

## **Adaptation to Climate Change and Economic Diversification in the LDCs**

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## **Outline of Presentation**

### ∞ **Adaptation - Econ Diversification (ED) Linkage**

- **Constraints to ED**
- **Role of Microfinance & Microinsurance in ED**

### ∞ **The LDC Context**

- **Why are the LDCs most vulnerable to CC ?**
- **Unity & Diversity in the LDC Economies**
- **Role of Microfinance & Microinsurance**
- **Some Suggestions**

## **Major Impacts of Climate Change**

- ∞ **Reduced availability of water resources**
- ∞ **Greater food insecurity**
- ∞ **Irreversible loss of biodiversity**
- ∞ **Greater incidence of vector & water-borne diseases**
- ∞ **Sea level rise & greater incidence of flooding**
- ∞ **Exacerbated desertification**

## **Understanding Adaptation as A New Variable of Development**

- ∞ **Adaptation to CC – additional challenge to planning for SD**
- ∞ **Adaptation responses will vary spatially**
- ∞ **Non-Mitigation in A1Cs enhances Adapt needs in the NA1Cs**
- ∞ **Planned adaptation complements autonomous adaptation**
- ∞ **Status of an economy - a prime factor in the level of adaptive capacity**

## Adaptation & Economic Diversification

| Objective                    | Market-based                                   | Public provision   |
|------------------------------|--|--|
| Adaptation (ex ante)         |  | Sound macro-econ policy  |
| Reducing risks               |  | Env, health, infrastr & labor policy                                 |
| Risk diversification         | Econ diversific-n<br>Microfinance<br>Insurance | Agr extn, protection of property rights, pension, mandated insurance |
| Coping with shocks (ex post) | Loans from fin institutions                    | Social protection  |

## Constraints to Econ Diversification

- ∩ Domestic markets
- ∩ Lack of knowledge of new markets
- ∩ Lack of capacity & tech at various levels
- ∩ Two market failures :
  - limited access of SMEs to formal bank credits
  - mismatch bet short-term fin & long-term need of productive investment

## Role of Microfinance in correcting Market Failures

- ∩ Innovation by Grameen Bank in Bangladesh
- ∩ It spurred various econ activ among the poor
- ∩ Role limited largely to easing extreme poverty
  - High interest rates
  - Small size of credits
  - Not much upward graduation & investment
  - No long term investment

## Role of Microinsurance (MI)

- ∩ Insurance can promote ED
- ∩ Microcredits don't cover risk to assets
- ∩ Limited scale of MI
- ∩ Commercial insurers cover low income groups, not the poor
- ∩ MI under MFI is Self-Insurance, which defeats the principle of wider risk-pooling

## **Why are LDCs most vulnerable to CC ?**

- ∩ **Geographic location**
- ∩ **Econ depends on clim-sensitive sectors**
- ∩ **Low adaptive capacity**
- ∩ **'Double exposure' to CC & Globalization make LDCs 'double loser'**

## **General Features of the LDC Econ**

- ∩ **Extreme poverty pervasive & persistent**
- ∩ **Narrow economic base**
- ∩ **Limited items of exports**
- ∩ **Demand slow-growing or declining**
- ∩ **SMEs contribute more to GDP than large manufacturing sector**

## **General Features of LDC Econ (contd)**

- ∩ **LDCs are caught in an int'l poverty trap**
  - **Low share of aggregate resource flows**
  - **LDCs largely excluded from int'l bank fin**
  - **Repaym of debt to private creditors > new inflows**
  - **Export performance erratic for most LDCs**
  - **Trade & finance relationships reinforce econ stagnation & poverty**

## **Diversity among the LDC Econ**

- ∩ **Growth rates widely differ**
- ∩ **In per cap terms, it declined in 13 LDCs**
- ∩ **Non-oil primary commodity exporters (NOPCE) hardest hit**
- ∩ **Incidence of poverty highest in the NOPCE LDCs**
- ∩ **Foreign cap flow highly concentrated**

## **Some Suggestions for Diversification**

- ∩ **Value addition to primary exports**
- ∩ **Development of labor-intensive manufacture**
- ∩ **Vigorous agricultural extension**
- ∩ **Enhancing quality & quantity of microcredits**
- ∩ **Skill dev & institutional capacity building**
- ∩ **Promotion of SMEs & backward linkage**
- ∩ **Creation of an Int'l Insurance Pool to cover risk to assets of the poor**

## **Suggestions for Diversification (contd)**

- ∩ **R & D for new crops, technology & markets**
- ∩ **Recasting of int'l commodity policy & pricing**
- ∩ **Quota-free access of LDC exports to industrial markets**
- ∩ **Debt relief & doubling of ODA to LDCs by 2008**
- ∩ **Concessional lending for long term productive investment**
- ∩ **Adequate funding for adaptation from the Special Climate Change & LDC Funds**