Internal Resilience Capacity and the Recovery Duration Adjuster

FACT SHEET

Quick Overview

The Caribbean Development Bank (CDB) is proposing three specific tools that better capture the vulnerability and resilience conditions in Small Island Developing States (SIDS) and developing countries. These tools , which utilise a dynamic and forward-looking framework, focus on:

- measuring Internal Resilience Capacity (IRC) which estimates a country's ability to recover from an exogenous shock
- the duration of recovery for developing countries after an exogenous shock or multiple shocks compared which is much longer than developed countries

The CDB framework comprises three tools including:

i. the IRC metric
ii. Recovery Duration Adjuster (RDA), and
iii. Vulnerability and Resilience Assessment Tool.

The Internal Resilience Capacity Metric

What it is

- The IRC is CDB's propositional metric that can complement or completely replace Gross National Income (GNI) as the criterion for eligibility for concessional finance at a global level.

What it does

- The IRC seeks to capture the reality that exogenous shocks in SIDS can lead to deep structural scars that can persist long after the shock occurred and can lead to longer recovery periods for SIDS and developing countries when compared with developed countries. These longer recovery periods also have implications for financing needs and the long-term development trajectory of the country.

How it works

- The IRC framework adopts a holistic approach to development and is designed to include the three dimensions of sustainable development; Economic, Social and Environmental. It captures:

  i. **pre-shock conditions** in a country – the structural vulnerability and resilience[2] conditions that constrain growth and development
  ii. **the shock event** – including the magnitude, impact and persistence of various types of shocks
  iii. **the post shock conditions** – factors such as access to adequate and affordable finance that influence resilience capacity and the duration of recovery.

Benefits of the IRC Framework

- It has the potential to be a more equitable criterion that expands access to concessional finance for middle to high income but low resilience SIDS and developing countries.
- It is displayed in an easy-to-understand dashboard that illustrates the resilience capacity of countries in one of three categories - Low, Medium and High.
- It is aligned with the critical United Nations principles of multidimensionality, universality and resilience that must guide metrics that can potentially influence access to concessional finance.
- It can be applied universally and in a customizable manner to SIDS in the Caribbean, Pacific, Atlantic, and Indian Oceans and in a customizable manner to developing countries facing a variety of external shocks.
- It is dynamic and can be customized to the specific circumstances of a country or region when an event takes place.
- It facilitates real time analysis of the evolving state of vulnerability and resilience, is dynamic, adaptive and nimble to provide a perspective on current or prospective shocks including climate, earthquake, drought, macroeconomic, or health.
- It is forward looking and so enables policy makers to make better decisions based on probable and possible scenarios

[2] The term resilience encompasses many dimensions— social, institutional, productive capacity, environmental, and financial.

The Recovery Duration Adjuster

What it is

- The RDA is an application of the IRC and provides an alternative approach to adjusting GNI for the effects of the exogenous shock.
- The concept of duration to recovery highlights the plight of countries facing multiple shocks within a period of recovery, for example, successive shocks of the global financial crisis, natural hazards, and the pandemic.

What it does

- It proposes to address the deficiencies of determining access to finance on pre-shock GNI, which is particularly onerous and inequitable when the magnitude of the crisis reduces GNI significantly and for long durations.

How it works

- We calculate the loss associated with the shock event and adjust GNI to take account of the fact that it can take developing countries much longer (between 5 to 10 years) to recover from an exogenous shock, compared to developed countries.
- It allows a measure of welfare/GNI loss relative to pre-shock levels that can be used to tailor the need for concessional finance.

The Benefits?

- The RDA proposes a ***resilience-adjusted per capita income measure*** that is better suited for and more equitable in allocating much-needed financial resources for developing countries, especially after crises.

The Vulnerability and Resilience Assessment Tool

What it is

- The Vulnerability and Resilience Assessment Tool is a diagnostic metric to further assess country specific vulnerability and resilience conditions including “non-structural” resilience factors.

How it works

- This tool generates national vulnerability-resilience profiles which give a deeper diagnostic of vulnerabilities in the economic, social, and environmental and resilience capacity dimensions.

How it works

- The detailed, universally applicable vulnerability and resilience model is supplemented with a ***Vulnerability and Resilience Assessment Tool***.
- It functions as the link between the diagnosis of a country's vulnerability and resilience conditions and the practical action steps necessary to transition from the position of vulnerability to building resilience.
- It functions as an important monitoring and evaluation tool that bridges the gap between the concessional finance that IFIs will provide for countries that are deemed vulnerable using the Multidimension Vulnerability Index and an appropriate accountability framework to ensure that these resources are utilized in an effective and sustainable way and will not be required into perpetuity.

The Benefits

- International Financial Institutions (IFIs) would be more incentivized to support the adoption and use of a multidimensional vulnerability metric that is supported by a monitoring and evaluation framework that is consistent with performance-based allocation models used by IFIs and Multilateral Development Banks.