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Research Report

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FERDI Policy Brief, No. B243

Provided in Cooperation with:

Fondation pour les études et recherches sur le développement international (FERDI), Clermont-Ferrand

Suggested Citation: Guillaumont, Patrick (2022) : Should inequality be a component of the multidimensional vulnerability index?, FERDI Policy Brief, No. B243, Fondation pour les études et recherches sur le développement international (FERDI), Clermont-Ferrand

This Version is available at:

<https://hdl.handle.net/10419/269854>

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Should inequality be a component of the multidimensional vulnerability index?

Patrick GUILLAUMONT

 Patrick GUILLAUMONT, President of FERDI.

The question has been raised as to whether inequality within countries should be considered as an element and therefore an indicator of vulnerability in the framework of the multidimensional vulnerability index (MVI). Yes, of course, we hear, since “reduced inequalities” is the 10th Sustainable Development Goal”! But why and how?

LA FERDI EST UNE FONDATION RECONNUE D'UTILITÉ PUBLIQUE. ELLE MET EN ŒUVRE AVEC L'IDDRI L'INITIATIVE POUR LE DÉVELOPPEMENT ET LA GOUVERNANCE MONDIALE (IDGM). ELLE COORDONNE LE LABEX IDGM+ QUI L'ASSOCIE AU CERDI ET À L'IDDRI. CETTE PUBLICATION A BÉNÉFICIÉ D'UNE AIDE DE L'ÉTAT FRANÇAIS GÉRÉE PAR L'ANR AU TITRE DU PROGRAMME « INVESTISSEMENTS D'AVENIR » PORTANT LA RÉFÉRENCE « ANR-10-LABX-14-01 »

► Why?

If inequality may be a factor of vulnerability, it seems because it is supposed to reduce the resilience of societies to the different categories of shocks they experience.¹ It is probably possible to find in the literature some confirmation of this relationship, but still necessary to specify its nature. In the face of shocks, inequality can reduce the resilience of populations, and it may also reduce the ability of political authorities to react. If it is about the resilience of populations, it is indeed because of poverty that populations lack resilience to shocks: so inequality can decrease their resilience mainly because of its impact on poverty. If it is about the ability of political authorities to react, it may be diminished by inequality, but the relationship is complex, far to be linear. Nevertheless, let us admit that inequality can directly or indirectly contribute to increasing the vulnerability of countries by reducing the resilience of populations and/or the responsiveness of political authorities.

► How?

In order to take into account the internal inequality of countries in the Multidimensional Vulnerability Index (MVI), it is necessary to respect the principles on which it is agreed to base this index², in particular the principle of separability between what is exogenous and what is due to the present policy. This principle implies distinguishing between structural vulnerability and low structural resilience on the one hand, and overall vulnerability and low resilience on the other. Only the former can be used to determine the granting of certain benefits to countries identified as highly vulnerable, whether for access to a particular preferential trade schemes or as a criterion for the allocation

of concessional development finance: structural vulnerability, that which is exogenous and cannot be attributed to the present policy of the countries, must facilitate access to preferential mechanisms and lead to an allocation of more resources. On the opposite, the vulnerability or low resilience that is due to the present policy should not lead to such benefits, which would create a moral hazard; the low resilience related to the present policy could instead be seen as a sign of poor performance and have an opposite impact to what is expected of low structural resilience. The MVI, like any index, must be designed according to a clear logic and the use that one wants to make of it.

With regard to inequality, it obviously cannot be considered as a factor justifying more aid or other benefits, which would favor the most unequal countries. It cannot therefore be included in the MVI as an element of structural vulnerability or low structural resilience, without distorting its meaning. On the other hand, it could be included as an element of weak policy resilience, as well as poor governance, in a more general vulnerability index and then have an impact of opposite sign to that which it would have been if it had been included in the structural MVI.

Moreover (or however) multidimensional inequality is already taken into account through its structural impact on health and education (a low level of which is intended to lead to more advantages). What makes the difference between low human capital and inequality is that inequality is perceived as quite more dependent on present policy. Public opinion and Parliamentary members are inclined to more support countries with a low level of health and education, not those with high inequality.

1. See Guillaumont P. (2022) About Resilience in the Vulnerability Multidimensional Index (MVI). FERDI Policy Brief B241, October.

2. See Guillaumont P., Wagner L. (2022) Three criteria that a multidimensional vulnerability index should meet to be used effectively, FERDI Policy brief B234, May.

► Implications for the use of the index

It should be noted that in the CPIA (Country Policy and Institutional Assessment), which in a recomposed form represents the "performance" in the PBA (Performance Based Allocation), one of the four clusters composing it is "Policy for Social Inclusion, Equity", which affects negatively (but with little weight) the level of allocation. It is therefore a way of taking into account inequality, which is then considered an indicator of poor performance, not of high vulnerability. It is, of course, conceivable to grasp inequality in a less complex way. But it is to recognize that inequality, measured in some way, has its place in an allocation formula on the performance side, not on the needs side. If the objective is in particular to have the MVI (in its structural form) recognized as an allocation criterion, in particular by Multilateral Development Banks, including inequality on

the needs side would inevitably lead to a reject. On the other hand, considering low inequality as part of a policy-related "performance" or as a low policy resilience indicator would remain consistent with the core principles of both the MVI and the allocation.³

It would still be necessary to choose the indicator of inequality most suited to this use, what is not the purpose of this note, and is not an easy task. There is no quantitative "Target" corresponding to the "Reduced inequalities" 10th Sustainable Development Goal and the CPIA cluster "Policy for Social Inclusion, Equity", is itself the result of subjective assessments. The issue is then the possibility to choose an indicator of inequality that reflects a weak present policy resilience and is comparable across countries, i.e. with a similar meaning for all of them.

3. See Guillaumont P., Guillaumont Jeanneney S., Wagner L. (2020) *Measuring vulnerabilities to improve aid allocation, especially in Africa*, FERDI, 148 p.



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n° ISSN : 2275-5055

