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CRISIS MITIGATION AND RESILIENCE BUILDING FOR LDCS

The Least Developed Countries (LDCs) constitute the poorest segment of humanity. They are also the most vulnerable countries and those with the lowest stock of human and physical capital. In recent years, LDCs have experienced a whole range of external shocks, including natural and climate-related disasters, volatility of commodity prices and aid flows and health pandemics.

“Climate-related shocks disproportionately affect LDCs”

“We welcome ongoing work in relevant institutions to support efforts by LDCs, LLDCs and SIDS to build their national capacity to respond to various kinds of shocks including financial crisis, natural disasters, and public health emergencies, including through funds and other tools.”

The Addis Ababa Action Agenda (para. 68)

Tsunamis and cyclones in Pacific LDCs, earthquakes in Haiti (2010) and Nepal (2015) and droughts in African LDCs all resulted in significant human and material losses and reversals of recent hard-won development gains. Climate-related shocks disproportionately affect LDCs, in particular small island LDCs, because of their location as well as their limited economic, institutional, scientific and technical capacities to manage and adapt to shocks. The spill-over effects from the Great Recession of 2008-09 that shook advanced countries caused a commodity price burst, which affected most LDCs. To top it off, health epidemics—such as the Ebola outbreak in Guinea, Liberia and Sierra-Leone in 2014 and

2015—hampered severely economic activity and depressed considerably economic growth in these countries.

These shocks have had direct and indirect, short-term and long-term adverse effects on LDCs. They cannot only hinder the pace of current economic progress and exacerbate poverty, but also erode the capacity of LDCs to cope with these shocks, thereby undermining their long-term prospects for economic development. There is also evidence that LDCs, which have limited capacity to invest either in physical capital or in human capital, are incurring higher average annual loss relative to their capital stocks



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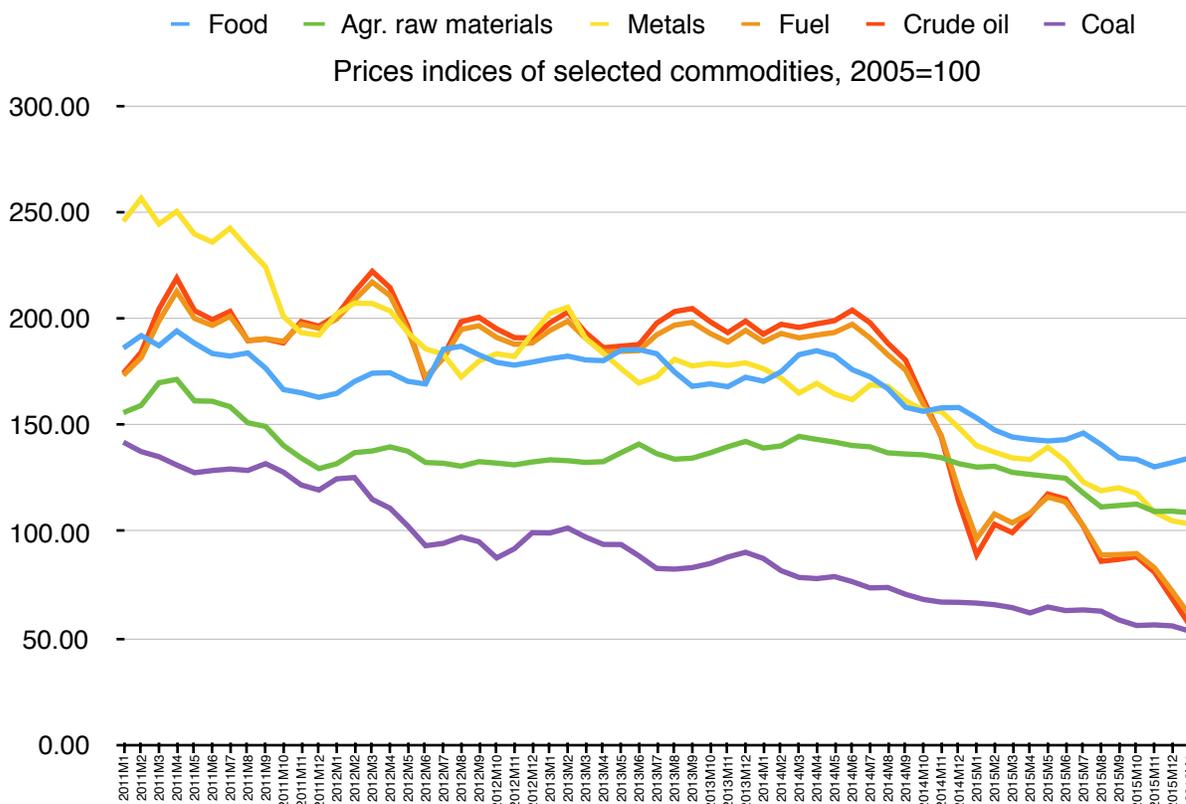


and social investments. Not surprisingly, the economic vulnerability index—which is one of the defining criteria of LDCs—features indicators of exposure to shocks such as population living in low-lying areas that are disproportionately affected by flooding, victims of natural disasters and instability of agricultural production, which is largely rainfed in LDCs.

In view of the above, the priority area for action “Multiple Crises and other Emerging Challenges” of the Istanbul Programme of Action (IPoA)” needs to be implemented on a priority basis. IPoA includes provisions pertaining to actions by LDCs and development partners with respect to building resilience of LDCs to withstand economic shocks and mitigating their adverse effects; strengthening LDCs’ ability to withstand and overcome the adverse effects of climate change, enhancing sustainable growth and protecting biodiversity, and building the resilience of LDCs to withstand external shocks. In short, appropriate policies and actions in support of crisis mitigation and resilience building are critically important tools for achieving sustainable development in LDCs. Cognizant of this, the Addis Ababa Action Agenda, in paragraph 68, welcomes

“ongoing work in relevant institutions to support efforts by LDCs, LLDCs and SIDS to build their national capacity to respond to various kinds of shocks including financial crisis, natural disasters, and public health emergencies, including through funds and other tools”. Such work needs to be developed further.

Volatile commodity prices are of particular concern to LDCs, as most of them are highly dependent on one or two commodity exports. After rising for almost a decade, the prices of a broad range of commodities began declining from the second half of 2014. The fiscal impact of this sell-off in global commodity markets is serious for governments for which natural resources account for a significant share of exports and government revenue. However, mechanisms and instruments to mitigate and manage the risks associated with the volatility of commodity prices are limited and those available do not fully attend to the specific needs of countries, especially to LDCs.



Box 1. Disaster risk reduction in Vanuatu

Vanuatu has been rated as the most at-risk country in the world. It is highly vulnerable to climate change and disaster risk as well as geophysical threats from volcanic eruptions, earthquakes and tsunamis. During 1972 to 2015, 44 significant disasters struck Vanuatu, causing more than 300 deaths, rendering almost 16,000 households homeless in a country with a total population of around 250,000. Vanuatu has implemented various risk-reduction measures including: “disaster-proof” building codes, improved engineering design standards, and coastal land-use planning, institutional design with respect to response procedures and early warning measure, preparedness drills and pre-positioning disaster

relief packages. In 2013, Vanuatu established the National Warning Center, which provides faster and more accurate assessments of possible threats and the data collected are shared regionally and with neighbouring countries. Vanuatu is also mainstreaming disaster-risk management into national planning. The recent establishment of the Ministry of Climate Change Adaptation, Meteorological, Geo-hazards, Energy, Environment and Disaster Management reflects the political commitment of the government to streamline the implementation of climate change and disaster-risk reduction programs and associated institutional arrangements in Vanuatu.



Cyclone Pam in Vanuatu.
Photo: Silke von Brockhausen, UNDP/Flickr

LDCs have made some progress with respect to building resilience. Many LDCs have designed and implemented national disaster reduction strategies and have embedded them into their national development plans. There has been recent renewed global progress, particularly in strengthening disaster management and addressing the issue of resilience-building in LDCs. The Sendai Framework for Disaster Risk Reduction 2015–2030 calls for enhanced international cooperation with developing countries to support their implementation of the framework, and a substantial increase in the availability of and access to multi-hazard early warning systems and disaster risk information and assessment. Vanuatu provides a good example on disaster risk reduction (please see Box 1).

The Sendai Framework, which has some important dimensions of disaster-risk reduction, recognizes that the state has the primary responsibility to reduce disaster risk, a role that ought to be shared with other stakeholders such as the local government as well as the private sector. It emphasizes the importance of risk-informed and resilient development as a pathway for achieving poverty reduction. It also envisages global cooperation, a participatory implementation mechanism with accountability, and international financial assistance and technology transfer to poorer countries.

Macroeconomic policies play a pivotal role in managing risk at the national level. Governments need to strike a balance between development and stability. While the former requires mobilization and efficient allocation of public investments, the latter requires creating macroeconomic buffers for “self-insurance” against future exogenous shocks. Macroeconomic policies also help to deal with the effects of shocks if a social safety net structure has been established before the shock hits. There is evidence that a basic social protection package is affordable to LDCs. In addition, there is need for structural reforms to boost production, diversify exports, and increase social sector spending for health and education and social safety nets, which support the most vulnerable rapidly and efficiently in times of crises.



At the current stage of development of LDCs, the task of building resilience cannot be accomplished by these countries themselves. They will require external assistance. International financial institutions and other development partners provide external assistance to countries affected by exogenous shocks in various forms and through various channels, but these are not sufficient.

Assistance should be timely, as the returns on aid are highest immediately after a natural disaster. This implies that, even if total foreign assistance available to a country over time is fixed, some

reallocation of assistance to help counter the effects of a shock would be inter-temporarily optimal.

Allocation of external assistance should be commensurate with needs. Currently, while large and highly visible natural disasters attract more foreign assistance, smaller natural disasters are largely ignored. Development partners should also direct a larger portion of their assistance towards activities related to ex-ante risk reduction; such a shift can be beneficial to both donors and recipients by introducing predictability in their respective financial plans. Furthermore, donors may link their external assistance to ex-ante actions by the recipient countries to reduce their economic vulnerability to shocks. International financial institutions can also provide technical assistance to develop domestic insurance markets in LDCs.

As recognized in article 4.9 of the United Nations Framework Convention on Climate Change (UNFCCC), LDCs need financial and technological support to adapt to climate change. Commitments by developed countries to provide \$100 billion annually by 2020 need to be fulfilled. The decision of the board of the Green Climate Fund (GCF) to simplify the funding proposal template to facilitate the application process and to split funding 50-50 between mitigation and adaptation will go a long way in ensuring adequate funding for LDCs' climate-change needs.

One of the greatest global challenges of this era is the threat of pandemics to which LDCs remain extremely vulnerable. There is a need for creating a global health security architecture. Development partners need to contribute to this architecture by investing in strengthening public-health systems, improving co-ordination in emergency and funding of neglected areas of R&D. Some recent initiatives of the World Bank and the WHO such as the Pandemic Emergency Facility are steps in the right direction. More needs to be done in terms of data sharing, public-private partnership and research funding for creating a global health security architecture, a global public good.

There is an important role for regional cooperation in crisis mitigation and fostering resilience. There are many disasters that affect a number of countries simultaneously or have cross-border effects. In addition to knowledge and technology sharing, cooperation can take place in areas of early warning or risk-financing. Recent years have seen the development of a number of regional risk insurance pools. One such initiative is the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The advantage of such a facility is that it provides participating governments with immediate liquidity in the event of a major natural disaster at a significantly lower cost than if they were to purchase insurance separately in the financial markets. The participating governments contribute resources to the pool according to their respective risk exposure; and the fund is re-insured in the capital markets. Similar initiatives need to be scaled up and adapted to specific financing needs and challenges of LDCs.

