup>3</sup>
  - **Structural vulnerability:** the risk of a country’s sustainable development being hindered by recurrent adverse exogenous shocks and stressors.
  - **Structural resilience:** the inherent characteristics or inherited capacity of countries to withstand, absorb, recover from or minimize the adverse effects of shocks or stressors.

The two pillars are combined using a ‘quadratic mean’.<sup>4</sup>

6. Both vulnerability *and* resilience are conceived of as structural characteristics. Resilience refers to structural factors that ‘reduce loss’. Neither should include policy dimensions/indicators—i.e. vulnerabilities or resilience factors that can easily be shifted through policy (.e.g changes of political direction).
7. The MVI is being developed in a way that could be applied to all developing countries, and therefore the indicators and results need to make sense for a range of vulnerabilities and contexts.
8. All indicators included are based on publicly available data for all UN member states (no estimates). Wherever possible, there is an expressed preference for UN data. This means that some potentially desirable indicators have been left out.

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<sup>3</sup> The six guiding principles are: 1. Multidimensionality; 2. Universality; 3. Exogeneity; 4. Availability; 5. Readability and 6. Include measures of ‘resilience’ to balance against vulnerabilities, thus eliminating the need for perpetual support. See <https://www.un.org/ohrrls/mvi/how-should-mvi-look.html>

<sup>4</sup> The quadratic mean weighs the different kinds of exposures faced by different states. As net vulnerability cannot be the sum of vulnerability minus resilience ( $V - R = NV$ ) (as some states would be negatively vulnerable) the equation deployed is total vulnerability equals vulnerability plus lack of structural resilience ( $TV = V + LSR$ ).

9. The MVI is not intended to supplant GNI per capita in the allocation of finance, but to work alongside this measure. The index will provide a fuller picture of where development assistance is needed. It could be used to improve allocation of finance that is already available to SIDS.

### **III. Where can consensus be found?**

#### *Components of the MVI*

10. In general, a framework that balances structural vulnerability and structural resilience is seen to be clear from a conceptual point of view.
11. There was wide support for MVI being a 'living' index, with a review process and option to include additional data/indicators later on (e.g. levels of debt).
12. The Vulnerability-Resilience Country Profiles (VRCs) which are developed by UN member states themselves, offer more granular detail on country context and pathways for tackling specific vulnerabilities.<sup>5</sup>

#### *How the MVI can be used*

13. There is wide appreciation of the principle that the GNI per capita is insufficient and ignores the 'fundamental handicaps' faced by one subset of states. A fairer way of delivering resources to SIDS is needed that avoids workarounds. Some MDBs are already thinking about how the MVI could be integrated into existing financing criteria.
14. One stakeholder noted the importance of 'index stability', particularly when it comes to allocating resources over the medium term and supporting country programming. A major reason why many indices—including, for example, fragility indices—cannot always be used for resource allocation is that they are too volatile, so the more stable the better.

### **IV. What issues, tensions and sensitivities remain to be resolved?**

#### *Clarity of terminology: resilience and vulnerability*

15. Questions were raised about the formulation of vulnerability and resilience in the MVI and whether both can truly be said to be structural in nature. Resilience and vulnerability are often conceptualised as processes that are constructed over time and shaped by policy and capacity.
16. Conceptualising resilience as structural carries implications for how we conceive of development, and the role of ODA. If resilience is structural—and therefore unchanging—then how can external assistance build resilience? As it stands, the MVI is missing some of the components that generate resilience (notably fiscal space and state capacity).
17. Similarly, vulnerability in SIDS is largely produced by small size, remoteness, insularity and acute exposure to exogenous shocks, so cannot be fully transcended. But ODA is predicated on the notion that development finance leads to developmental gains—and, ultimately, graduation—which does not sit easily with the idea of structural vulnerability.
18. Participants noted that vulnerability and resilience are not entirely distinct and can be influenced by changes in the other. Vulnerability is about susceptibility to—while resilience is about the ability to withstand and recover from—shocks. To really grasp patterns of each, we need to know how the process itself unfolds (i.e. what is the probability of an extreme event; and should it occur, the extent of susceptibility, and therefore the

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<sup>5</sup> There was some concern that given that VRCs are country-led, they could create additional process and capacity requirements for SIDS. The UN Secretariat will initially provide assistance to those members that require it.

magnitude of the impact; and, on that basis, what is required to manage the post-shock recovery and its duration?).

#### *Selection of indicators*

19. The division of vulnerability and resilience into economic, social and environmental indicators is well accepted, but questions were raised about whether this captures the political and institutional dimensions or accords appropriate weight to each.
20. Some indicators could represent both vulnerability and resilience depending on context. For example, housing stock, food production and trade openness: in some SIDS, the quality of housing and the extent of either food security or trade openness might be a source of resilience (or not a vulnerability) but for others all three might provoke serious vulnerability. This could be calibrated by an 'expected annual loss for disasters'.
21. Three indicators that appear particularly important for SIDS but haven't been included in the MVI are debt (see below), credit worthiness (which is important for finance providers), and money for recovery (government revenues for rapid redeployment and/or household savings).
22. Debt is not included because SIDS' debt is not all official and therefore difficult to measure (it fails the tests of availability, simplicity and transparency). But debt is a critical issue for SIDS. First, because for most SIDS, debt is not the result of poor governance, but rather external shocks - both fast- and slow-moving. Second, accumulated debt stocks are often a reflection of historically constituted vulnerability, and deserve retroactive action. Third, debt directly effects the ability of SIDS to access more finance and invest in resilience.

#### *Creating an index*

23. The use of quadratic mean averages could be problematic because, where a country has multiple sources of vulnerability, these are conflated and scored similarly to those countries that just have one source of vulnerability. For SIDS, vulnerability is best understood as a 'multiple shock syndrome' which manifests itself specifically because of their small size. Moreover, combining vulnerability and resilience via the quadratic mean implies that no amount of resilience-building can cancel out vulnerability. One suggestion was that the two should be multiplied instead.

#### *Interpreting the MVI results: ensuring it passes 'the smell test'*

24. One of the primary benefits of the MVI will be its ability to crystallise a common understanding and shared consensus on the drivers of vulnerability and resilience. All indicators and the results should make intuitive sense.
25. Stakeholders expressed concerns that the MVI treats all sources of vulnerability equally, but they are not the same, in either type or extent. For many SIDS, extreme weather events can cost multiples of a single year's GDP; but currently the MVI ranks some countries that are not, at first glance or intuitively, acutely vulnerable—or exposed to multiple sources of vulnerability—higher than many of those that evidently are.
26. This derives partly from some of the choices made about indicators—e.g. refugee inflows—which are given similar weight to truly destructive economic or environmental events that can decimate the entire economy of a small island overnight.
27. The HLP may need to make subjective calls about inclusion of indicators and sources of data. Unless it passes 'the smell test', it will be subjected to sustained criticism, emboldening its opponents and undermining its chances of being adopted.
28. As far as possible, the quantitative data need to match up to 'intuitive qualitative realities'. One of the problems for SIDS is that data availability is always patchier than for larger states. This is a problem if indicators that paint a truer picture of their vulnerability are eschewed in favour of those that do not.

## V. Charting a way forward

### *The urgency and opportunity for an MVI*

29. It is not easy to reform a system that has been in operation for five decades. But, as one participant put it, ‘we cannot miss this train’. There is an opportunity to make substantive change if the MVI is adopted, and it is unlikely another chance will present itself in the near future. This is our best chance.
30. Climate change is accelerating and posing stark questions of whether the international community can unlock adequate resources for SIDS. The MVI is not an end in itself, but the beginning of a shift toward constructing ‘a more equitable financing architecture’.
31. Small islands are ‘the penny stocks of the corporate world’—they are volatile, the data is often confounding, and the creation of indices inevitably leaves out key parameters because they do not exist. However, in banking and stockbroking, alternative metrics and risk parameters exist to overcome the limitations of conventional measurements. SIDS require analogous metrics so their distinctiveness can be recognised, and finance made available.

### *Overcoming scepticism*

32. The MVI must be fit for purpose, with robust, credible indicators of structural vulnerability that cannot easily be discredited. Success may come in greater simplicity.
33. Its value must be clearly presented in terms of SIDS’ special case for development: their development challenges are diverse and multifaceted and the MVI is a tool to help donors and IFIs to understand the kind of support that is needed to meaningfully address vulnerability in a context where no single measure can apply.
34. MVI supporters should avoid being drawn into conversations around winners and losers from the MVI. Consensus can be built around the idea that (a) a vulnerability index is complementary to existing measures for defining development needs; and (b) it offers a more nuanced and realistic account of development realities from the perspective of some of the smallest and most vulnerable states on earth. Protecting the interests of those states with the least capacity or responsibility for their heightened exposure to external shocks, should be an important tenet of the UN.

### *Next steps for the HLP and UN*

35. The immediate priority is to ensure that the MVI is fit and ready to be adopted by the UNGA at some point. More time can be taken to test and refine the indicators and index. The MVI doesn’t have to solve every problem for SIDS and other vulnerable countries today, just show that some benefits can be realised soon.
36. An agenda should be clearly set out for what still needs to be done, and what the appropriate sequencing of initiatives might be for the MVI to secure consensus.
37. Filling data gaps will be key, especially for those indicators that better capture SIDS’ vulnerability but cannot yet be included. Work is needed to build institutional capacity to support data collection, which could be led by a new SIDS Centre of Excellence.