

United States Feedback on MVI Panel Interim Report

The United States is committed to improving policies and programs to address the particular needs of SIDS, including as it relates to access to concessional finance, and recognizes their unique challenges. We also recognize their vulnerability to climate change. We are pleased to receive the interim report of the High Level Panel on the Development of a Multidimensional Vulnerability Index (MVI) for Small Island Developing States and appreciate the opportunity to provide initial feedback. The report provides a useful overview of the work and discussions of the panel to date, but significant issues such as the selection of specific indicators and weightings remain under discussion by the panel. Given the interim nature of the report and the outstanding decisions to be made by the panel, our feedback below should be considered initial feedback that will be subject to revision upon receipt of the final report.

The United States supports the overall structure of the proposal for a MVI for SIDS, as outlined in the interim report, that considers both the vulnerability and resilience of the environmental, economic, and social domains. We agree with the finding in paragraph 30 that a MVI for SIDS should focus on exogenous vulnerabilities and factors that are outside the immediate control of a government.

The draft report repeatedly uses the phrase "will" to describe the potential benefits of an MVI. At this stage, it is not clear that the MVI will be able to address the issues it is intended to address, nor is it clear that it will be adopted and utilized widely. More appropriate language should be used, such as "would" or "may." The draft report should also robustly discuss the limitations of an MVI, including from a methodological perspective, and instances where its implementation may be challenging, inappropriate, or ineffective.

We note that the selection of specific indicators is still under discussion. We believe that the effectiveness and application of a MVI for SIDS is dependent on strong, credible, objective, and evidence-based indicators. It is equally important that the Panel focus on indicators for which there is widely available and credible data so that donors can compare vulnerabilities across developing countries and SIDS. We look forward to a detailed discussion of indicator selection, including alternatives considered and robustness of agreement across multiple indicators in the final report, recognizing the importance of strong indicator coherence, while taking into account different types of vulnerability.

We also note an over emphasis on application of a MVI for concessional finance. Concessional finance is an important tool that can help countries in their economic development. However, due to the limited amount of concessional finance, we urge the Panel to include private funding, private-sector investment, climate finance, and innovative funding mechanisms when considering possible uses of the MVI for SIDS. Further, while concessional finance can help respond to external shocks, it must be accompanied by policies, frameworks, and institutions that support the conditions and enabling environment required for long-term sustainable economic growth and development and incentivizing investment. This is noted in a few paragraphs in the report, but we believe that it should be emphasized more coherently and robustly. We also note that although the report focuses largely on public international finance, it is equally possible that sources of private finance use similar criteria and could well incorporate a MVI into their assessments of risk and return.

The decision to establish a High Level Panel on a MVI for SIDS was born out of discussions and negotiations related to challenges and opportunities to advance the implementation and achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals. Generally speaking, however, the interim report focuses on the immediate and short-term impacts of exogenous shocks and makes few references to their debilitating effect on long-term growth, stability, and achievement of the Sustainable Development Goals. However, many structural vulnerabilities unique to SIDS, such as diseconomies of scale, geographic isolation, and frequent environmental/climate-related events, have long-term negative impacts on a country's ability to achieve the SDGs. We would like to see greater explication of the relationship between addressing shocks, particularly through building resilience and how a MVI could have an impact on long-term sustainable development and growth.

The draft report should clearly reference the fact that the lending practices of international financial institutions, including the MDBs and others, are under the purview of those organizations and their respective governing bodies. We note that the MVI should not be used as a venue to classify or assign countries into "developed" or "developing" categories.

We have the following specific comments on the interim report. In some instances, while we have expressed our general support for the concept, we note in our specific areas in which the final report should be strengthened to overcome apparent contradictions or weak statements.

Para 6: The statement below indirectly suggests that middle-income country (MIC) SIDS do not have access to concessional finance. However, they do have access to concessional finance by definition of being a MIC. We understand that vulnerability has become an increasing concern due to the climate crisis coupled with the adverse effects from the COVID-19 pandemic. However, LDCs, especially LDC SIDS, should be prioritized for access to the most concessional finance. According to a recent [OECD analysis](#), between 2013-2020, UMIC (upper middle-income country) SIDS received the lion's share of Official Development Finance (ODF) to SIDS at 48% - *combined LMIC (lower middle-income country) and UMIC comes to 67% of all ODF to SIDS* - while LDCs only received 25%. *“Middle-income and Upper-middle-income classified economies, with high levels of vulnerability – including many SIDS – have argued that GNI per capita, the measure currently being used to determine access to development support, including concessional financial resources, inadequately takes into consideration the scale, frequency and or impact of adverse external shocks that these countries regularly encounter.”*

Para 7: GNP should be GNI

Footnote 9 and para 10: Para 10 states that work should be “guided by the principles of multidimensionality, universality, exogeneity, availability, and readability.” But para 82 in A/76/211 states (foot note 9): “In addition, corresponding measures of resilience should be employed to determine “net vulnerability” over time, such that measures of vulnerabilities are balanced by resilience, thus eliminating the need for perpetual support.” The reference should just be para 81 or the text should include a statement made about “net vulnerability”.

Para 11: We already know that LDC SIDS are not receiving the majority of ODF going to SIDS and if we were to include HICs into the mix, the proportion of ODF going to LDC SIDS will decrease even more because concessional finance is finite.

Para 11: Please elaborate on what the following sentence is trying to convey as it is a bit confusing: “In order to withstand adverse external shocks, experiences from SIDS have demonstrated most developing countries need to build their resilience, as GNI is not a measure of resilience.”

Paras 12-13: We are concerned that these paragraphs may raise unrealistic expectations. Concessional finance is finite and has grown very little. To imply

that a vulnerability indicator or index would result in larger fulfillment of PDNAs with concessional finance could be very misleading.

Para 13: It is unclear what is meant by “targeted assistance.” Would it be “targeted” by country, or specifically to address vulnerabilities by building resilience? We note that humanitarian assistance, which is fully concessional, does target by country and does address the outcomes of specific vulnerabilities including, increasingly, attention to building resilience.

Para 15: The OECD DAC didn’t implement a graduate but pause policy. Rather, it was cognizant of the ramifications caused by the COVID-19 pandemic and DAC members agreed to a [one-year delay](#) of updating the list of eligible countries to receive ODA. Please remove: “... such as the 2020 “graduate but pause” policy...”

Para 15: The Technical Advisory Group is not a formal or informal body of the OECD DAC. It was convened under the aegis of the UK, Fiji, and Belize Co-Chairs of the Round Tables on SIDS Access to Finance for a Resilient Post-COVID19 Recovery.

Para 15: “Similarly, the World Bank’s Small Island Economies Exception has been designed to enable access to **concessional resources** to support recovery and resilience building, including by some middle and **high-income SIDS.**” There are 42 Small state members of the [SFF](#) but according to the 2019 report only 24 of them were eligible for IDA or Blend. It will be important to provide the evidence that HIC SIDS under this forum actually have access to concessional finance. Based on the reports we were able to locate, it doesn’t look as though this is a correct statement.

Para 15: The report presents no evidence that there is a lack of consistency or predictability of access to finance, nor that there is a causal relationship to the use of GNI per capita. We recommend deleting the sentence “Despite these positive developments, challenges in consistency and predictability of access (due mainly to the continued reliance on GNI per capita) remains,” unless additional and compelling evidence is provided.

Para 16: Delete “(noting that SDG 14 has historically attracted a relatively small proportion of SDG funding).” There is no commitment that any SDG be funded proportional to other SDGs, nor is there a fixed amount identifiable as “SDG funding.”

Para 17: In terms of the structure of the report, discussion of use by the United Nations Development System (UNDS) appears to be introduced prematurely in this paragraph. We suggest that this paragraph be confined to the current situation with respect to UNDS approaches to eligibility and allocation of its resources. The discussion of potential use should be introduced in the later section of the report that discusses potential use.

Para 32: This paragraph seems to make the case for the opposite of what is presented in Paragraphs 30 and 31: that a country is less vulnerable when there is non-structural resilience that allows a country to adapt and be less vulnerable than a country that hasn't done this but has the same structural vulnerabilities. If that is the case, then non-structural resilience should also be an important factor to include in the MVI.

Para 34: We suggest broadening the rationale, presented in the following sentence, where access to finance is one potential use of the MVI. *“This focus on structural vulnerability and resilience represents the general view that only structural factors can be the basis for improved access to development support, including concessional finance.”*

Para 35: In the final report, we request that the reference be provided for the following statement: “They also correspond to the three categories of shock...”.

Para 37: We believe that it is important for this paragraph to reflect the interrelated nature of economic vulnerability and environmental vulnerability in the following sentence by adding a phrase similar to our suggestion: “In other words, it is more physical than economic, and has a longer time horizon, **but can have substantial impacts on the economic status of a SIDS.**”

Para 39: There appear to be some contradictory statements in this paragraph. Some clarity on this would be helpful to better understand the statements being made. First sentence: “A country’s resilience depends not only on current policies, but also on structural factors, i.e. structural resilience.” Last sentence: “In essence, the risk of getting trapped results from the conjunction of structural economic vulnerability and low structural resilience.” The first sentence highlights that resilience depends on non-structural and structural factors while the last sentence says that it is just the structural factors. This seems to be the same contradiction as between paragraphs 32 and paragraphs 30-31.

Para 44: This paragraph seems to contradict Paragraph 43 as it relates to level one. We can understand that level two can help to illuminate cooperation and assistance programming, but should not be construed as providing the objectivity and comparability needed in level one.

Para 47, ii: Please elaborate on what is meant by. “Selectors proxying the extent, intensity and future recurrence of those shocks,” as this is not clear.

Para 48, iii: We note that the example provided reflects the opposite of what it is trying to convey, even though both are true. We suggest the following edit: “*An example of this is ~~increased decreased~~ frequency ~~and intensity~~ of rainfall and temperature shocks. Rainfall and temperature shocks caused by climate change can have a severe impact on economic activity, access to water, food insecurity and conflicts caused by resource scarcity.*”

Para 49: We note that measurement of social vulnerability can be extremely difficult, and demonstrating causation as opposed to correlation may also be daunting. How would one be able to demonstrate causation to say the effects that epidemics have on a country’s economy for example? We look forward to citations of literature with robust evidence for the indicators proposed with respect to social vulnerability.

Para 56: Further guidance will be needed for the development of national profiles to ensure quality and usefulness. This is especially important if the thinking is that “The profiles should provide greater characterization of national vulnerability and articulate those **areas of resilience requiring investment, cooperation and support.**”

Para 57: We caution that advocacy to strengthen capacity for the express purpose of collecting data on new indicators unless absolutely necessary rather than building capacity to collect data on indicators already measured and used even beyond the MVI are unlikely to be positively received. We would like to avoid language that encourages a country to focus its data collection efforts mainly for the MVI. Instead, we believe focusing on improving data collection in ways that are useful for the country itself as well as the global community will be met with greater receptivity.

Para 61: We think that a broadside against the GNI per capita measure may be ill-advised and misplaced. We have concerns with the following statements: “*For example, although SIDS are among the most vulnerable in the world, many of them do not have access to concessional financing or adequate debt relief mechanisms.*”

It also does not directly allow for resources to be targeted toward the issues arising from structural vulnerability, which hinders development.” Although SIDS may be among the most vulnerable as it relates to the climate/environment domain, there are evidence-based cases to be made that other categories of countries are more vulnerable in terms of economic or social domains. GNI is actually a relatively good measure of a country’s ability to borrow sustainably. We can agree that it is a relatively less effective measure of countries’ ability and willingness to generate the revenue needed and direct it to servicing debt. The analysis from the OECD demonstrates that almost all eligible SIDS are receiving some form of concessional finance, currently based on GNI per capita.

Para 64: Graduation from LDC status appears to be treated as a negative rather than an indication of development progress. The objective in application of a MVI should not be to stall, drag out, or avoid graduation from a particular status if the indicators show a country’s substantial progress, whether toward greater resilience or sustainable development.

Para 65: This paragraph contains several inaccuracies. One of the criteria for funds to be considered ODA is that they be concessional in character, so ODA is a subset of concessional finance, not separate from concessional finance. In regard to allocation, the allocation of ODA is not centralized; each bilateral provider of ODA makes its own allocations. The suggestion in reference to international justice and equality of opportunity appears to be at odds with the consideration of structural vulnerabilities, which would argue for allocation being based on vulnerabilities that are long-term and difficult to overcome, as opposed to whichever country is best able to capitalize on opportunity. The evidence on effectiveness over the past 30 years tells us that country commitment to development yields the highest effectiveness, not just at the margin. We discourage selectivity in citing the literature on development cooperation effectiveness.

Para 66: We suggest that the language here be drafted in more conditional terms in line with the report’s interim status. The directive nature of the statements appears inconsistent with the section heading of *possible* uses. We also have reservations as to directing the UNDS to advocate with other sources of finance for certain allocations, given their status as neutral actors.

Para 69: The U.S. is concerned that the use of weighting of indicators will require a sustained high level of expertise in the governance and custodial management of

the MVI, and could potentially diminish confidence in the index. It is a complex undertaking that must be perpetually re-assessed as endogenous conditions change.

Para 73: This paragraph appears to go beyond the High Level Panel's Terms of Reference.