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G. FINANCING TO ADDRESS THE COVID-19 CRISIS AND PREPARE FOR A SUSTAINABLE RECOVERY

As described in section E., COVID-19 has at the same time led to increased needs for spending to address the health, social and economic crisis as well as sharply reduced domestic revenues due to a decline in economic activity, including a decline in export revenues, further reducing their already limited fiscal space.

At the same time inflows of external finance, which for LDCs play a larger role than for other groups relative to their GDP, especially FDI and remittances, have also declined sharply. In fact, the combined losses of domestic revenue, remittances, FDI and receipts from tourism alone due to the COVID-19 effects are estimated to outpace ODA that LDCs received in 2018. This means that the financing gap to achieve the SDGs has further widened and external financing needs are projected to have more than doubled in 2020 compared to averages in previous years. Thus, LDCs would need support by development partners — both bilateral and multilateral — to avoid an increase in poverty and the destruction of several years of development gains. In addition, they need new measures to address their often high levels of external debt (OECD, 2020d; Hurley et al. 2020 and UN, 2021).

Overseas Development Assistance slows as needs grow

Fulfillment of ODA commitments decreased

SHARE OF GNI OF DAC DONORS TO LDCs	
0.01%	0.09%
2011	2019

NUMBER OF DAC DONORS PROVIDING 0.15% OF GNI IN ODA TO LDCs	
10	5
2011	2019

G.1 FDI EXPERIENCED SHARP DECLINES

For many LDCs FDI plays an important role as a source of finance to foster economic growth, help create jobs and reduce poverty levels. It can be an important channel through which the private sector in LDCs can become integrated in global value chains, drive diversification and provide technical know-how. Independent of the COVID-19 crisis, there are policy reasons explaining the relatively limited number of FDI received by LDCs. Poor investment climate conditions and investment promotion capabilities resulting in lower investment competitiveness and the perception of higher political risk as well as lower levels of confidence by investors for FDI in LDCs hamper many LDCs in their ability to attract FDI (G20, 2020a). However, LDCs receive only a small share of global FDI, and the COVID-19 crisis has further reduced global FDI activities in 2020 and exacerbated several of the pre-existing and structural vulnerabilities of LDCs. FDI inflows in LDCs were already on a declining trend since 2015, with a small uptick in 2018.

In 2019 FDI declined by 6 percent (to US$ 21 billion or 1.4 percent of world FDI), driven by shrinking flows to Asian LDCs. However, FDI to the African LDCs increased by 17 percent to US$ 12 billion. In four of the five largest FDI recipients (Myanmar, Ethiopia, Mozambique and Bangladesh) FDI declined significantly. In Bangladesh for example, FDI inflow fell by 31 percent to US$ 1.8bn from fiscal year 2019 to fiscal year 2020 (ADB, 2020a). Only in Cambodia FDI increased, stemming partly from reinvested earnings, making it the largest LDC recipient in 2019 (UNCTAD, 2020a).

In January 2021, UNCTAD reported a fall of global FDI of 42 percent in 2020 compared to 2019. FDI flows to developing countries declined by 12 percent, which was less than expected mainly due to resilient investment in China. The decline in FDI flows to Sub-Saharan Africa was 11 percent but higher in some countries like Ethiopia with a decline of 17 percent. Senegal was one of the few countries with an increase in FDI in 2020, due to investments in energy (UNCTAD, 2021).

Furthermore, declines in greenfield and project finance announcements were much higher in developing countries with 46 percent overall (63 percent in Africa), which are crucial for productive capacity and infrastructure development (UNCTAD, 2021). Investor confidence has fallen due to supply and demand shocks, which has resulted in the delay of many greenfield projects and led to fewer cross-border M&A activity The outlook for FDI to LDCs for 2021 is extremely weak, uncertain and dependent upon the duration of the crisis. In addition, declines in corporate profits drive decreases in reinvested earnings, which accounts for more than 50 percent of FDI globally. However, pre-COVID-19 data suggests that the importance of reinvested earnings in LDCs varies significantly depending on the country. The share of reinvested earnings in FDI was only 5 percent in Lesotho or Niger, but about 37 percent and 33 percent in Mali (UNCTAD, 2020a).

Many LDCs are highly dependent on investment in natural resources, which is being negatively affected by the oil and commodity price shocks and/or the export of other raw materials, which are affected by the slowing demand at the global level. For example, FDI to Mozambique decreased by 27 percent due to the slowdown of implementation of offshore gas projects (UNCTAD, 2020c), despite efforts by the involved companies, together with the Ministry of Health, undertaking preventive measures and implementing health protocols, to make sure the project is well-placed to continue (Total LNG Project Mozambique, 2020). A delay in investment in export-oriented manufacturing like textiles and infrastructure projects is also expected, which will negatively affect diversification (UNCTAD, 2020a). Those LDCs that have already established economic zones or industrial parks (like Bangladesh, Cambodia, Myanmar, Ethiopia and Senegal) have it easier to recover and continue attracting FDI and serve the global production network (EIF, 2020a). However, many companies will see declines in revenues and profits, leading to delayed investments or cut reinvested earnings and potentially a larger focus on their home markets.

Another source of income and investment is tourism, on which a number of LDCs are highly dependent, and which has also seen a fall of FDI. The OECD expects international tourism to have fallen by around 80 percent in 2020 (OECD, 2020j) and the UN World Tourism Organization (UNWTO) estimates the loss in export revenues from international tourism to be eight times that recorded in 2009 amid the global financial crisis (UNWTO, 2020). Prolonged restrictions on international travel, continued border closures and health protocols are hurting tourism dependent LDCs disproportionately.

Countries have undertaken different steps to facilitate investment despite of the COVID-19 crisis, such as the acceleration of approval procedures, an increased use of online tools, a reduction of fees and an automatic renewal of permits. Benin has used an eRegistration system (MonEntreprise.bj) to ease registration of more than 6,000 businesses via an electronic platform between the start of the lockdown (16 March) and mid-July 2020. Among those were 3 percent of non-Beninese origin (EIF, 2020a). Governments in Bhutan, Lesotho and Mali have also used eRegistration systems with the support of UNCTAD to provide essential support to businesses (UNCTAD, 2020a). In April 2020, Myanmar was quick to adapt a COVID-19 Economic Recovery Plan "Overcoming as One: COVID-19 Economic Recovery Plan (CERP)", which includes an active investment promotion and facilitation policy. A set of measures such as easing of permits and fast-track approvals and licenses for companies that produce COVID-19 related medical equipment and supplies as well as for investment in labor-intensive and infrastructure projects, are supposed to promote investment from domestic and foreign investors. In addition, the investment application fees were reduced by 50 percent (Government of the Republic of the Union of Myanmar, 2020). Some LDCs have taken new measures to support inward FDI in 2020. For example Ethiopia introduced measures to facilitate logistics in the export and import process (such as free railway transport of manufacturing goods between Ethiopia and Djibouti); removed taxes from the import of raw materials for the production of COVID-19 essential goods and lifted the minimum price for horticulture exports (IMF, 2020a).

Based on the World Bank Global Pulse Survey (September 2020), three in five multinational enterprises (MNEs) report adopting digital technologies such as data science applications, distributed ledgers and the internet of things, to improve their supply chain management, optimize capacity, maintain inventory, and manage logistics. About 14 percent reported shifting production sites closer to consumers (World Bank, 2020c). FDI flows are influenced by strategic decisions of MNEs, which in turn are driven by trends such as increased digitization and the emergence of sustainability and SDG-related incentives that have been accelerated by the COVID-19 pandemic (OECD, 2020d). With value-chains disrupted and the call for more resilient value chains, some MNEs may consider diversifying suppliers and production sites, which could have a long-lasting impact on the global trade and investment landscape, but also create new opportunities for market entrants. While the character of FDI flows beyond 2020 will be influenced by global trends and structural changes in the international production landscape, LDCs and especially their Investment Promotion Agencies can implement strategies and policies that make use of these changes.

In addition, some countries have started to adapt investment promotion strategies that target investment and business activities supporting the SDGs. Rwanda provides an example for offering investment incentives via preferential tax rates to investors in the generation, transmission and distribution of solar, geothermal, hydro, biomass, methane and wind energy. In addition, Ethiopia created an eco-industrial park in 2016 designed for the textile and apparel industry that is powered mostly by hydroelectricity (EIF, 2020a), which can serve as an example for other countries, as well.

The response by Investment Promotion Agencies (IPAs) has been mixed, with almost half of all African IPAs not mentioning COVID-19 by mid-May 2020 (UNCTAD, 2020a).

G.2 INTERNATIONAL MIGRATION AND REMITTANCES

Migration

Globally, migrant workers represent 4.7 percent of the labor force, almost half of them women (ILO, 2020). According to World Bank data around 45 million LDC citizens were living in other countries in 2017.

COVID-19 affected international migration between LDCs and other countries through the rise in unemployment in host countries as well as via travel restrictions. The COVID-19 pandemic left many migrant workers initially stranded in their host countries, unable to travel back. During the year, with travel restrictions easing and rising unemployment in the face of tighter visa and mobility restrictions, increased return migration was reported across all parts of the world. Nevertheless, the World Bank expects 2020 to be the first year to mark an actual fall in the stock of international migrants (World Bank, 2020e).

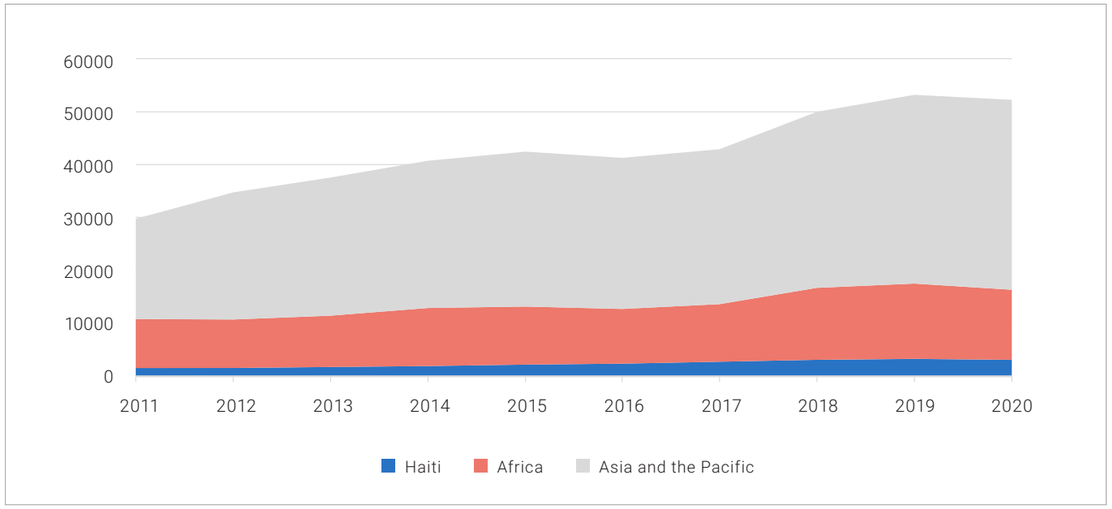
The adverse effects of the crisis (loss of employment and income as well as exposure to COVID-19) have been especially severe for migrants. Migrant workers are particularly vulnerable to COVID-19 infection, if they are living in dormitories or camps and often work in occupations that cannot be undertaken from home (World Bank 2020e). Migrants originating in LDCs are over-represented in informal sectors and often have unstable employment, are among the first to lose their jobs and cannot access social protection measures. Migrant workers that are employed in health care, agriculture and food-processing face more health-related risks and many migrant workers are employed in sectors like hospitality and domestic work, which are hardest hit by the crisis. Migrants could also face significant barriers to re-entering the workforce in host countries due to mobility restrictions, lack of skills and qualifications recognition, or difficulties meeting administrative requirements. Others are affected by wage cuts, non-payment of wages and deteriorating working conditions. The measures put in place around the world disrupting national and international transport services are restricting mobility. Thus, large numbers of international migrants are stranded abroad or unable to return to the countries in which they were employed because of closed borders (ILO, 2020 and IOM, 2020).

Protecting the lives and livelihoods of migrant workers will have positive effects in home and host countries as it will also ensure supply of critical goods and services and contribute to overall public health. Thus, migrant workers should be included in national social protection responses in line with international human rights and international labor standards (ILO, 2020). Most OECD countries have offered access to testing and to emergency health care for migrants, including those in an irregular situation, if they contracted COVID-19 (OECD, 2020f).

Remittances

Remittances are private cash transfers that are mainly used to enhance access to food, education and health care but also to start small businesses. In times of crisis they can provide a safety net for LDCs in terms of compensating for reduced household income, access to hard currencies, and financing trade balances. Furthermore, they are a source of tax revenue for governments especially through value-added tax, trade, and sales taxes (Sayeh and Chami, 2020).

Figure G.1: Migrant remittance inflows to LDCs by region (US$ million)



Source: World Bank (2020).

Remittance flows to LDCs had increased relatively rapidly from US$28.2 billion in 2011 to US$ 52.1 billion in 2019, which corresponds to around 5 percent of GDP (Figure G.1). This growth was mainly driven by Asia-Pacific LDCs, which now account for around 70 percent of all remittances to LDCs. However, remittances inflows are concentrated in a few LDCs, with six countries (Bangladesh, Haiti, Myanmar, Nepal, Senegal, and Yemen) accounting for around 75 percent of total remittance flows. For some smaller countries, remittances amounted to 20 percent of GDP or more, including, Haiti, South Sudan, Nepal and Lesotho (World Bank, 2020e).[54]

The importance of remittances is not only determined by its share in GDP but more so by the number of people who depend on them, which is about 800 million people worldwide (IOM and WFP, 2020). According to a recent Afrobarometer survey in 6 African LDCs more than a quarter of the population reports that they are dependent on remittances with The Gambia (47 percent) and Lesotho (38 percent) reporting the highest shares. In many cases this dependence is related to unemployment or cash related problems. The greatest impact of declining remittances is likely to be for people facing multiple deprivations. For example, in 8 African LDCs included in the survey more than half of the people who depend on remittances have no bank account or mobile internet access (Kalantaryan and McMahon, 2020).

Remittances are expected to decline significantly in 2020 and 2021 due to job losses, especially in the service sectors most reliant on migrant workers and shutdowns that fail to recognize remittance agents as essential services. While remittances are often countercyclical, COVID-19 hit both host and home countries of migrants at the same time. During April/May 2020 remittances declined significantly, and then recovered partially in June/July 2020, when many governments lifted their containment measures. The quick recovery could be an indication that migrants shifted from informal transfer channels to official channels including bank transfers. It could also indicate that migrants are using their savings, or were able to access cash transfers offered by host country governments either directly or indirectly through their employers, but there is only limited information available at the time of writing (IOM and WFP, 2020).

While the World Bank estimated steep declines in remittances to low- and middle-income countries earlier in 2020, the average decline of remittances from 2019 to 2020 to LDCs was estimated at 2 percent (Figure G.1). Several LDCs that are highly dependent on remittances experienced much larger declines up to 27 percent for Mozambique and 20 percent for Lesotho. However, the decline is expected to be more prolonged, well into 2021 and likely beyond (World Bank, 2020e). This decline is largely due to weaker economic growth and uncertainties around jobs in host countries leading to a fall in wages and employment of migrant workers in host nations. The return of migrants, who brought their savings with them partially accounts for the lower than expected decline but will contribute to the prolonged duration. To some extent currency devaluations in remittance receiving countries could offset the decline in the value of remittances (Kalantaryan and McMahon, 2020).

Bangladesh stands out as an exception to the general pattern: according to first estimates, remittances were expected to fall by 25 percent compared to 2019. Emerging evidence shows that officially recorded remittances have rebounded and even exceeded pre-COVID-19 levels (reaching up to US$20 million in 2020, compared to about US$18 million in 2019). This may be due to a shift in flows from informal to formal channels and due to the reaction to damages from floods in Q3 2020 (IOM and WFP, 2020). bKash, the mobile financial service in Bangladesh saw increased remittance inflows with an increase of 150 percent on daily average in April compared to the first quarter of 2020 (ADB, 2020b).

While the decline in remittances in 2020 is less significant than initially expected, it does not change the reliance of many people in low- and middle-income countries on them. The relative importance of remittance flows as a source of external financing for low- and middle-income countries is expected to rise, because foreign direct investment is expected to decline even stronger. The decline in remittances will affect fiscal and trade balances, and subsequently reduce countries' ability to finance and service their debt (World Bank, 2020a).

The decline in remittances will not only reduce household income in recipient countries and thus increase poverty but also affect the private sector. Banks rely on remittance inflows as a cheap source of deposit funding since these flows are altruistically motivated. Due to the decline in remittances these banks are now likely to see their cost of operations increase, and their ability to extend credit will be greatly reduced. At the same time, less remittances will be available to finance productive activities of recipients directly (Sayeh and Chami, 2020). In addition, foreign exchange markets declined, making liquidity management and rebalancing an issue for service providers, especially those operating in rural areas (RCTF, 2020a). The decline of average costs of sending remittances slowed in recent years and amounted to 6.8 percent in the first quarter of 2020 (down from around 9 percent at the beginning of 2011), but still more than twice the 3 percent commitment contained in the Addis Ababa Action Agenda (and SDG target 10.c).[55] Sub-Saharan Africa continued to have the highest average cost, at about 8.5 percent. Remittance costs across many African corridors and small islands in the Pacific, including many LDCs, remained above 10 percent (World Bank, 2020e).

Remittance service providers play an important role in ensuring availability for senders and receivers. The physical closure of many locations has increased the use of digital financial services. Many providers that allow people to send and receive money across borders saw an increase in new customers and transfers with the beginning of the COVID-19 pandemic (ADB, 2020b). Western Union reported an increase of 21 percent in digital transactions in Q1 2020. Despite this, comprehensive digital solutions will not be in place quickly and require a digital ecosystem and infrastructure in receiving countries that is often not in place, yet (RCTF, 2020a). The COVID-19 pandemic might accelerate the usage and popularity of digital platforms of online money transfer and banking services. In Bangladesh, the pandemic has reaffirmed post offices and their infrastructure in the delivery of remittances. Bangladesh has about 10,000 post offices, which is more than it has bank offices, and has set up agreements with banks and MTOs to deliver remittances, thereby being a substantial part of the emerging digital financial services structure in Bangladesh. The Bangladesh Post Office also launched Nagad, which facilitates the day-to-day transaction needs of increasing parts of the un(der)banked population. Nagad combines the electronic money transfer system with postal cash systems (RCTF, 2020b).

Mobile-phone services are increasingly used for transfer of remittances and have contributed to reduced costs. However, remittance service providers are not classified as essential services. As such, their services have been interrupted or their working hours reduced. The services that remain available during the pandemic are in general priced lower than those that preceded the COVID-19 measures. Some remittance service providers have also removed their fees and have been using social media to raise awareness of digital payment instrument. In Uganda for example, the telecom company MTN waived temporary fees on mobile money transfers (Brookings Institute, 2020). And in April 2020, the Central Bank of South Sudan launched its first international mobile money service (m-Gurush) to facilitate remittance inflows and outflows (World Bank, 2020e).

[54] In The Gambia, Yemen, Comoros, Kiribati, Senegal and Tuvalu remittances were 10 percent or more of GDP.

[55] These costs are based on sending USD 200 through official remittance channels.

Ethiopia with its large public sector economy, is pursuing a range of privatization reforms that may also benefit the flow of remittances. During Q2 2020, the Ethiopian Telecommunications Authority has accepted proposals and expressions of interest from telecom operators, which would open the Ethiopian telecommunication sector besides the state-owned monopoly Ethio-Telecom. In addition, a new directive[56] allows non-financial institutions (e.g. Fintechs) to start offering payment processing and related services in Ethiopia by acquiring a payment operator license. These steps could introduce more competition into the market, possibly expanding availability and decrease costs for accessing remittances (FinDev, 2020).

However, a large percentage of migrant workers and their families back home are unbanked or under-banked and are facing challenges in meeting the due diligence requirements of digital channels (World Bank, 2020a).

On the international level and in response to the UN Secretary General's call for an urgent and coordinated response, IFAD together with the African Union and the World Bank, launched the Remittance Community Taskforce (RCTF) to come up with immediate and short-term measures to address the impact of COVID-19 on remittances. About 40 organisations have joined the RCTF to develop a coordinated and concerted effort to raise awareness of the impact of the COVID-19 crisis on the more than 1 billion people that are directly involved in remittances.

Switzerland and the UK, in partnership with the World Bank, have launched a Call to Action to keep remittances flowing, to raise awareness about the importance of remittances for low-and middle-income countries, identify key measures to mitigate the impact of COVID-19 on remittances, highlight them for the attention of policymakers, regulators and remittance service providers and generate momentum. The call has grown into a coalition of 47 stakeholders on remittances (World Bank, 2020e).

G.3 CONCESSIONAL FINANCE UNDER THREAT

ODA

Countries in the north have launched an unprecedented financial response and stimulus packages after the devastating impact of the COVID-19 pandemic became obvious and these have been revised upwards several times, amounting to trillions of US dollars. In OECD countries debt to GDP ratios rose by 20 to 30 percentage points of GDP in 2020. It is estimated that for low-income and African countries, which are mostly LDCs, an average of additional finance amounting to 6 percent of their GDP would be needed to address the COVID-19 induced crisis (OECD, 2020d).

While the swift action by major multinational and other donors as well as the debt relief provided through the G20/Paris Club initiative provided some relief for LDCs, their needs have not been met.

ODA to LDCs by Development Assistance Committee (DAC) members was already declining in real terms over the past decade. After an increase in ODA from DAC donors to LDCs from 2017 to 2018, it declined by 6 percent in 2019. The average share of gross national income (GNI) provided as ODA to the LDCs from DAC donors declined from 0.1 percent in 2011 to 0.09 percent in 2019. In 2019, only 5 donor countries–Denmark, Luxembourg, Norway, Sweden and United Kingdom–met the IPoA the target of committing 0.15 percent or above of their gross national income as ODA to the LDCs, compared to ten donor countries in 2011 (Table G.1). The share of total ODA allocated to LDCs declined from 33 percent in 2011 to 30 percent in 2019 and the percentage of ODA to LDCs in the form of grants declined from about 93 percent in 2015 to 90 percent in 2018 (UN, 2020a). Gross ODA disbursements made up 5.1 percent of GDP and around 40 percent of government spending of LDCs in 2018, which makes it a larger share of the financing mix than for other groups. As ODA plays an even larger role in resources for social sectors, such as health care or water and sanitation, for which it is difficult to attract private finance, it has a crucial role in containing COVID-19 (OECD, 2020d).

On 9 April 2020, the DAC of the OECD published a joint statement that acknowledged that "ODA is an important means of supporting national responses to the COVID-19 crisis, within the framework of sustainable development and its five components – people, peace, planet, prosperity and partnership." It committed to "strive to protect ODA budgets, encourage other financial flows to support governments and communities in partner countries" and to "endeavour to support Least Developed Countries and other countries with specific needs via a coherent and coordinated humanitarian-development-peace response." (OECD, 2020a). On 10 November 2020 in a high-level meeting Communique the DAC reaffirmed "the important contribution of ODA to the immediate health and economic crises and longer-term sustainable development, particularly in Least Developed Countries (LDCs)". It stated that it "will continue working to find ways to mobilize more official and private resources for sustainable development, including promoting more–and more effective–blended finance, with special attention to LDCs." However, no concrete commitments were made at the meeting.

While data is sparse and no country specific data is available for 2020 at the time of writing, there are indications that bilateral ODA has been declining. For example, in the first seven months of 2020 total ODA commitments reported to the International Aid Transparency Initiative were 5 percent lower than for the same period in 2019.[57] Among DAC donors the picture is mixed with some increasing bilateral ODA while others reduced their commitments. However, overall an increase in spending over the early months of 2020 was observed as commitments by multilateral donors increased by 31 percent. While there are no comprehensive data, it is projected that the share of ODA allocated to LDCs remained largely stable and some donors like the EU explicitly mentioned them as priorities in their response plans (Hurley et al., 2020 and OECD, 2020i).

If DAC countries retain the same ODA to gross national income (GNI) ratios for LDCs than before the crisis, the expected decline in their GNI would lead to a decline in ODA beyond 2020, which might occur due to their own budget pressures. While there have been some announcements in support of a global sustainable recovery, there are indications that funds earmarked for the COVID-19 response were repurposed from existing programmes and responses to other crises, which can create challenges for long-term predictability and continuity. In addition, the repatriation of international staff limited access to information and data, making it difficult to manage risks and learn about effectiveness of approaches as donor countries were not fully prepared for the magnitude of the crisis. Likewise, coordination of donors was limited and depended on country leadership. For example, in Mozambique, existing government mechanisms led by the Prime Minister enabled a fast response leading to enhanced capacity of the health system to respond to COVID-19 (OECD, 2020d, i).

Several multilateral donors have reacted fast and made additional finance available to developing countries, including LDCs, within a few weeks after COVID-19 started spreading around the globe, mainly through front loading of concessional resources. However, the unprecedented scale of the crisis affecting all countries also exposed financial capacity constraints and multilateral ODA accounted for only around one third of total ODA before 2020 (OECD, 2020e and UN, 2021).

The United Nations has established various funds related to supporting countries in the fight against COVID-19 and its effects. For example, in April 2020, the Secretary-General established the COVID-19 Response and Recovery Fund with the aim to support the implementation of the global framework for an immediate socioeconomic response through the UN country teams. Its goals are to: (1) Enable Governments and Communities to tackle the emergency; (2) Reduce Social Impact and Promote Economic Response and (3) Help countries to recover better. The fund especially targets those low- and middle-income countries who are not included in the Global Humanitarian Appeal. While a significant proportion of the UN's existing US$17.8 billion portfolio of sustainable development programmes has been repurposed towards COVID-19 needs in 2020, additional funds are required. However, while the aim was to mobilize additional US$2 billion over the full course of its operation from April 2020 to April 2022, as of end 2020, the total commitment was US$70 million and more than 16 LDCs benefitted from the Multi-Partner Trust Fund (MPTF)[58] (UN, 2020d).

The COVID-19 Global Humanitarian Response Plan (GHRP), which is complementary to the MPTF is a joint effort by members of the Inter-Agency Standing Committee (IASC), including UN, other international organizations and NGOs facilitated at global level by OCHA. It aims to respond to the direct public health and indirect immediate humanitarian consequences of the pandemic, particularly on people in countries already facing other crises and covers the most urgent and direct health impacts by the pandemic. It aggregates relevant COVID-19 appeals and inputs from various other international organizations (UN, 2020d). The financing requirements for the GHRP over a period of nine months (April – December 2020) were originally estimated at US$2 billion and increased in several stages to be provided on a grant basis to fight the pandemic in the most vulnerable and low-income countries. The Response Plan of US$9.5 billion was 38 percent funded as of 17 November 2020 (OCHA, 2020).

The IMF has provided more than US$5 billion emergency financing support to LDCs, with over 60 percent of LDCs benefitting from at least one of the following four categories of programmes: catastrophe containment and relief trust (debt relief service); extended credit facility (lending arrangements for balance-of-payments problems); rapid financing instrument and rapid credit facility (arrangements to provide liquidity).

[56] Licensing and Authorization of Payment Instrument Issuer Directive No. ONPS/01/2020, National Bank of Ethiopia

[57] However, the IATI data does not account for debt relief and does not entail ODA disbursements from all donors, so these figures only provide a proxy.

[58] Latest figures from Trust Fund Factsheet–UN COVID-19 Response & Recover (undp.org).

The IMF also doubled access to its emergency financing facilities – the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). The RCF provides rapid concessional financial assistance with limited conditionality. RCF is a concessional financial assistance instrument with a zero-interest rate, a grace period of 5.5 years and a final maturity of 10 years. RFI is provided in the form of outright purchases and is only available to low-income countries with urgent balance of payments needs. As of 4 March 2021, 29 LDCs received funding from RCF. The RFI provides rapid financial assistance. It is designed for cases where a full-fledged economic programme is either not necessary or feasible. As of 4 March 2021, 8 LDCs received funding from RFI (IMF, 2020c).

The Extended Credit Facility (ECF) provides financial assistance to countries with protracted balance of payments problems. The ECF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of low-income countries (LICs), including in times of crisis. Access to this facility is conditional upon the country having a formal programme with the IMF. As of 4 March 2021, 7 LDCs benefited from the ECF (IMF, 2020c).

The World Bank Group has also enhanced different financing options. The focus of the World Bank's support is to help countries protecting the poor and vulnerable, support businesses and to generate a faster economic recovery. On 2 April 2020, it launched its dedicated COVID-19 Fast Track Facility for emergency health support, initially benefitting 12 LDCs, a number that increased to 35 by 4 March 2021. The World Bank also increased International Development Association (IDA) resources (which are mainly relevant for LDCs) by around one third in fiscal year 2020 (which ended in June) as compared to 2019, and has increased further during the pandemic into 2021, due to the recent IDA replenishment. In addition, the Bank also provides emergency funding and trade finance from the International Finance Cooperation and expedited loan guarantees from the Multilateral Investment Guarantee Agency (MIGA). This aims to address purchases of medical equipment, provide working capital for firms and support governments' short-term funding needs (World Bank, 2020b and 2020d).

In addition, many regional development banks have provided rapid support towards the LDCs among their constituencies, including the AfDB, ADB, AIIB, which announced the largest commitments accessible to LDCs in April. The AfDB announced in April a US$10 billion COVID-19 Response Facility aiming to assist regional member countries and private sector firms in their fight against COVID-19 (AfDB, 2020). The ADB also announced in April a US$20 billion COVID-19 Response Package offering short-term support to combat the immediate health consequences of COVID-19 and addressing the mid-to-long-term economic and financial impact of the pandemic. To assist increased financing needs to respond to COVID-19, the AIIB created the COVID-19 Crisis Recovery Facility, which can be used for addressing the health sector's needs, increasing economic resilience or to address liquidity constraints for clients in infrastructure and other productive sectors and to which US$5-10 billion were allocated in April (UN, 2021).

Overall, many MDBs have focused their support on LDCs, playing an important countercyclical role, with unprecedented speed and scale of their immediate reaction to the crisis. However, there are indications that their current financial capacity will not be sufficient to respond to the needs of developing countries, including LDCs, in the medium to long term (UN, 2021).

One area, where finance is also lacking is the Access to COVID-19 Tools (ACT) Accelerator, including the COVAX, its vaccines pillar as indicated in section A. Total commitments stood around US$5.8 billion towards the end of 2020, falling short by US$3.7 billion of the needs, with a further US$23.7 billion required in 2021.

Even before the COVID-19 crisis, blended finance, which is the strategic use of development finance to mobilize commercial finance towards the SDGs, with a focus on unlocking investment that the private sector would not have done on its own, remained limited in LDCs. They continue to receive only 6 percent of private finance mobilized by official development finance interventions, amounting to approximately US$13.4 billion between 2012 and 2018. While private finance was mobilized in 45 LDCs it is still relatively concentrated in a few countries. Private finance mobilized in LDCs is concentrated in selected sectors, where revenue can be generated, such as energy and banking as well as financial services, while social sectors are mostly excluded. COVID-19 makes the mobilization of new private finance even more challenging in the short term given the risk premiums in LDCs. Development finance providers mostly focused on protecting existing investments, safeguarding their portfolios and preserving jobs. However, there are a few examples of proposed new blended finance initiatives aiming at tackling the COVID-19 crisis (OECD and UNCDF, 2020).

One example of a new blended finance initiative that is expected to benefit many LDCs is the three-year Fight COVID-19 social bond issued by the African Development Bank, floated on the Luxembourg Stock Exchange and significantly oversubscribed, raising US$3 billion, the largest dollar-denominated social bond launched in the international capital markets at the time of issuance (AfDB, 2020).

New Special Drawing Rights (SDRs)

There has been a general agreement among G20 countries to the issuance of new SDRs by the IMF, which could be used to reduce liquidity constraints with no conditions attached. Such SDRs would supplement official reserves and help restore confidence and thus contribute to a resilient and lasting recovery of the global economy. Of a new general allocation of 500 billion, which would be based on the current distribution, LDCs would only receive 2.27 percent or 11.35 billion[59] (UN, 2020c and 2021).

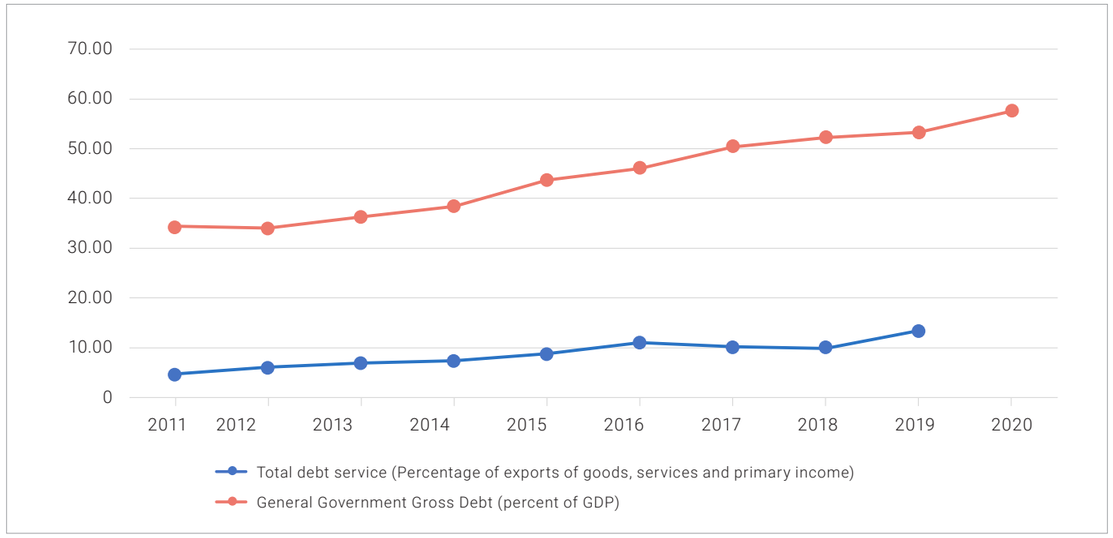
Thus, another proposal that is supported by many policy makers is the reallocation of SDRs from developed countries that do not require them, to countries with liquidity challenges. This could be done through a Trust Fund at the IMF, like the Poverty Reduction and Growth Trust (PRGT), which would enhance the IMFs lending capacity. Currently unused SDRs amount to US$129.7 bn and some countries have started lending them to the IMF. This option would provide liquidity at relatively low cost, while developed countries who do not need their SDRs and are willing to exchange them for foreign currency would earn an interest on excess SDRs. In addition, the SDRs made available can be tailored to specific uses and countries most in need. Several countries have started to allow the IMF to use their unused SDRs in that way (Kharas and Dooley, 2020 and UN, 2020c).

G.4 LDCs NEED DEBT RELIEF

The effects of COVID-19 on resource flows, fiscal deficits and liquidity of LDCs, as described in section E., is increasing debts of many of them towards unsustainable levels. Many LDCs had experienced unsustainable debt levels in the past and several benefitted from debt relief initiatives. By end 2011, 25 LDCs had reached the completion point of the heavily indebted poor countries (HIPC) and Multilateral Debt Relief Initiative (MDRI), reducing their debt levels considerably. Thereafter three more LDCs (Comoros and Guinea in 2012, Chad in 2015) reached completion point. Somalia reached the decision point for HIPC in March 2020, leading to the immediate non-ODA debt cancellation of US$ 1.4 billion in debt owed by Somalia to Paris Club creditors.

However, subsequently the stock of LDC debt increased again from US$198 billion in 2011 to US$385 billion in 2019 (IMF, 2021). Average public debt in LDCs rose continuously from 34 percent in 2011 to 53 percent of GDP in 2019 and jumped to 58 percent in 2020. Total debt service as a percentage of exports of goods, services and primary income increased from an average of 5 percent to 13 percent over the same period (Figure G.2).

Figure G.2: Average LDC debt (2011–2020)



Source: OHRLLS calculations based on World Bank WDI and IMF (2021).

[59] OHRLLS calculations based on IMF data from https://www.imf.org/external/np/sec/memdir/members.aspx

Between November 2018 and November 2019, the number of LDCs assessed as in debt distress by the World Bank and the IMF increased from 5 to 6, while an additional 12 countries were listed as having a high risk of debt distress. As of November 2020, 4 LDCs were classified as in debt distress (Mozambique, Sao Tome and Principe, Somalia, and Sudan) while the number of LDCs at high risk of debt distress increased to 16 and further increases are expected (IMF, 2020d and IMF and World Bank, 2020).[60]

The composition of the debt stock of LDCs has also changed significantly since 2011, with a higher share of private and non-traditional bilateral creditors (notably China). While official debt remains the most significant portion of the external debt of most LDCs, commercial credit doubled from 2010 through 2019, from 6 to 12 percent of public external debt, driven by international bond issuance, which in general have shorter maturities and higher interest rates than concessional financing. This exposes countries to exchange rate, interest rate and refinancing risks, and with borrowing costs expected to increase, this may pose challenges to creditor coordination in case of debt distress. Several countries with high levels of external debt had to reduce social spending (UN, 2020a; UN DESA, 2020b).

An increasing number of mainly African LDCs issued one or more sovereign bonds between 2011 and 2019. For example, Angola, Benin, Ethiopia, Mozambique, Rwanda, Senegal and Zambia issued Eurobonds, while public entities in Angola and Mozambique issued government-guaranteed loans. Lao People's Democratic Republic issued multiple bonds on the Thai market. Unlike other LDCs that issued international bonds through public offerings, the United Republic of Tanzania issued an instrument via private placement. Angola and Senegal each issued 30-year paper in 2018 and Benin was the only LDC issuing a Eurobond in 2019. Angola has the largest stock of Eurobonds among LDCs, while Ethiopia, Senegal and Zambia owe more than half of their debt service due in the second half of 2020 to commercial creditors (OHRLLS, 2017; Smith, 2019; IMF and World Bank, 2020).

These changes in the composition of debt also contributed to the increase in the debt-service burden (debt service relative to government revenue) of LDCs. Debt servicing costs for IDA-eligible countries, to which almost all LDCs belong, more than doubled between 2000 and 2019, increasing from 6 to 13 percent of government revenue, which is often more than spending on health (UN DESA, 2020b).

Since the COVID-19 pandemic started to spread, the international community has started to suspend debt payments from least developed countries that request forbearance.

The IMF offered debt service relief to 27 of the poorest countries, all but one (Tajikistan) being LDCs (Afghanistan, Benin, Burkina Faso, Central African Republic, Comoros, Democratic Republic of the Congo, Djibouti, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, Solomon Islands, the United Republic of Tanzania, Togo and Yemen). Through the Catastrophe Containment and Relief Trust (CCRT) the IMF provides grants to cover their IMF debt obligations, which amounts to about US$500 million for the first year up to April 2021. The IMF is working to almost triple the CCRT to US$1.4 billion to extend the duration of relief, contingent to commitment of additional resources (IMF 2020b).

In earlier cases, three Ebola-afflicted countries (Guinea, Liberia, and Sierra Leone) received assistance from The Catastrophe Containment and Relief Trust (CCRT) close to US$100 million in February-March 2015. The previous Post-Catastrophe Debt Relief Trust was used to provide assistance to Haiti in July 2010 of about US$270 million, eliminating Haiti's entire outstanding debt to the IMF.[61]

On April 15, the G20 announced the Debt Service Suspension Initiative (DSSI), which is an official bilateral sovereign debt payment suspension initially for 8 months if requested by IDA countries and LDCs that are current on their IMF and World Bank obligations. On 14 October 2020, Paris Club members and the G20 agreed to extend the DSSI by 6 months, and to examine by the time of the 2021 IMF/World Bank Group Spring Meetings if the economic and financial situation requires further extension by another 6 months (Paris Club, 2020).

The DSSI allows these countries to suspend principal or interest payments on their debts to G20 and Paris Club members from May 2020 through June 2021. Once the time has elapsed, the countries will have to pay the deferred principal and interest over the five years following a one-year grace period. This deferral is net present value neutral, and therefore, does not reduce the total payment debtors will make to participating creditors. Beneficiaries must use the freed resources for social, health or economic spending to mitigate the effects of the COVID-19 crisis and abstain from contracting new non-concessional debt during the suspension period (G20, 2020b and UN, 2020c).

[60] It has to be noted that some of the latest available DSA publications, on which the list is based, were completed before the onset of COVID-19.
[61] Factsheet – The Catastrophe Containment and Relief Trust (imf.org)

As of mid-March 2021, 30 LDCs applied to benefit from DSSI and 24 of them have agreed on debt service suspension with Paris Club lenders (Angola, Burkina Faso, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Ethiopia, Guinea, Lesotho, Madagascar, Mali, Mauretania, Mozambique, Myanmar, Nepal, Niger, Sao Tome and Principe, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania, Yemen, Zambia).[62] Some of the LDCs, that have decided not to participate in the DSSI have very low debt service obligations that would be covered (see Table G.2). According to World Bank data, the initiative could provide around US$5.5 billion (around half of the total) in immediate and critical liquidity relief by official bilateral creditors for eligible LDCs in 2020, with the largest amount (around one third of the total) going to Angola. The extension of the DSSI to mid-2021 will increase the amount of relief by another US$4.6 billion. However, these amounts are still relatively small compared to the total amount of gross ODA received by LDCs, which was US$56.6 billion in 2019. Eligible obligations account for around 40 percent of LDC's total debt service obligations and 0.6 percent of their GNI on average, indicating that the effect of DSSI will be limited although participating countries have undertaken substantive COVID-19 related spending (WB, 2020 and Paris Club, 2020).

China would bear a considerable share of the DSSI debt suspension as its loans to LDCs, which might however be underreported, increased fast over the past decade. The OECD estimates that at least 70 percent of debt service due to official bilateral creditors is outside of DAC members. Thus, full participation of Chinese creditors in the DSSI, is an important factor in terms of the amount of debt that will be relieved. China has taken steps in this direction by circulating the Paris Club Memorandum of Understanding (MoU) to relevant agencies and financial institutions (OECD, 2020g and IMF and World Bank, 2020).

However, delays in approving the necessary memorandums of understanding with Paris Club members have led some LDCs to continue paying debt service to avoid arrears, reducing the amount of actual debt service suspension during the time of the greatest liquidity constraints further (IMF, 2020e).

As the DSSI only postpones debt service payments it leaves the obligations constant. This will lead to even higher obligations in the future and could lead to higher debt stocks for some countries than they had in 2019. In addition, the limitation to official creditors offered the possibility that deferred interest payments could be used to service debt to non-participating creditors, including some state-owned development institutions (G30, 2020).

There have been numerous calls for the private sector to contribute to debt relief efforts to avoid that the resources made available by the DSSI initiative go to other creditors instead of being used for the COVID-19 response. However, activities in this respect were subdued (UN, 2020c).

The Institute of International Finance (IIF), a consortium of private financial institutions, has developed a Terms of Reference (ToR) for voluntary private sector participation in the DSSI. These ToRs could be used as a starting point to advance individual conversations between sovereign borrowers and their private creditors, meaning that borrowers will need to negotiate directly with individual lenders, including on the interest rate that will be charged on deferred payments (IFF 2020). The G20 strongly encourages private creditors to participate on comparable terms when requested by eligible countries, which by March 2021 had not happened. It also encouraged multilateral development banks (MDBs) to go further on their collective efforts in supporting the DSSI, including through providing net-positive flows to DSSI-eligible countries during the suspension period, including the extension period (G20, 2020b).

Some countries have been reluctant to request forbearance, from both official and private creditors, fearing a downgrading by rating agencies.[63] In 2020 Angola, Ethiopia, Lao People's Democratic Republic, Mali, Rwanda, United Republic of Tanzania, Senegal and Zambia have been downgraded and several others had a negative change in sovereign rating outlook. The risk of downgrading due to the participation in the DSSI contradicts the intention of the initiative as it increases borrowing costs and limits fiscal space to provide sufficient fiscal stimulus (APRM, 2020 and G30, 2020).

COVID-19 has thus directly and indirectly further reduced LDCs access to capital markets. LDCs have not been able to issue sovereign bonds in 2020. Angola and Benin had scheduled to issue Eurobonds in the first half of 2020, which did not materialize due to the doubled yield costs following the COVID-19 induced rating downgrades (APRM, 2020).

Since the beginning of 2020, cost of non-concessional borrowing has also increased drastically, especially for commodity exporters. The worst affected country was Zambia, whose

[62] Portugal, which is not member of the Paris Club, signed jointly with the Paris Club creditors the Memorandums of Understanding implementing the DSSI (Paris Club, 2020).
[63] Less than half of LDCs do have any sovereign credit rating, and existing ones are not frequently updated and are below investment grade, see: Credit Rating – Countries – List (tradingeconomics.com).

10-year Eurobond yields increased from an average of 19.6 percent to 38.7 percent depending on the tenor (APRM, 2020).

For Zambia, which has become the first LDC to default on its debt during the pandemic, DSSI relief in 2020 would only amount to US$165 million, equivalent to 0.7 percent of GDP, of which US$133 million is owed to China. However, obligations to non-official lenders are much higher with US$527 million, while debt service to bondholders is estimated at US$118.7 billion. Debt service obligations to multilaterals only play a relatively minor role with US$76.2 million. In October the government of Zambia announced that it had reached an agreement with the China Development Bank to defer interest due on October 25th for six months, until April 2021, but this still only covers a small share of its total debt obligations and might not be sufficient to bring other creditors on bord (World Bank 2020f and EIU, 2020).

The G20 recognized that debt treatments beyond the DSSI may be required on a case-by-case basis, due to the large scale and expected long duration of the COVID-19 crisis, leading to a deteriorating outlook in many LDCs combined with significant debt vulnerabilities. Together with the Paris Club the G20 agreed in November 2020 on a "Common Framework for Debt Treatments beyond the DSSI" under which Chad, Ethiopia and Zambia have requested debt restructuring as of March 2021. However, this case by case approach is likely to involve lengthy debt restructuring processes, which in the past have taken 7 years on average (Bulow et al., 2020 and G20, 2020).

G.5 CONCLUSIONS AND RECOMMENDATIONS

FDI

The scale of decline in FDI, as well as the post-pandemic rebound in LDCs, will strongly depend on the strength of domestic and global recoveries and on commodity price trends. While facing and overcoming the additional difficulties posed by the COVID-19 crisis on LDCs, economic policies should be based on strengthening national development governance that incentivizes the allocation of domestic and foreign resources for industrial and technological upgrading while ensuring social and environmental protection. It should acknowledge possible impacts on global value chains from the COVID-19 crisis for the structural transformation of LDCs, for example by strengthening emphasis on regional approaches to overcome small domestic markets (UN DESA, 2020a).

At the same time more investment promotion strategies need to be adapted to new sustainable development opportunities during the recovery after COVID-19, including resetting priorities and targeting investment and business activities supporting the SDGs as well as attracting impact investors facilitating green and digital investment (UN, 2020c). LDCs will need support to enhance their capacity in this respect. Developing the ICT and eCommerce sector may also simulate investment and provides a new source of economic growth for LDCs. In order to do so, IPAs might need to revisit their strategies to focus on these new sectors and build the capacity and specialized knowledge required to promote this new value proposition. Furthermore, a stronger focus on aftercare programs to develop more powerful ties to existing investors could be a successful strategy (EIF and WAIPA Webinar, 2020).

In order to significantly enhance FDI in LDCs also an investment promotion regime as stated in SDG 17.5 needs to be established. Such investment promotion should pay specific attention to SDG sectors with the biggest need. Investment guarantees and insurance schemes should incorporate sustainable development priorities and bilateral, regional and multilateral investment promotion partnerships should emphasize the development of investment ready financial products (UN 2020c). While the COVID-19 pandemic continues, large rescue packages and support programs have been announced by governments and international organizations to prevent the worst for the global economy. For investment policies, this means keeping companies liquid, incentivizing investment in COVID-19 related industries, providing businesses with administrative support in their operations, keeping supply chains alive, supporting local SMEs etc. The pandemic may reinforce protectionist measures by countries for foreign investment in industries considered as being of critical importance to host countries; but at the same time, the crisis may also result in more competition for attracting investment while economies aim to recover (UNCTAD 2020b). While FDI stocks are still concentrated in fossil fuels, an increasing share of FDI to the energy sector is going to renewable energies (OECD, 2020d), which could provide an opportunity for some LDCs.

At the multilateral level, different groups have issued declarations in support of international investment, the trade and investment ministers of G20 for example encouraged technical assistance and capacity building to LDCs (G20, 2020a). Generally, announcements have been made to mobilize the entire range of instruments (monetary and fiscal measures, and targeted action to workers, companies and industries) to minimize the economic and social damage from the crisis (UNCTAD, 2020a). In addition to national efforts, international and multilateral cooperation will be crucial, especially for the recovery of LDCs.

Remittances

While the recovery of remittances to LDCs will to a large extent depend on the recovery in migrant destination countries, especially labor market dynamics, there are some measures that LDCs and development partners can take to improve the situation.

Origin countries need to find ways of supporting returning migrants in resettling, finding a job or opening a business (World Bank, 2020e). Host and origin countries should consider support measures for migrant workers to cope with the (post)-COVID-19 labor market, including re-skilling and reintegrating. It is also crucial to include migrants in vaccination programmes.

Governments in sending and receiving countries should incentivize the switch to and use of existing digital remittance products through targeted, time-bound offers, supported by full transparency in fees and foreign exchange margins for the customer. This also entails allowing remittance service providers to access domestic or regional payment systems and hubs to enable digital means of sending and receiving remittances. In addition, LDC governments can focus on financial inclusion and increasing (gender-sensitive) digital financial literacy and education (UN, 2020c).

Remittance service providers (banking and non-banking financial institutions) should be treated as essential services to reduce the burden of remittance fees on migrants and to have access to appropriate instruments to manage their credit and liquidity risks.

Efforts to reduce the cost of remittances need to be stepped up. These include addressing regulatory and infrastructure barriers and enhanced domestic retail payment systems. Waivers of taxes on remittances transactions should also be considered. Remittance service providers should develop COVID-19 business continuity plans while ensuring safety of staff and customers. Among the factors contributing to the high costs of transfers in some countries are the cost of compliance with anti-money laundering and countering the financing of terrorism regulations. Measures should be implemented that review and eliminate unnecessary stringencies in customer due diligence, contemplate simplified mechanisms for transactions, identification and verification, and account opening, while adhering to international laws and regulations and protecting customers against fraudulent activities and data breaches (RCTF, 2020a). Alternative forms of identification proof could replace less accessible documents with modalities that are easily accessible for migrant workers and rural remittance receiving families, such as SIM card registration documents, voice recognition systems, etc. Digital identity proofing solutions to provide Know-Your-Customer information and confirmation should be developed (UN, 2020c).

Over the medium term, it is necessary to strengthen the regulatory capacity in LDCs for enforcing regulations of remittance services and support development of Digital ID solutions. Policy frameworks on payment systems should be reviewed to enable competition and innovation as well as easier entry of new business models. Fast-track license applications and defined and transparent approval processes should be developed (UN, 2020c). At the same time comprehensive integrated cross-border payment solutions for MSME trade flows, ecommerce and remittances should be developed.

Furthermore, the crisis has exposed data gaps that have prevented real-time monitoring of remittance flows and migrant movements. Respective entities in host and home countries should collaborate to gather data on the needs of remittance families and disseminate information that would enable them to make informed choices about the use of remittances and remittances-linked services. Standardized data reporting and consolidation approaches as well as digital based data collection tools should be considered. In addition, safety nets need to be extended to migrants, returnees and recipients of remittances.

The collection and dissemination of information on the cost of remittances and national data on the remittance market to improve resilience in times of crisis needs to be stepped up. In response to this, the World Bank through the Global Knowledge Program on Migration and Development (KNOMAD) is launching an International Working Group on Improving Data on Remittances. They will invite national statistical offices, central banks, etc. to recommend measures to improve data on remittances and international cooperation in the collection and usage of data on remittances (World Bank, 2020e).

To summarize, it will be key for those people and economies relying on remittances as a source of income that the continuous effect of the COVID-19 pandemic does not hinder the recovery of remittance flows any more than absolutely unavoidable. Therefore, remittance service providers should be recognized as essential services and policies and measures need to be implemented to further decrease the costs of sending and receiving remittances. While COVID-19 might push the transfer to digital and online remittance services, this urgently requires the infrastructure, eco-system and digital literacy to be in place in LDCs.

Concessional Finance

While ODA is now needed more than ever by LDCs, which have the greatest needs and least access to other sources of finance, there is a risk that ODA might be reduced over the coming years and that LDCs are not spared from this decline. Several appeals by the UN and other international organizations were not fully funded more than a year after the start of the crisis. The international community needs to support a recovery that is inclusive, sustained and resilient in line with the 2030 Agenda. Now more than ever, political will and global solidarity are needed to help LDCs deal with the short- and longer-term consequences of the pandemic (OECD, 2020c).

The scale of the financial support needs to increase. Meeting the ODA commitments by DAC donors to provide 0.15-0.2 percent of their GNI to LDCs, including through their prioritization, would significantly increase the availability of finance, mainly on grant basis not leading to additional debt. DAC donors should not only reverse the decline in ODA to LDCs but strive to provide more than 0.20 percent of their gross national income or at least 50 percent of net ODA to the LDCs. This is crucial as LDCs not only face large financing gaps but also have less access to other sources of finance, with limited opportunities to increase domestic resource mobilization. In this context additional funding to multilateral development banks, including replenishment of their capital, would be crucial as their strong support to LDCs has been achieved by the front-loading of concessional finance. In addition, grant finance for LDCs especially for climate adaptation needs to increase to support resilience building. The COVID-19 pandemic also highlighted the need to incorporate risk analysis more consistently in development cooperation and for better coordination mechanisms during a global crisis. National development cooperation policies and related strengthened country capacities can enhance the mobilization and effective management of development cooperation, including through country results frameworks and information systems (UN, 2021).

ODA allocations based on vulnerability could also contribute towards building of resilience of LDCs. For example, the use of LDC criteria, including the EVI, for the allocation of financial and technical support, could not only reduce the volatility of ODA but also ensure that support for graduated LDCs continues, to address their vulnerabilities and strengthen their resilience, which is especially important for building back better after COVID-19. It is crucial that support to build resilience or mitigate the impact of external shocks should not come at the expense of development support oriented at addressing the root causes of vulnerability (UN-OHRLLS, 2018).

In addition to increasing the quantity of ODA, its quality also needs to be enhanced. This includes alignment with country priorities in line with the SDGs. Development finance providers should support LDCs in the development of a pipeline of sustainable projects, for example in the area of sustainable or climate-resilient infrastructure. Likewise, aid modalities need to be flexible and allow for local decisions with respect to spending priorities, for example through budget support (OECD, 2020d and Hurley et al. 2020).

The sectoral allocation of ODA also needs to be carefully reviewed to enable LDCs to achieve the SDGs. More ODA needs to be provided for the social sectors, including health, education, water and sanitation and social protection as well as nutrition. The COVID-19 pandemic has clearly highlighted the crucial role of these sectors in responding to emergencies and building resilience. As it is more difficult to attract private finance to these sectors and most LDCs face resource constraints that do not allow them to cover even half of the costs of required social sector interventions, this sector needs to be prioritized (see also section B.). At the same time LDCs need enhanced support to accelerate increasing domestic resources, which can only be achieved through inclusive growth, supported by assistance in domestic resource mobilization and fiscal management (Manuel et al., 2020). In this respect increasing support for productive capacity, including aid for trade and investment in human capital, is also crucial.

Blended finance can make an important contribution towards mobilizing resources for the medium-to-long term recovery in LDCs. Thus, blended finance investments need to increasingly focus on risk reduction, by investing in projects and sectors that increase resilience of economies and societies to future crises and contribute towards achieving the SDGs. Such preventative investments are likely to be less costly than responding to and rebuilding from future disasters and shocks. This includes making ODA loans more effective at mobilizing private capital as well as taking on more risk through focusing on more fragile contexts prevalent in many LDCs, using catalytic instruments and focusing on sectors severely hit by the crisis in such contexts (OECD and UNCDF, 2020).

These recommendations do not only apply to bilateral finance but also multilateral providers. The scale of multilateral finance needs to increase to ensure that crises of a new magnitude, including climate events, can be addressed. At the same time efficiency should be enhanced based on an assessment of the COVID-19 response (OECD, 2020e).

International financial institutions like multilateral development banks, other development finance institutions and development agencies, led by their shareholders, should revise their regulatory frameworks and business models and fully align their portfolios, credit enhancement and risk sharing facilities with the SDGs and the Paris Agreement, while ensuring public finance continues to be scaled up, for example through capital replenishments, and is used efficiently and effectively. This could include front-loading and leveraging of resources and repurposing of undisbursed funds (UN, 2020c and Kharas and Dooley, 2020).

In this context the allocation and use of SDRs in support of LDCs would also contribute to the COVID-19 response as they would provide additional liquidity at relatively low cost and their use can be tailored to the needs of individual countries. Thus, in addition to a new allocation of SDRs, more countries that have unused SDRs should make use of this option.

Another important source of external support for LDCs is through South-South cooperation, which is playing an increasingly important role for LDCs, but for which information is still patchy (see Box III.).

LDCs also need enhanced support in identifying their needs as well as potential sources for external support. Thus, the availability and quality of related data needs to be improved and information on all officially supported resources more widely shared. This could for example be done through identifying and gathering in one place access to respective funding mechanisms provided by various international organizations in response to the impacts of the COVID-19 pandemic (Djankov and Kiechel, 2020 and UN, 2020c).

Debt

While the debt situation of LDCs keeps evolving, it is clear that more long-term solutions are needed. The more comprehensive steps are taken now to reduce the debt burden and risk of defaults of LDCs the less need will be for bigger measures in the future. The prevention of debt crises needs to include strengthened debt management and enhanced debt transparency by creditors and debtors that would contribute to the promotion of responsible borrowing and lending. (UN, 2020c and 2021).

The moratorium on debt servicing through the DSSI needs not only be extended for a longer time period than June 2021 but also needs to include all creditors, including private creditors as called for by the G20. Thus, all official bilateral creditors need to implement the DSSI in a transparent manner, including national policy banks. G20 countries could also take steps to urge private sector creditors under their jurisdiction (IMF and World Bank, 2020).

In addition, international financial institutions should explore options to contribute to debt relief, including a standstill on an NPV-neutral basis, without significantly impacting their AAA credit ratings. In this context it is especially important to maintain net positive flows to LDCs with new finance made available significantly exceeding debt servicing (UN, 2020c).

Given the huge financing needs LDCs are facing due to the pandemic it is essential to avoid that new bilateral and multilateral finance is diverted for debt repayments to uncompromising creditors instead of supporting their people to deal with the effects of the crisis and build back better. This would include ensuring inter-creditor equity and fair burden sharing, especially between official and private creditors. Thus, private creditors need to be pushed to participate in debt workouts, including through legislation as was done in the case of HIPC. In addition, a fund to buy back outstanding stock of commercial creditors could also be developed (Bulow et al., 2020 and UN DESA, 2020b).

Given the worsening situation in many LDCs and the fact that the current increase in debt was beyond their control, debt relief will be needed to avoid widespread defaults and to facilitate investments in recovery and the SDGs. As the DSSI mainly bought some time it is essential to develop sustainable solutions to the debt challenges of LDCs—to 'build back better'. This would include debt-stock reductions and swifter debt-restructuring. Official creditors could apply better terms to their current and future credits to LDCs, by extending grace periods, lengthening average maturities and lowering average interest costs. Countries which are highly indebted but do not have reached unsustainable debt burdens, debt swaps could be considered to be used for a COVID-19 stimulus package, which would make debt more sustainable in the future (UN DESA, 2020b).

For the most vulnerable countries debt cancellations should be provided, building on the experience of the CCRT, which could be expanded to additional countries and creditors. Under updated DAC rules bilateral debt cancellation would partially count as ODA (UN, 2021).

More transparency of the terms of the existing and new debt and debt-like commitments of governments, including detailed information on private sector exposure might facilitate

World Health Organization personnel at the field laboratory in Cox's Bazar, Bangladesh, where they are working to increase COVID-19 testing and treat severe cases of the disease. WHO is also enhancing the disease surveillance system, strengthening contact tracing, training health workers on infection prevention and control, and delivering essential health supplies.

Photo: WHO/Blink Media, Fabeha Monir

faster creditor-debtor negotiations. In addition, realistic forecasts of GDP growth would avoid the underestimation of financing needs and overestimating country's capacity for debt servicing (Bulow et al., 2020 and UN DESA, 2020b).

To enhance sustainability, debt relief should be integrated in a broader strategy that takes investment needs for long-term sustainable development into consideration. Thus, technical assistance and capacity building for LDCs should be provided to strengthen their debt management. Likewise, the debt sustainability frameworks for LDCs should systematically take into account their structural constraints and longer-term investment requirements for the implementation of the SDGs. (UN DESA 2020b and LDC Ministerial declaration).

The COVID-19 crisis highlights gaps in the current international sovereign debt restructuring architecture that should be addressed as soon as possible in order to reduce the likelihood of future crises. It would be especially important to systematically include a broad range of state contingent elements—for terms of trade shocks, disasters, or others—to help countries better manage future shocks, including unexpected ones such as the pandemic (UN DESA, 2020b; G30, 2020 and OHRLLS, 2017).

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Table G.1: Aid from DAC Countries to LDCs (net disbursements)

	NET DISBURSEMENTS											
	2007-2008			2017			2018			2019		
	USD million	Percentage of donor's total	Percentage of donor's GNI	USD million	Percentage of donor's total	Percentage of donor's GNI	USD million	Percentage of donor's total	Percentage of donor's GNI	USD million	Percentage of donor's total	Percentage of donor's GNI
DAC Country												
Australia	712	25	0.08	852	28	0.07	868	28	0.06	667	23	0.05
Austria	273	15	0.07	293	23	0.07	319	27	0.07	315	26	0.07
Belgium	864	40	0.18	649	30	0.13	744	32	0.14	725	33	0.14
Canada	1712	39	0.12	1486	35	0.09	1 645	35	0.10	1 490	33	0.09
Czech Republic	73	34	0.04	64	21	0.03	65	21	0.03	65	21	0.03
Denmark	1092	41	0.33	729	30	0.22	726	28	0.20	787	31	0.22
Finland	387	36	0.15	325	30	0.13	314	32	0.11	368	32	0.14
France	3058	29	0.11	2753	24	0.10	3 390	26	0.12	2 919	24	0.11
Germany	3388	26	0.10	4089	16	0.11	4 956	19	0.12	4 454	18	0.11
Greece	132	22	0.04	56	18	0.03	60	21	0.03	50	14	0.02
Hungary	43	41	0.03	29	19	0.02	68	24	0.05	65	21	0.04
Iceland	19	40	0.12	20	29	0.08	32	44	0.12	24	40	0.10
Ireland	643	51	0.29	359	43	0.14	386	41	0.13	373	38	0.12
Italy	1476	33	0.07	1161	20	0.06	1 318	26	0.06	1 146	27	0.06
Japan	2544	29	0.05	5001	44	0.10	5 370	53	0.10	5 328	45	0.10
Korea	224	30	0.02	780	35	0.05	969	40	0.06	966	38	0.06
Luxembourg	155	39	0.37	182	43	0.43	224	47	0.46	213	45	0.47
Netherlands	1928	29	0.24	1045	21	0.13	1 352	24	0.15	1 274	24	0.14
New Zealand	85	25	0.07	127	28	0.07	132	24	0.07	140	25	0.07
Norway	1411	36	0.33	1165	28	0.28	1 242	29	0.27	1 167	27	0.28
Poland	94	26	0.02	113	17	0.02	220	29	0.04	133	17	0.02
Portugal	219	40	0.10	123	32	0.06	129	33	0.06	125	33	0.05
Slovak Republic	38	48	0.05	22	19	0.02	25	18	0.02	21	18	0.02
Slovenia	7	11	0.01	12	16	0.03	13	16	0.02	13	14	0.02
Spain	1317	22	0.09	584	23	0.04	687	27	0.05	583	22	0.04
Sweden	1461	32	0.31	1708	31	0.31	1 916	32	0.34	1 766	34	0.32
Switzerland	495	27	0.11	922	29	0.14	951	31	0.13	930	30	0.13
United Kingdom	4174	39	0.15	6081	34	0.23	6407	33	0.23	5770	30	0.21
United States	7201	30	0.05	12091	35	0.06	11360	34	0.05	11425	35	0.05
DAC-EU countries	20716	31	0.12	20379	24	0.12	23318	26	0.13	21164	25	0.12
TOTAL DAC	**35110**	**31**	**0.09**	**42823**	**29**	**0.09**	**45886**	**31**	**0.09**	**43300**	**30**	**0.09**

Source: OECD (2021).

Note: Including imputed multilateral flows, i.e. making allowance for contributions through multilateral organisations, calculated using the geographical distribution of multilateral disbursements for the year of reference.

Table G.2: Potential debt relief for LDCs from DSSI

COUNTRY	DSSI PARTICIPATION?	RISK OF EXTERNAL DEBT DISTRESS?	POTENTIAL DSSI SAVINGS MAY–DECEMBER 2020		POTENTIAL DSSI SAVINGS JANUARY–JUNE 2021	
			% OF GDP	USD MILLIONS	% OF GDP	USD MILLIONS
Afghanistan			0.2	39	0.2	37
Angola	Yes	–	1.9	1735	1.4	1293
Bangladesh	No	Low	0.1	332	0.1	291
Benin	No	Moderate	0.1	16	0.1	15
Bhutan	No	Moderate	5.8	145	9.9	248
Burkina Faso	Yes	Moderate	0.2	24	0.1	13
Burundi	Yes	High	0.1	5	0.1	3
Cambodia	No	Low	0.8	219	0.8	209
Central African Republic	Yes	High	0.3	7	0.4	9
Chad	Yes	High	0.6	65	0.4	44
Comoros	Yes	Moderate	0.2	2	0.2	2
Congo, Dem.Rep.	Yes	Moderate	0.3	156	0.2	106
Djibouti	Yes	High	1.7	57	2.0	67
Ethiopia	Yes	High	0.5	473	0.4	360
Gambia, The	Yes	High	0.6	10	0.4	6
Guinea	Yes	Moderate	0.5	71	0.2	29
Guinea-Bissau	Yes	Moderate	0.1	2	0.1	2
Haiti	No	High	0.9	76	0.7	60
Kiribati	No	High	–	..	..	..
Lao People's Dem. Rep.	No	High	1.7	315	1.5	278
Lesotho	Yes	Moderate	0.4	10	0.2	6
Liberia	No	Moderate	0.1	2	0.1	2
Madagascar	Yes	Moderate	0.3	36	0.1	9
Malawi	Yes	Moderate	0.2	17	0.2	17
Mali	Yes	Moderate	0.5	83	0.3	46
Mauritania	Yes	High	1.2	91	1.3	103
Mozambique	Yes	In distress	1.9	293	1.6	250
Myanmar	Yes	Low	0.6	380	0.5	359
Nepal	Yes	Low	0.1	25	0.1	21
Niger	Yes	Moderate	0.2	26	0.2	24
Rwanda	No	Moderate	0.1	13	0.1	12
São Tomé and Príncipe	Yes	In distress	0.4	2	0.7	3
Senegal	Yes	Moderate	0.6	139	0.4	98
Sierra Leone	Yes	High	0.2	8	0.2	7
Solomon Islands	No	Moderate	0.1	2	0.0	1
Somalia	No	In distress	0	2	0.0	1
Sudan	No	High	–	..	..	..
Tanzania, United Republic of	Yes	Low	0.2	139	0.2	110
Timor-Leste	No	Low	0	0	0.0	0
Togo	Yes	Moderate	0.5	27	0.4	24
Tuvalu	No	High	–	..	..	..
Uganda	Yes	Low	0.2	91	0.3	107
Yemen	Yes	–	0.9	212	0.6	138
Zambia	Yes	High	0.7	165	0.8	184
Total LDCs				***5511***		***4590***
Total participating LDCs				***2234***		***1895***

Source: Debt Service Suspension Initiative (worldbank.org)

Box IV: COVID-19 in cities in LDCs

More than half the world's population live in urban areas, often in densely-populated zones. In July 2020, the United Nations estimated that approximately 90 percent of all reported COVID-19 cases were in urban areas (UN, 2020), although in more recent months, several countries have seen significant spread in rural areas. In developed and developing countries alike, urban settings have posed serious challenges with regard to the transmission of COVID-19. Typically, in developing countries, the virus has first entered the country through international air travelers arriving in major cities and then transmitted on to secondary and third-tier cities (UN-HABITAT, 2020b).

The United Nations Socio-economic Framework for Immediate COVID-19 Response has classified the informally or self-employed in urban areas as one of the "at risk" population groups experiencing a high degree of socio-economic marginalization. Several groups stand out as particularly vulnerable in urban settings, in the COVID-19 context. These include: those living in informal settlements, the urban poor, homeless and people living in inadequate housing conditions, refugees and migrants, older persons, especially those at risk of isolation, persons with underlying medical conditions, women and girls, socially marginalized groups, and individuals at risk of interpersonal violence or self-inflicted harm (WHO, 2020a). The impacts of the COVID-19 pandemic can result in the widening of existing social and economic inequalities, while exacerbating vulnerability of these at-risk groups.

In LDCs, the conditions in slums and informal settlements carry especially high risks, due to overcrowding, limited access to water and sanitation, poor health care systems, and the lack of other basic services. Such overcrowding and the conditions that come with it are more likely to contribute to spread than density alone. Furthermore, a high percentage of slum dwellers work in the informal economy, which often have crowded workplace settings and no or limited social protection measures to fall back on. According to recent estimates, the COVID-19 pandemic could result in 120 million more people living in extreme poverty. The "new poor" are more likely to be urban dwellers and be better educated and less likely to work in agriculture than those living in extreme poverty before COVID-19 (World Bank, 2020a).

Among the LDCs, Bangladesh has the highest number of registered COVID-19 cases, with the capital Dhaka recording the bulk of the country's reported coronavirus cases (69 percent of cases were from Dhaka Division, as at 20 December 2020). In addition, the situation in the Cox's Bazaar District has been a source of particular concern for the government and UN and aid agencies, who have maintained vigilance while aiming to increase support, for example by scaling up testing and health treatment for both Rohingya refugees and Bangladeshis (WHO, 2020b; WHO, 2020c).

While urban areas have seen the bulk of reported cases in LDCs, they are also important economic hubs. The contribution of cities to national GDP is 50 percent on average for Africa, and as high as 70 percent in some countries, for example Uganda. In 2020, the percentage of people living in urban areas in Africa was 43 percent, and 33 percent for low-income countries (UN-HABITAT, 2020b). On average, nearly a third of national GDP comes from the largest city in African countries (UN, 2020a). As a result of the pandemic, major job losses have occurred in cities, especially in informal and low paying jobs. Urban areas employ 38 percent of the global workforce and account for the majority of sectors classified as "high risk" by the ILO in the context of COVID-19 (ILO, 2020). The economic impacts of the pandemic in urban areas can be particularly severe - from job losses, lockdown and closures, and other forms of disruption. Some data have shown over 80 percent of slum residents have reported partial or complete loss of income. Many have left urban areas especially slum dwellers.

Transportation networks play a critical role in urban areas. They allow people to reach their place of work, connect rural and urban areas, link major economic hubs, and allow the efficient transit of people and goods to points of entry and exit (e.g. airports and seaports). At the same time, transportation can serve as major points of transmission, especially congested modes of transport. In order to combat the spread of the disease, a number of LDCs have had to resort to the suspension of public transport or a reduction in carrying capacity (UN-HABITAT, 2020a). Public transport systems have seen ridership and revenue plummet and have been forced to cut services. Furthermore, the urban poor, who generally cannot work remotely, also do not have the financial means for private transport, and thus the suspension of public transport has led to job losses and loss of livelihoods. Maintaining public transport remains vital, especially for the urban poor and vulnerable groups, including women and girls (UN, 2020).

COVID-19 shutdown measures in cities have had economic impacts well beyond their urban boundaries. Informal workers who have lost their jobs and are unable to afford high urban rents have been under pressure to relocate to rural areas. Urban de-densification itself as a result of COVID-19 can cause further economic slump. In addition, urban centres often play an important role in supply chains and transit of goods. Thus, shutdowns have also impacted on trade and food supply chains.

The response to COVID-19 in urban settings requires a coordinated and multi-sectoral approach, engaging national and local government authorities as well as other segments of society. Local authorities and communities are particularly important partners for governments and UN and aid agencies. Critical sectors include health, water and sanitation, social services, transport, housing and energy, education, security, and commerce and economy.

Coordination is a critical component, especially for large cities. Uganda's capital Kampala has 40 percent of the total confirmed COVID-19 cases in the country. The Kampala Capital City Authority has set up a three-tiered coordination structure for its response, with a city task force led by the Director of Public Health & Environment, a Ministerial task force headed by the Minister for Kampala and Metropolitan Affairs, and Citywide and Division level task forces for Kampala City's five Divisions (Cities for Global Health, 2020).

A critical part of the COVID-19 emergency response in LDC cities has revolved around the identification of hotspots and provision of water and health services, especially in slums and underserved urban areas. Other priority areas include community engagement, waste collection, and targeted social protection schemes, as well as the continued provision of essential services, including combatting crime and insecurity, especially violence against women and girls (World Bank, 2020b). To do this, local authorities must receive financial means necessary, especially as they have suffered cuts from reduced central government transfers which are themselves facing severe fiscal crises.

In the medium-term, early recovery measures include business continuity, ensuring supply chains, re-starting transportation and other systems, providing safety nets for the urban poor as well as housing measures, micro-loans, rolling out employment programmes, and providing support for municipal finance. In the longer-term, local economic development strategies are critical for recovery, as are scaling up slum upgrading, strengthening emergency management, improving local governmental institutions, and investing in green recovery measures (World Bank, 2020c).

The COVID-19 pandemic has highlighted the inherent fault lines and weaknesses of unsustainable urbanization – and has further exacerbated them. The recovery, in the medium and long term, offers the possibility to address the root causes of unplanned, under-financed and uncoordinated urban growth in LDCs, while at the same time combatting climate change and building resilience. A consensus is emerging among experts that overcrowding, not density, is primarily responsible for rapid spread. Thus, maintaining acceptable levels of hygiene in houses, shops, places of employment and public transport are crucial. Health should become a new guiding principle in urban planning and governance (UN-HABITAT, 2020c).

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H. RESILIENCE PACKAGE FOR RECOVERY AND PREPAREDNESS FOR FUTURE SHOCKS

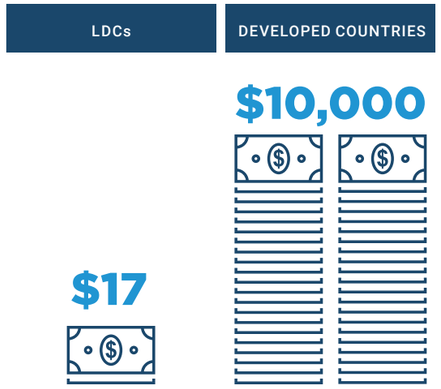
H.1 COVID 19—A SYSTEMIC RISK

The impacts of COVID-19 have reached all countries. Trade and travel are two key vectors that have pushed the spread of the pandemic. Millions of people, including increasing numbers in LDCs, are already affected by the virus and hundreds of thousands have lost their lives. In addition to the dismal human toll, the poorest and most vulnerable countries may face long-lasting effects the pandemic leading to more poverty, inequality and deprivation, as illustrated throughout this report.

The basic framework that assesses any risk or threat is typically constructed around four factors: hazard, exposure, vulnerability, and resilience[64], and it is the interaction of these four that leads to the economic consequences (Noy et al., 2020). In LDCs, people are highly exposed to the pandemic due to lack of adequate protective measures, extremely vulnerable due to weak fiscal and healthcare facilities and severely affected due to poor socio-economic resilience (see section A).

The pandemic affected the economies of all countries through demand and supply side shocks. Three such interrelated factors are: first, consumers and investors lose confidence in marketplaces affected by the pandemic or simply reduce their demand as a result of sudden loss of income, affecting the demand side of the market; second, absenteeism and reduction in the workforce negatively impacts the supply side; and lastly, public health safety measures aimed at reducing the spread of the virus severely affect economic activity through various mechanisms, such as a reduction, or halt of trade or travel (Nistha Shrestha, 2020). In a highly interconnected and complex global system, these factors have resulted in uncontrolled feedback loops and cascading effects leading to high uncertainties that are extremely difficult to manage.

Resilience package for recovery and preparedness for future shocks



COVID-19 related expenditures per capita in developed countries dwarfed those in LDCs in 2020

[64] Hazard refers to the possible, future occurrence of natural or human-induced physical events that may have adverse effects on vulnerable and exposed elements (White, 1973; UNDRO, 1980; Cardona, 1990; UNDHA, 1992; Birkmann, 2006b). Although, at times, hazard has been ascribed the same meaning as risk, currently it is widely accepted that it is a component of risk and not risk itself. Exposure refers to the inventory of elements in an area in which hazard events may occur (Cardona, 1990; UNISDR, 2004, 2009b). Hence, if population and economic resources were not located in (exposed to) potentially dangerous settings, no problem of disaster risk would exist. Thus, exposure refers to people, property, systems, or other elements present in hazard zones that are thereby subject to potential losses. Vulnerability refers to the propensity of exposed elements such as human beings, their livelihoods, and assets to suffer adverse effects when impacted by hazard events (UNDRO, 1980). Vulnerability is related to predisposition, susceptibilities, fragilities, weaknesses, deficiencies, or lack of capacities that favor adverse effects on the exposed elements(Cardona et al., 2012). Resilience is the "capacity of social, economic, and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning, and transformation (IPCCC).