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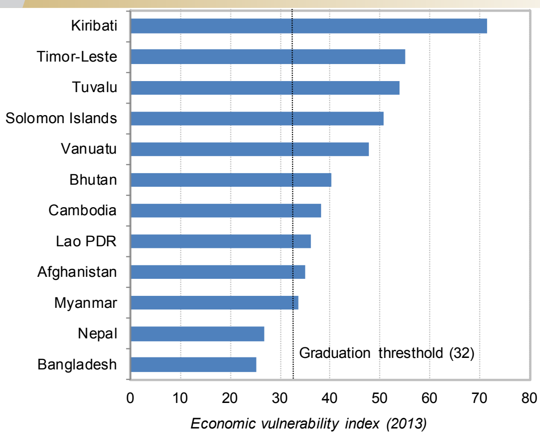
Smooth transition and graduation of least developed countries: coping with natural disasters and climate change

The Asia-Pacific least developed countries (LDCs) have been making remarkable progress towards meeting the criteria for graduation. However, the high level of economic vulnerability to exogenous shocks, particularly those associated with natural disasters and climate change, has repeatedly disrupted the graduation process, leaving doubts on the ability of those countries to sustain their development gains in the long run. This suggests the need for a framework that goes beyond current graduation transition arrangements to build resilience and better reflects environmental and climate-related challenges of LDCs. Enhanced resilience does not only contribute to mitigating the adverse impact of natural disasters and climate change, but it also induces multiplier effects and helps LDCs make their structural transformation and graduation smooth and sustainable.

The Asia-Pacific LDCs have been making remarkable progress towards meeting the graduation eligibility criteria.[1] At its latest triennial review in March 2015, the Committee for Development Policy indicated that Bhutan, Nepal, Solomon Islands and Timor-Leste had met the graduation criteria for the first time. Three other countries, Kiribati, Vanuatu and Tuvalu, had already met the criteria for graduation at two or more consecutive triennial reviews, and the Committee had already recommended two of them for graduation. According to the latest estimates of ESCAP, three countries, namely Bangladesh, Myanmar and the Lao People's Democratic Republic, may be able to meet the graduation eligibility criteria in time for the 2018 review if their pace of progress continues over the next two years.[2]

However, most of these countries have met the criteria for graduation without clearing the economic vulnerability threshold, suggesting that they remain highly vulnerable to external shocks.[3] Out of the 12 Asia-Pacific LDCs, only Bangladesh and Nepal met this threshold for the 2015 review (see the figure below). Kiribati, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu remain particularly vulnerable, especially to tropical cyclones and associated storm surges, which may be further exacerbated by climate change. Cyclone Pam, which hit the South Pacific two weeks before the Committee met in New York to undertake its review, was one of the worst natural disasters in the history of Vanuatu. It also caused significant damage in Tuvalu and Kiribati.

Figure 1. Economic vulnerability index of the Asia-Pacific least developed countries at the March 2015 triennial review



Source: Based on data from the Development Policy and Analysis Division. Available from www.un.org/en/development/desa/policy/cdp/ldc/ldc_data.shtml.

Concerns over such a high degree of vulnerability are reflected in the decision of the Committee at its 2015 review. It did not recommend Kiribati for graduation, even though the country had met the graduation eligibility criteria for the second time. The Committee also postponed its recommendation of Tuvalu for graduation for the second time. In addition, Vanuatu was initially scheduled to graduate in 2017 as it had met and continued to advance in the income and human assets criteria. However, taking into account the serious disruption caused by Cyclone Pam to the economic and social progress the county had been making for several years, the General Assembly decided to postpone graduation until December 2020.

Such delayed processes of graduation because of natural disasters are not new to the Asia-Pacific region. In December 2004, six days after Maldives was officially removed from the list of LDCs, the Indian Ocean earthquake and tsunami, one of the deadliest natural disasters on record, struck the island country. Although Maldives was 2,500 km away from the epicenter of the earthquake, the country suffered significant damage and loss of lives. As a consequence of the tsunami, the General Assembly granted Maldives a three-year moratorium, and, in 2007, Maldives entered a three-year transition period to negotiate a gradual phasing out of the benefits derived from being a LDC. Maldives eventually graduated in 2011. The experience of Samoa is similar. The country was scheduled to graduate in 2010, but the General Assembly extended the transition period by three years until January 2014 as a result of the disruption caused by the Pacific Ocean tsunami of 2009.

Most recently, two major natural disasters that hit Asia-Pacific LDCs in 2015 exposed the great vulnerability of these countries. In addition to Cyclone Pam mentioned above, which killed 11 people and affected more than 60 per cent of the population of Vanuatu, in April 2015, an earthquake with a magnitude of 7.8 killed more than 8,000 people and affected more than 20 per cent of the population of Nepal. The estimated reconstruction cost associated with the disaster is $8 billion, equivalent to 45 per cent the country's gross domestic product (GDP).[4] After assessing the impact of these recent natural disasters on the progress towards graduation of Nepal and Vanuatu, ESCAP has found that these damages are large enough to reverse the downward trend of the economic vulnerability index that they had been experiencing over the previous decade.[5] It is also likely that their performance with regards to these indices could worsen even more once the impact of the disasters is felt through other components of the index, such as the instability of exports of goods and services and agricultural instability. Although both Nepal and Vanuatu have already met the graduation eligibility criteria and this deterioration in the economic vulnerability profile will not directly affect the next review by the Committee, such a high level of economic vulnerability to natural disasters could postpone the graduation date, as was the case for Maldives and Samoa.

The experiences of many of the Asia-Pacific LDCs and those that have graduated indicate that they still remain vulnerable to major natural disasters, which can wipe out their development progress. In addition, the five LDCs that are also small island developing States have already met the conditions for graduation but still are at high levels of economic vulnerability index. Therefore, it is clear that meeting the graduation criteria by itself does not at all mean that a country is resilient to earthquakes, tsunami, cyclones or any climate change-related consequences.

Enhancing resilience is not limited to mitigating the adverse impacts of natural disasters and climate change. It also attracts investment, including from abroad and through mechanisms, such as public-private partnerships and blended finance, which combines concessional public finance with non-concessional private finance and expertise from the public and private sector. Creating a risk-resilient environment provides LDCs with better access to international capital markets, facilitating the mobilization of resources necessary for achieving development goals. In particular, accessing long-term finance for infrastructure can create a ripple effect that further provides resources to build economic resilience in LDCs. Hence, lowering economic vulnerability will trigger multiplier effects far beyond enhanced resilience to natural disasters and ultimately help LDCs make their structural transformation and graduation smooth and sustainable.

The Sendai Framework for Disaster Risk Reduction 2015-2030, which was adopted by the Third United Nations World Conference on Disaster Risk Reduction in March 2015 and endorsed by the General Assembly on 3 June 2015, provides a set of policy tools for national policymakers to consider for reducing risk and building resilience.[6] Included in the Framework are calls for the integration of the entire related legal framework for disaster risk governance and the strengthening of the accountability for disaster risk management. Also, the economic means of implementation, including the promotion of risk-sensitive investment and the establishment of risk-informed donor policies for financial support from international society, is articulated in the Framework.

The international community should also play a role in building resilience in LDCs. There have been discussions and series of exchanges on whether a three-year transition towards graduation is sufficient to enhance the graduates' resilience to natural disasters and the impact of climate change.[7] Several ESCAP member States, particularly those in the Pacific subregion, have been calling for an alternative framework to deal with the graduation of LDCs and ultimately to rebalance international support towards vulnerable countries. One possible framework could be based on the use of vulnerability data to determine the allocation of climate finance for adaptation. Recent research by Patrick Guillaumont offers promising new ideas for the design of such a framework.[8] The Paris Agreement, adopted at the 2015 United Nations Climate Change Conference, the so-called COP21, also could potentially accelerate the transformation of LDCs towards more climate-resilient societies. Its final document included the creation of a long-term institution to address loss and damage resulting from climate change.[9] While such frameworks can be established either within or outside the LDC category; they need to address the specific vulnerabilities of countries that reflect their economic, environmental and climate-related challenges.

[1] The Committee for Development Policy, a subsidiary body of the United Nations Economic and Social Council (ECOSOC), reviews the list of LDCs every three years and assesses which countries should be added to or dropped from the list. Their review is based on the following three criteria: (a) the income criterion; (b) the human asset criterion; and (c) the economic vulnerability criterion. During such reviews, the three indicators for each LDC are measured against specific graduation thresholds. If a country satisfies at least two of the three criteria for graduation in two consecutive triennial reviews, the Committee recommends to the ECOSOC that the country should be considered for graduation. As an alternative, the "income-only" option allows countries to graduate if their income per capita is at least twice as high as the regular income graduation threshold.

[2] United Nations, Economic and Social Commission for Asia and the Pacific, *Asia-Pacific Countries with Special Needs Development Report 2016: Adapting the 2030 Agenda for Sustainable Development at the National Level* (United Nations publication, Sales No. E.16 .II.F.11).

[3] The economic vulnerability criterion involves a composite index, the economic vulnerability index, based on the following eight indicators (the weight of each criterion is in parentheses): population size (1/8); remoteness (1/8); merchandise export concentration (1/16); share of agriculture, forestry and fisheries in the GDP (1/16); share of the population in low-elevated costal zones (1/8), instability of exports of goods and services (1/4); victims of natural disasters (1/8) and instability of agricultural production (1/8).

[4] Available from www.foxnews.com/world/2016/05/12/nepal-raises-estimate-earthquake-rebuilding-cost.html; ESCAP Statistical Database, Nepal GDP in USD: $17.368 billion (2014). Available from www.unescap.org/stat/data/ (accessed 17 June 2016).

[5] United Nations, Economic and Social Commission for Asia and the Pacific, *Asia-Pacific Countries with Special Needs Development Report 2016: Adapting the 2030 Agenda for Sustainable Development at the National Level* (United Nations publication, Sales No. E.16 .II.F.11).

[6] A/RES/69/283, annex II.

[7] See, for instance, Patrick Guillaumont, "The concept of structural economic vulnerability and its relevance for the identification of the Least Developed Countries and other purposes (Nature, measurement, and evolution)", CDP Background Paper No. 12, ST/ESA/2011/CDP/12 (United Nations Department of Economic and Social Affairs, September 2011).

[8] Patrick Guillaumont, "Measuring vulnerability to climate change for allocating funds for adaptation", Working Paper P136 (Clearmont-Ferrand, France: Foundation for International Development Study and Research (FERDi), 2015).

[9] FCCC/CP/2015/10/Add.1.

The MPFD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. The content of this issue, prepared by Alberto Isgut, Ran Kim and Yusuke Tateno, is in part based on material from the *Asia-Pacific Countries with Special Needs Development Report 2016* (ISBN 978-92-1-120717-0). This policy brief benefited from comments by Naylin Oo. For further information on this issue, please contact Aynul Hasan, Director, Macroeconomic Policy and Financing for Development Division, ESCAP (escap-mpdd@un.org).

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