



HIGH-LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

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Coming Together to Help Small Island Developing States to Get on a Path to Realize the SDGs

Friday, 9 July 2021, 9:00 AM – 11:00 AM

Secretariat Background Note

Executive Summary

COVID-19 has once again exposed the vulnerabilities of SIDS, and as a result, has re-ignited their long-standing call for the use of vulnerability indices to facilitate their access to concessional resources. The economic fall-out suffered by these countries in particular, has shown the urgent need for measures to better reflect the challenges faced by SIDS and enable the international community to find viable solutions to address these challenges. GNI per capita, which excludes the majority of SIDS from concessional development financing, is still considered by many donors and financial institutions as the most effective criterion for making eligibility decisions and financing allocations. The persistent use of GNI per capita as the sole means of determining access to concessional or grant resources captures neither who is most affected, nor who is least able to respond to exogenous shocks. New consensus needs to be built about what constitutes vulnerability, in order to encompass the multiplicity of inter-linking challenges which every state now has to address.

The Challenge of COVID-19 for SIDS

SIDS challenges and vulnerabilities have been exacerbated by the impact of the COVID 19 pandemic. This highlighted the urgent need for decisive actions for sustainable and climate resilient recovery. Only a handful of bilateral and multilateral institutions have supported SIDS in mitigating the impact of the pandemic, with only 4% of available COVID-19 funding for developing countries being spent on SIDS. The majority have been excluded from concessional financing due to their middle-income status.



Sustainable and resilient recovery from the COVID-19 pandemic that promotes the economic, social and environmental dimensions of sustainable development: building an inclusive and effective path for the achievement of the 2030 Agenda in the context of the decade of action and delivery for sustainable development



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The pandemic has however served to re-energize the longstanding debate over the use of vulnerability indices in determining access to concessional financing. This is not only because it exacerbated existing vulnerabilities and inequalities in SIDS, but also because it has posed a considerable challenge to governments, already burdened by high levels of public debt and debt service payments, to provide support to struggling businesses and to the unemployed. Notwithstanding, SIDS continue to be excluded from international financial institutions and multilateral development banks' concessional financing initiatives, due to the continuing use of GNI per capita for making eligibility decisions and financing allocations. As such, this indicator (along with creditworthiness) persists as the main part of the criteria for determining access and allocation.

In the face of more than three decades of advocacy however, there is growing recognition that GNI per capita is not by itself an adequate measure of development for SIDS, who due to their small size, are disproportionately vulnerable to shocks - even with higher income levels. Several international financial institutions, and major donors have now set up *inter alia* various special funds; exceptions to address small states' specific needs; or formally/informally consider some vulnerability metric to inform allocations. Nevertheless, there is still a lack of consensus on how to characterize and by extension, address small states vulnerabilities. New consensus needs to be built about what constitutes vulnerability, in order to encompass the multiplicity of inter-linking challenges which every state now has to address, so that eligibility for resources such as concessional finance is no longer solely dependent on narrow measures such as GNI per capita.

Toward a Vulnerability Measure for SIDS

Over the past two decades, the international community has attempted to develop several measures of vulnerability that are relevant for SIDS. A variety of metrics exist e.g. the EVI developed by the Committee for Development Policy, the HDI developed by UNDP, metrics designed to capture climate and disaster risk (CRI, WRI). These metrics have all been criticized *inter alia* for their choice of indicators and data availability, the rankings of vulnerability for Small States varying depending on the metric used and inconsistencies across metrics.



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In more recent times, and in particular in direct response to a request in 2020 by Belize in their capacity as Chair of the Alliance of Small Island States (AOSIS) to the UN Secretary General, on the need to advance work on an MVI, several actors and stakeholders, both within and outside the UN system have commenced work on the development of an Multi-Dimensional Vulnerability Index. In addition, the latest UN General Assembly mandate, in its resolution 75/215, on the potential development, use, finalization and coordination of work within the UN system on a multidimensional vulnerability index (MVI) of SIDS is an important step in the right direction.

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 such as 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. They 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. Therefore, the fight against vulnerability must be at the heart of international policy aimed at supporting these countries.

The variety of sources of funds with their varying eligibilities or terms or the informal use of vulnerability metrics in allocation decisions present a complex web of eligibilities. It presents challenges to keep track of available opportunities, access windows and to design coherent financing strategies for SIDS who have capacity constraints. 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.



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Proposed guiding questions

- What type of resources are currently available to SIDS to enable them to recover from the COVID pandemic? Can all SIDS benefit from these resources?
- What principles or key elements should underpin the development of a multidimensional vulnerability measure for SIDS?
- What kinds of vulnerabilities should be reflected in a framework? Should resilience also be reflected?
- What can a multi-dimensional measure be used for?
- How can a multidimensional vulnerability index be used by international financial institutions and the UN system?



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