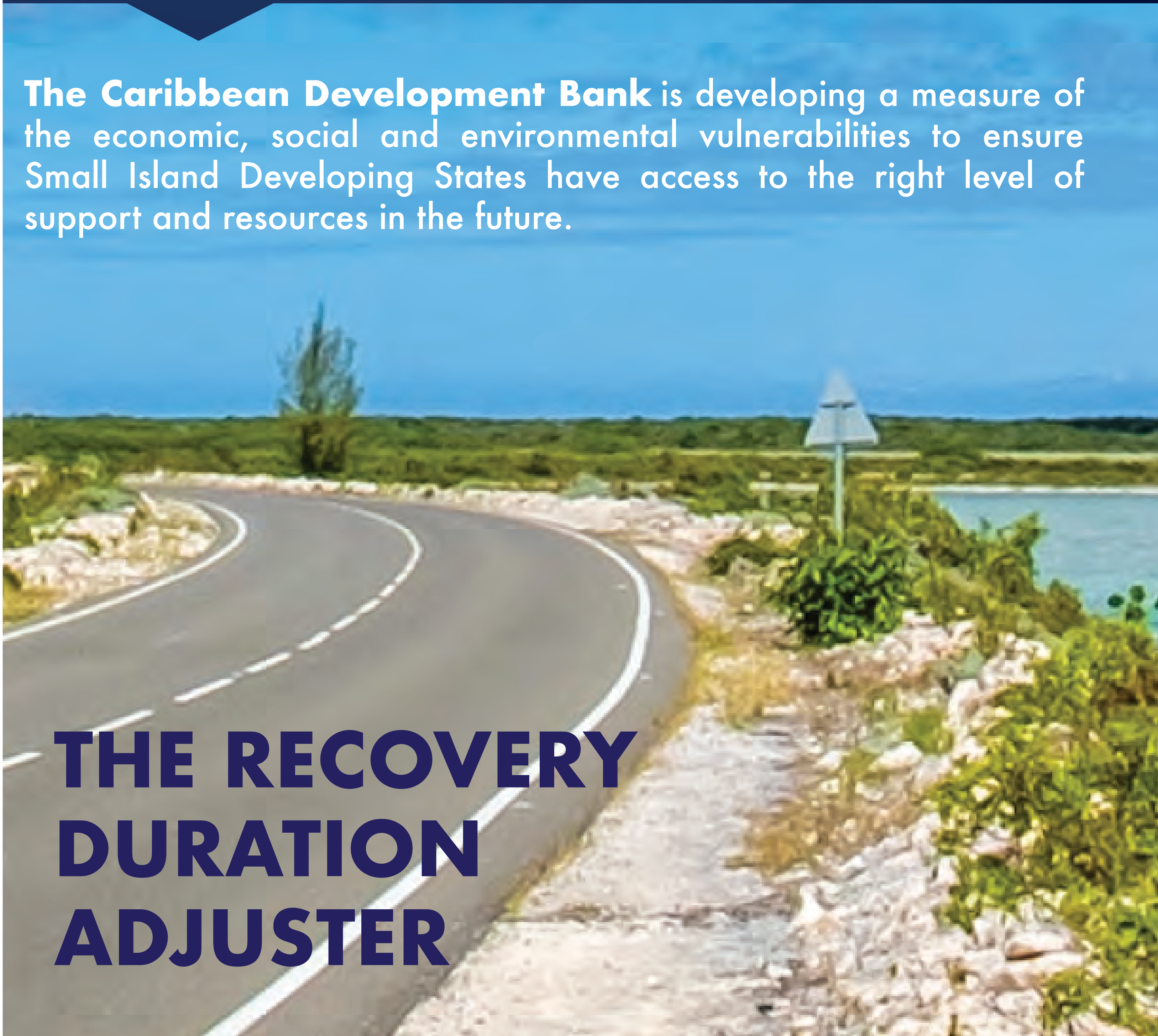
RESCUE
RECOVERY &
RESILIENCE
BEGINS HERE...



The Caribbean Development Bank is developing a measure of the economic, social and environmental vulnerabilities to ensure Small Island Developing States have access to the right level of support and resources in the future.

THE RECOVERY DURATION ADJUSTER

The Recovery Duration Adjuster

The Proposition

While several development agencies and academics have undertaken the design of vulnerability indexes, there remains tremendous scope to develop policy consensus on the choice of a universal vulnerability and resilience index, the operationalisation of such an index, and the agreement on weighting and aggregation.

Caribbean Development Bank (CDB) is proposing an upgraded measure of vulnerability which better reflects the changing economic, environmental and resilience conditions of SIDS in the Caribbean region. The Bank is developing a **Recovery Duration Adjuster (RDA)** which considers a 360-degree perspective, that assesses the economic, social and environmental dimensions of vulnerability.

The Context

In the context of territories and nation states, vulnerability is a difficult concept to define precisely. Typically, vulnerability metrics consider a country's susceptibility to external shocks and geophysical hazards. Although considerable work has been done on the estimation of economic vulnerability and resilience, there remains still a lack of consensus on how to characterise and measure the vulnerabilities of Small Island Developing States (SIDS).

The CDB is arguing that vulnerability involves exposure to sharp external shocks which could be fiscal, trade, health or climate related. CDB is therefore of the view that a vulnerability metric should go beyond susceptibility, as while countries may face a similar likelihood of a hazard occurring, their ability to recover from the shock while preserving the welfare of citizens can differ vastly.

To offer a case in point, the U.S. State of Florida and the Caribbean Island, Dominica are both equally susceptible to a category 5 hurricane; but susceptibility is where the commonality ends once you take into consideration:

- **Initial conditions** - economic and social circumstances as well as the state of infrastructure and support services in each territory prior to the hazard

- **Resilience** – each country's capacity to rebound to the economic and social conditions that existing prior to the event

This comparison illustrates why SIDS need a measurement system that considers their unique vulnerabilities.

The Need for an Alternative Approach

Finance eligibility criteria and systems are often not suited to the unique challenges and constraints of small states. These criteria depend mainly on Gross National Income (GNI) per capita as the measure of vulnerability and economic development in a country. However, even when small states have achieved high levels of GNI per capita, underlying structural weakness, limited implementation capacity, high debt levels and insufficient investment in resilient infrastructure and institutions can unduly affect these countries in the aftermath of exogenous shocks. These conditions contribute to SIDS experiencing longer periods to rebound and higher recovery costs than experienced by larger and more developed economies. This is referred to as "resilience drag".

Conventional measures of GNI per capita do not capture this "resilience drag" and can provide misleading signals about the health and stability of an economy and restrict access to concessional finance which can spur economic development. There is therefore a need to ensure that the international community provides similar support systems for SIDS challenged by structural vulnerabilities as those afforded to nations with the lowest GNI per capita. As a result, multilateral financial organizations have been challenged by international and regional stakeholders to think creatively about solutions and options to address SIDS' vulnerabilities. Hence there has been the drive to develop a globally accepted vulnerability metric as a more appropriate measure of small state economic development.

The Advantages

Central to CDB's **Recovery Duration Adjuster** is the utilisation of a **compensating variation metric** to modify GNI per capita to better capture the adverse effects of the "resilience drag" and to more accurately report the state of development in small states. Compensating variation is the adjustment in income that returns the country to its pre-crisis output level after an economic event has occurred. It provides a more holistic perspective of the reality of SIDS because it takes into consideration not only the susceptibility to shocks (which most vulnerability indices capture) but also the duration of recovery from the shock which is usually more protracted for SIDS than larger economies.

The longer duration of recovery, which has implications on the cost of recovery and achievement of development goals and targets, is the basis on which the framework argues the need for expanded access to concessional finance. The **Recovery Duration Adjuster** is the means through which we can create a resilience-adjusted per capita income measure that will be a more comprehensive tool for classifying SIDS and mobilising the much-needed financial resources.

CDB's RDA also assesses the effect of an exogenous shock on growth and investment in SIDS. The approach considers impacts such as the deterioration in human and physical capital assets after a shock, lower post-crisis investment multipliers, limited implementation capacity, high debt levels and insufficient investment in resilient infrastructure and institutions, all of which can unduly affect SIDS but none of which are captured by GNI per capita.

The Necessity

The year 2022 will mark 40 years that SIDS have been trying to convince the world that special consideration needs to be given to their distinctive exposures. The current challenges and vulnerabilities facing SIDS have been exacerbated by the socioeconomic impact of the COVID-19 pandemic. Even prior to the onset of the 2008 global financial crisis and the COVID-19 pandemic, SIDS were grappling with economic, social and institutional challenges that were constraining their capability to effect real and meaningful transformation of their economies. While the global financial crisis inflicted deep economic and financial wounds, the COVID 19 pandemic has gone even further, and pried open health and social sores that now threaten the very existence of our small societies. Indeed, SIDS are experiencing a "triple threat" involving the devastation of people, the economy, and the environment. The COVID-19 pandemic has increased the urgency to accelerate the recovery and progress towards the achievement of development goals and targets in SIDS and to make available affordable financing to make these goals possible.

The Way Forward

The CDB intends to pilot a prototype of its **Recovery Duration Adjuster** in the coming months. The process of refining and developing the methodology will be a collaborative process involving the CDB and other regional and international institutions.

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