

**POLICY BRIEF**

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# IMPLEMENTING THE MULTIDIMENSIONAL VULNERABILITY INDEX FOR FAIR CARIBBEAN FINANCING

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# EXECUTIVE SUMMARY

Current income-based classification systems severely limit Caribbean Small Island Developing States' (SIDS) access to concessional financing, despite their high vulnerability to climate change and external shocks. This policy brief examines how the Multidimensional Vulnerability Index (MVI) offers a more equitable framework for determining financing access and terms. It presents evidence of the classification paradox facing Caribbean SIDS and outlines a phased implementation approach for the World Bank to adopt the MVI in its financing decisions. This reform is essential for addressing the region's unique vulnerabilities and financing needs.

## THE CLASSIFICATION PARADOX

### Income-Based Classification Limitations

Caribbean SIDS face a fundamental paradox in development financing:

- **Middle/High-Income Status:** 12 of 14 Caribbean SIDS are classified as upper-middle or high-income countries based on GNI per capita metrics.
- **Hidden Vulnerability:** Despite this classification, these countries face:
  - Poverty rates between 18% and 38%
  - High exposure to climate disasters
  - Limited economic diversification
  - Substantial public debt burdens (averaging 72% of GDP)
  - Small economies with limited scalability and high import dependence
- **Financing Consequences:** This classification results in:
  - Limited access to concessional financing
  - Higher borrowing costs
  - Exclusion from many grant programs
  - Reduced official development assistance
  - Restricted debt relief eligibility

### Evidence of Multidimensional Vulnerability

Data demonstrates the disconnect between income classification and actual vulnerability:

- **MVI Scores:** The average Multidimensional Vulnerability Index score for Caribbean SIDS is 56.3, higher than the 52.4 for other ODA-eligible SIDS, indicating severe vulnerability.
- **Recent Impacts:** Economic contractions averaging 10% during the COVID-19 pandemic, compared to 3.3% globally, demonstrate heightened vulnerability to external shocks.
- **Fiscal Constraints:** Average external current account deficits of 7.5% of GDP from 2020–2024, worsening from 6% in 2010–2019.
- **Climate Costs:** Annual economic costs of tropical storms and hurricanes average about 2% of GDP, with extreme events causing damages exceeding 200% of GDP (e.g., Hurricane Maria in Dominica).



# THE MULTIDIMENSIONAL VULNERABILITY INDEX SOLUTION

## MVI Framework Components

The United Nations Multidimensional Vulnerability Index provides a comprehensive framework that more accurately reflects Caribbean realities:

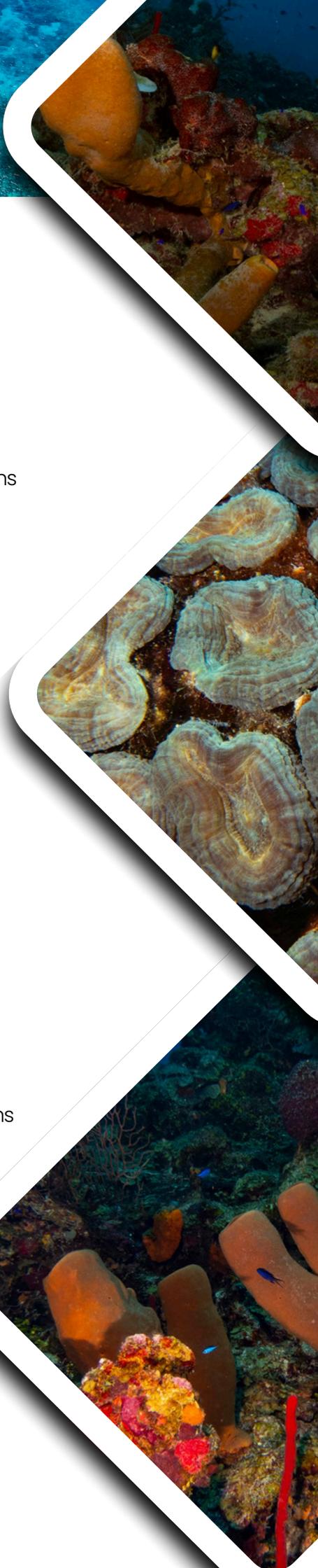
- **Economic Vulnerability Indicators:**
  - Economic dependence on limited sectors
  - Remittance dependence
  - Trade openness and concentration
  - Size and scale limitations
- **Environmental Vulnerability Indicators:**
  - Exposure to natural hazards
  - Share of population in low-elevation coastal zones
  - Agricultural/ecosystem vulnerability
  - Environmental health impacts
- **Social and Governance Indicators:**
  - Capacity for disaster risk reduction
  - Institutional strength
  - Social protection coverage
  - Human development factors

## Benefits of MVI Implementation

Adopting the MVI as an eligibility determinant could:

- Provide a more accurate reflection of actual development challenges
- Create more equitable access to concessional financing
- Better align financing terms with fiscal capacity
- Recognize climate vulnerability as a legitimate financing consideration
- Support more effective development interventions





# IMPLEMENTATION PATHWAY FOR THE WORLD BANK

## Phase 1: Pilot Implementation (0–12 months)

### Policy actions:

- Establish an MVI implementation working group within the World Bank
- Select 3–5 Caribbean SIDS for initial MVI application in financing decisions
- Develop World Bank-specific MVI thresholds for concessional financing eligibility
- Allocate a dedicated financing envelope for MVI-based lending

### Technical actions:

- Conduct comprehensive MVI assessments for all Caribbean SIDS
- Create a data improvement program to address information gaps
- Develop MVI-specific lending terms and conditions
- Establish monitoring frameworks to evaluate impacts

## Phase 2: Policy Integration (1–2 years)

### Policy actions:

- Formally incorporate MVI criteria into Country Partnership Frameworks
- Adjust IDA eligibility criteria to include high-vulnerability middle-income countries
- Develop a Small States Exception based on MVI scores
- Create an MVI-adjusted pricing structure for IBRD loans

### Technical actions:

- Integrate MVI assessments into Systematic Country Diagnostics
- Develop sectoral guidelines for applying MVI insights to project design
- Establish results frameworks that track vulnerability reduction
- Create knowledge products documenting early implementation lessons

## Phase 3: Systematic Adoption (2–5 years)

### Policy actions:

- Full integration of MVI into all World Bank financing decisions
- Application of MVI principles to debt sustainability assessments
- Harmonization of MVI application across all MDBs
- Development of MVI-based graduation policies

### Technical actions:

- Regular updating of MVI measurements and methodology
- Comprehensive review of implementation impacts
- Development of long-term vulnerability reduction strategies
- Integration with other development financing innovations



## POTENTIAL OUTCOMES AND BENEFITS

### Short-term Benefits

- **Expanded Financing Access:** Vulnerable Caribbean SIDS could potentially gain access to additional concessional resources.
- **Terms Improvement:** Loan terms might improve through longer maturities and more favorable interest rates for qualifying countries.
- **Coverage Expansion:** Climate resilience and social protection projects could increase through enhanced financing availability.

### Long-term Systemic Benefits

- **Debt Sustainability:** Reduced debt service burdens through more concessional terms, potentially improving debt-to-GDP ratios over time.
- **Resilience Dividend:** Increased investment in adaptation could reduce climate-related losses.
- **Development Progress:** More appropriate financing could help narrow the SDG financing gap in Caribbean SIDS.

## IMPLEMENTATION CONSIDERATIONS

### Policy Prerequisites

- Political agreement on MVI methodologies and thresholds
- World Bank Executive Board approval for policy changes
- Coordination with other MDBs on harmonized approaches
- Data systems for consistent MVI measurement

### Potential Challenges

- Resource allocation implications for the World Bank's overall lending portfolio
- Technical complexity of implementing new eligibility criteria
- Ensuring consistency in application across World Bank operations
- Managing transition periods for affected countries

# RECOMMENDATIONS FOR CARIBBEAN POLICYMAKERS

1. **Collective Advocacy:** Form a unified regional position on MVI implementation to present to the World Bank Board.
2. **Data Readiness:** Invest in statistical systems to support accurate MVI assessment.
3. **Policy Alignment:** Ensure national development strategies clearly articulate vulnerability challenges.
4. **Pilot Participation:** Volunteer for early MVI implementation pilots.
5. **Results Documentation:** Systematically document how concessional resources translate to vulnerability reduction.

## CONCLUSION

The Multidimensional Vulnerability Index offers a path toward more equitable and effective development financing for Caribbean SIDS. By moving beyond narrow income-based classifications, the World Bank can better fulfill its mission of poverty reduction and shared prosperity in highly vulnerable regions. Caribbean policymakers should actively engage in this reform process to ensure it addresses their unique challenges and advances regional resilience and sustainable development goals.

Learn more: [www.debthub.cpdcn.go.org](http://www.debthub.cpdcn.go.org)

**'How Can the World Bank Better Support the Shared Debt, Climate, and Development Financing Challenges Facing Caribbean SIDS?'**

