

Adaptation and Economic Resilience

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Outline of Presentation

CC, NA1 Economies & Econ Resilience

UNFCCC & Economic Resilience (ER)

Opportunities & Tools for enhancing ER

Constraints to enhancing ER

Suggestions to overcome the Constraints



Old Wisdom in the Context of CC & ER

An old adage says: “One should do what one is good at” – (refers to specialization)

An equally well-known proverb says: “Don’t put all your eggs in one basket” – (refers to econ diversification)

In the language of Economics, here is a conflict between pursuing a line of activity in which a country has a comparative advantage vs efficient diversification of econ activities & risks

These 2 imperatives – to specialize & to diversify – appear irreconcilables

How does climate change impacts on these imperatives?

How to balance & reconcile these apparently contradictory imperatives?

We hope this Workshop will come out with some guidance

Climate Change Impacts (CCI) & ER

CCI add to vulnerabilities as exogenous variables in all dimensions of Sustainable Dev –env, econ & social

CCI & vulnerabilities vary by country, region, and by ecosystem within regions

Vulnerability is a social construct as well - adaptive capacity (AC) of a people is a key to determining it

Geographic location & nature of economic sectors are important in CCI – for ex. sectors that depend heavily on water supply, precipitation or hydropower, may be seriously affected in drought-prone regions

So enhancing ER should include measures that reduce vulnerability to both physical & socio-economic systems

NA1 Economies & ER to CC

Narrow econ base, with primary commodities dominating in the GDP

Limited exportables; the terms of trade declining

Growth patterns in NA1 economies erratic

SMEs contribute more to GDP in many NA1 economies than large manufacturing

LDCs are 'double losers' to CC & globalization & face 'structural omission,' so they are caught in an int'l poverty trap; this exacerbates antecedent poverty



Understanding ER in the Context of CC

ER refers to a country's ability to recover from or adjust to negative economic impacts

Resilience of an economic system or people depends on resource endowment, structure of the economy, level of income & equity, education & skills of the labor force, quality of mgt, etc., & on the int'l dynamics

So, ER and AC to CCI are positively correlated – both move in the same direction

UNCTAD has worked out **Export Concentration, Export Instability & Econ Vulnerability** Indices; Commonwealth has worked out **Econ Resilience Index**, but **none of them has factored yet the CCI into these indices**



UNFCCC & ER

- Article 4.7 recognizes that “economic and social dev & poverty reduction are the first & overriding priorities of developing country parties”; so an integrated approach to dev has been suggested
- Article 4.8: the expression “ER” is not in the text, but the ideas are there with reference to specific NA1Cs
- Decisions 5/CP.7, 2/CP.11, Tehran Workshop of ' 03
- NWP specified Econ Diversification (ED) as an area, but other areas complement to this goal
- Submissions of Parties on ED
- Cairo Workshop—with an expanded framework of ER



Strategies & Tools of ER

ED (Growing range of econ outputs, Diversification of export market, or Diversification of income sources) is just **one** strategy of enhancing ER

So ED reduces the exposure of the econ to the variability & extreme conditions of the climate

However, ED should try to avoid encouraging activities that increase GHG emissions

NA1Cs, in fact, have enormous potential for energy efficiency & adopting renewable energy, with GHGER as a co-benefit

So, A1Cs should discourage a shift of dirty industries to NA1Cs



Adaptation & Econ Diversification

Objectives	Market-based	Public Provision
Adaptation (<i>ex-ante</i>)		Integrating CC concerns into dev policies, land zoning
Reducing risks		Env health, infrastructure & labor policy
Risk diversification	ED, Microfinance, derivatives, Insurance	Agr extn, protection of property rights, pension, mandated insurance
Coping with shocks (<i>ex-post</i>)	Loans from financial institutions	Social protection – safety nets



Financial & Other Derivatives & ER

Derivatives expand the financial sphere since they provide instruments that can be used for:

- hedging in order to reduce risks, or
- to derive benefits that come with taking higher risks

Financial derivatives can balance & reconcile the contradictory goals of specialization & ED through risk diversification:

- Ex. A **swap** derivative ensures a min rate of return to the main export earnings

Weather derivatives in the form of index-based insurance



Constraints to enhancing ER

Domestic market base

Lack of knowledge of new markets & derivatives

Lack of capacity & technology at all levels

Market failures:

- Limited access of SMEs & the poor to formal bank loans
- Almost no access of the poor to insurance market
- Mismatch between short & long-term needs of productive investments

International dynamics not conducive



Suggestions for Enhancing ER

Enhancing ER has to be promoted from SD perspective
– integrating all its dimensions, strategies & tools

More value-addition to primary exports

Expansion of agri extension, R & D for new crops, tech & markets

Promotion of SMEs, with back & forward linkages

Development of labor-intensive manufacturing

Maintaining equity in distribution of dev benefits

Enhancing quantity & quality of microfinance

Introducing insurance & microinsurance

Skill dev & institutional capacity building at all levels

International Support for Enhancing ER

- Recasting of int'l commodity policy & pricing
- Quota-free access of LDC/SID exports to AIC markets
- Debt relief & doubling of ODA to LDCs & SIDs
- Concessional lending for long-term investment
- Transfer of clean tech at affordable terms
- Refining the ER Index, with factoring the CCI
- Adequate funding for ER from SCCF/LDCF



Int'l Support for Enhancing ER (contd)

- Creation of an Int'l Insurance Pool
- Special immigration quota for CC-induced displaced persons from the LDCs & SIDs
- Impact of financial crisis on enhancing ER ?
 - There are opposing thoughts, but M Friedman, the leading Guru of market economy, argues: “Only a crisis – actual or perceived – produces real change.... until the politically impossible becomes politically inevitable”
 - Hope this fin crisis will engender innovative ways to deal with CCI & ER



Thank You

