

CURRENT SPECTRUM & STRUCTURE OF FINANCIAL INSTRUMENTS TO ADDRESS THE RISKS OF LOSS & DAMAGE

Taking stock of the existing financial instruments that address the risks of loss & damage across different levels & sectors

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LOSS AND DAMAGE ASSOCIATED WITH CLIMATE CHANGE IMPACTS

- Slow onset events
- Extreme events



ECONOMIC LOSSES

NON-ECONOMIC LOSSES

INCOME

PHYSICAL ASSETS

INDIVIDUALS

SOCIETY

ENVIRONMENT



BUSINESS OPERATIONS



AGRICULTURAL PRODUCTION



TOURISM



INFRASTRUCTURE



PROPERTY



...



LIFE



HEALTH



HUMAN MOBILITY



TERRITORY



CULTURAL HERITAGE



INDIGENOUS KNOWLEDGE



SOCIETAL/CULTURAL IDENTITY



BIODIVERSITY



ECOSYSTEM SERVICES



...

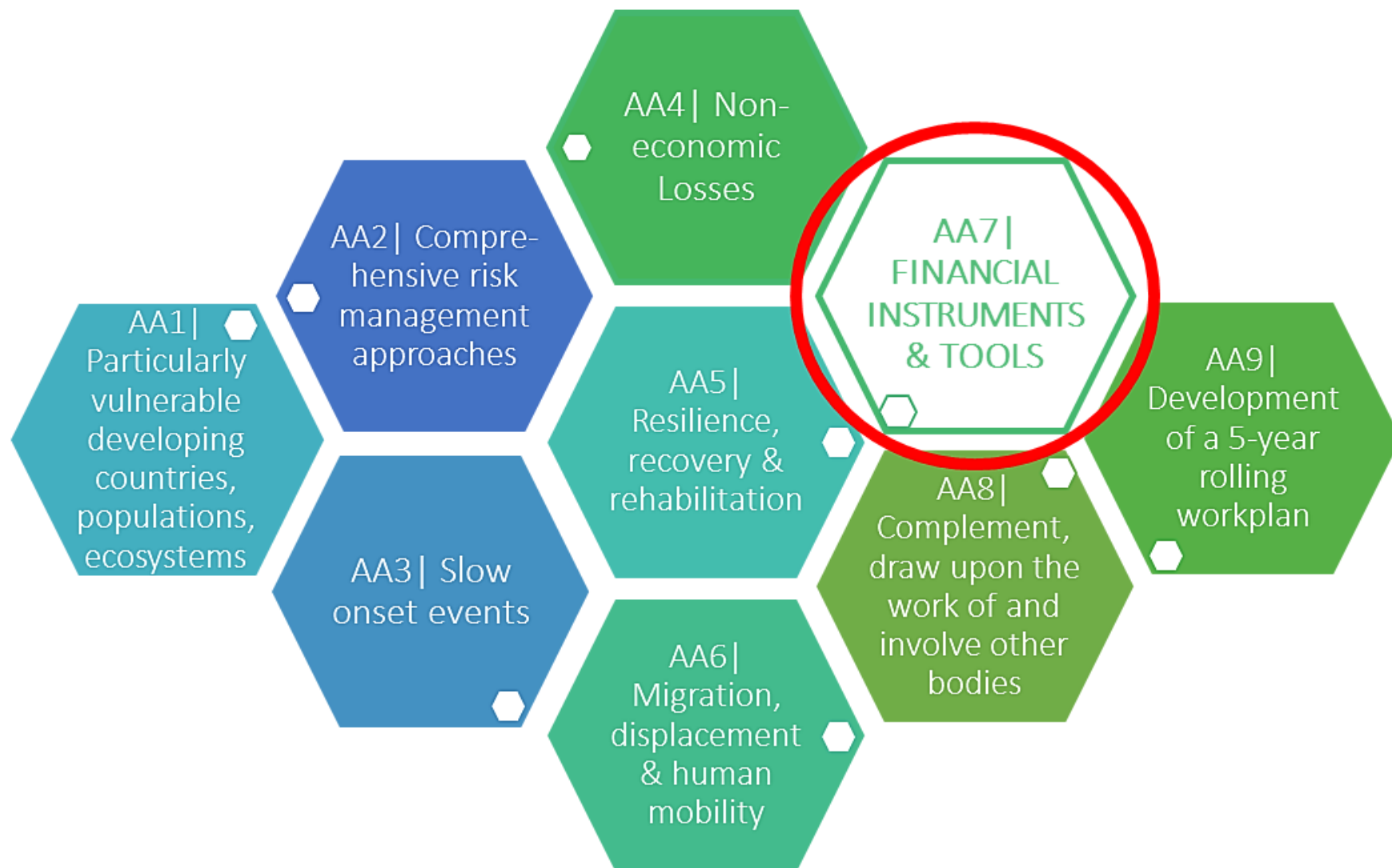
ADDRESSING LOSS AND DAMAGE THROUGH THE WARSAW INTERNATIONAL MECHANISM

KNOWLEDGE – COORDINATION– ACTION & SUPPORT



**Civil society includes a wide range of actors including NGOs, academia, trade organisations, societies, etc.

CURRENT WORKPLAN OF THE EXECUTIVE COMMITTEE PROVIDES FOR NINE ACTION AREAS (AA)



For details of the initial two-year workplan, see unfccc.int/885

EXAMPLES OF INPUTS TO THE WORK OF THE EXCOM



Climate.IQ®



GFDL



Grantham Research Institute on
Climate Change and
the Environment



Japan

Loss & Damage
Network



Turkey



: vivideconomics



World Food Programme

United States of
America



For details of call and the information paper,
see unfccc.int/9432

KEY CHALLENGES ON PROMOTING COMPREHENSIVE RISK MANAGEMENT APPROACHES

NOT ALL TOOLS ACCESSIBLE TO ALL

- Especially challenging for the most indebted



THERE IS NO SILVER BULLET SOLUTION

- Tools cannot be used in isolation
- Insurance is limited in covering slow onset events

EXISTING FINANCIAL INSTRUMENTS MAY NOT BE ENOUGH

- Have not covered the spectrum of risks
- May not address the needs of the most vulnerable
- Gaps still exist

THE RISKS of L&D may exceed national capacities

WAYS FORWARDS ON PROMOTING APPROACHES BASED ON SUBMISSIONS

ENABLING ENVIRONMENT TO FACILITATE COMPREHENSIVE RISK MANAGEMENT

- Enabling environments: vital to effectiveness & scale
- Rigorous risk assessment is a prerequisite
- Capacity-building & donor engagement



1



SMARTER DESIGN & COMBINATIONS OF TOOLS

- Linking financing for DRM & CCA
- Insurance premiums should be risk-related



2

THE NEEDS OF THE MOST VULNERABLE

- Specific instruments & tools which reach the most vulnerable are needed

3

4

REGIONAL COOPERATION & PUBLIC-PRIVATE PARTNERSHIPS:

- Such measures enhance effectiveness, and give clear roles



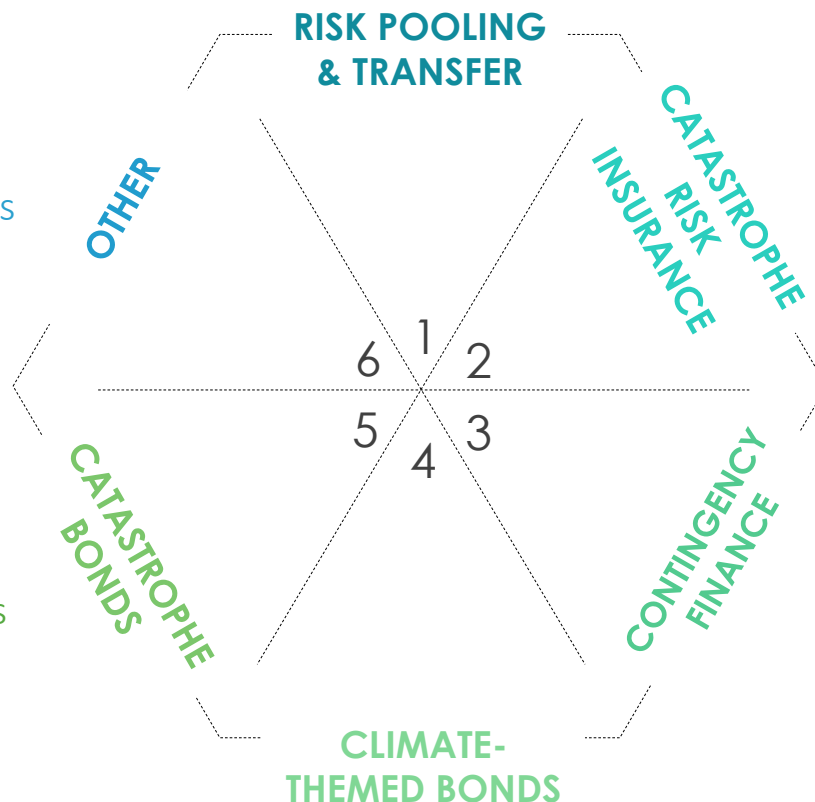
SPECTRUM OF FINANCIAL INSTRUMENTS

CATEGORIES OF INSTRUMENTS REFERRED TO IN THE WORKPLAN OF EXCOM

- Tools to identify risks & appropriate responses: risk layering analysis, total climate risk approach
- Various financial instruments (insurance, credit, savings) linked to risk reduction measures

- Other innovative financing tools for other hazards

- Catastrophe bonds
- Ex-post bonds



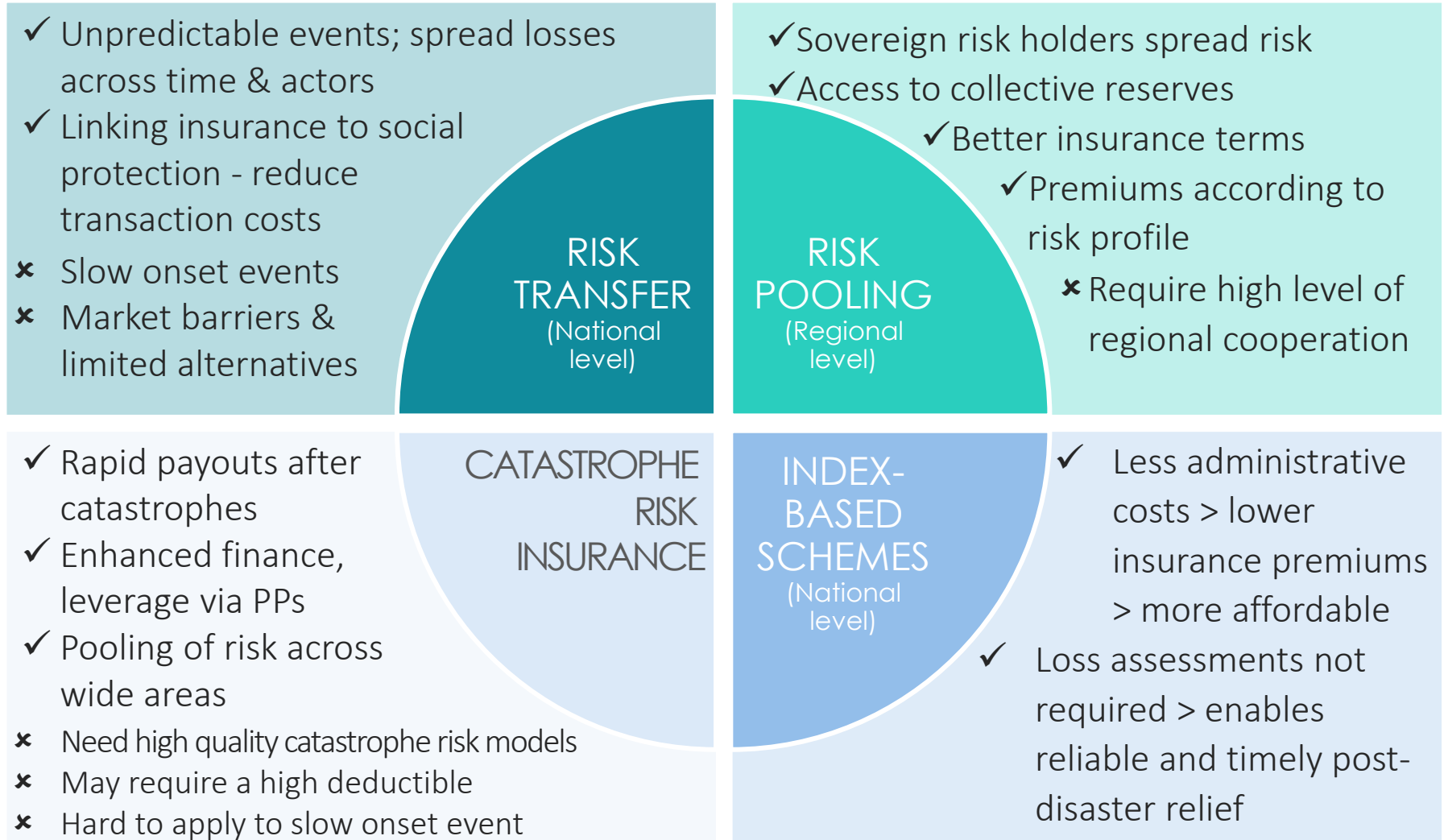
- Catastrophe risk insurance at national or regional level
- Regional risk pooling mechanisms
- Index-based insurance schemes
- Group insurance

- Contingency funds
- Disaster relief funds
- Restoration fund for preferential interest rate financing
- Contingent credit
- Microcredit

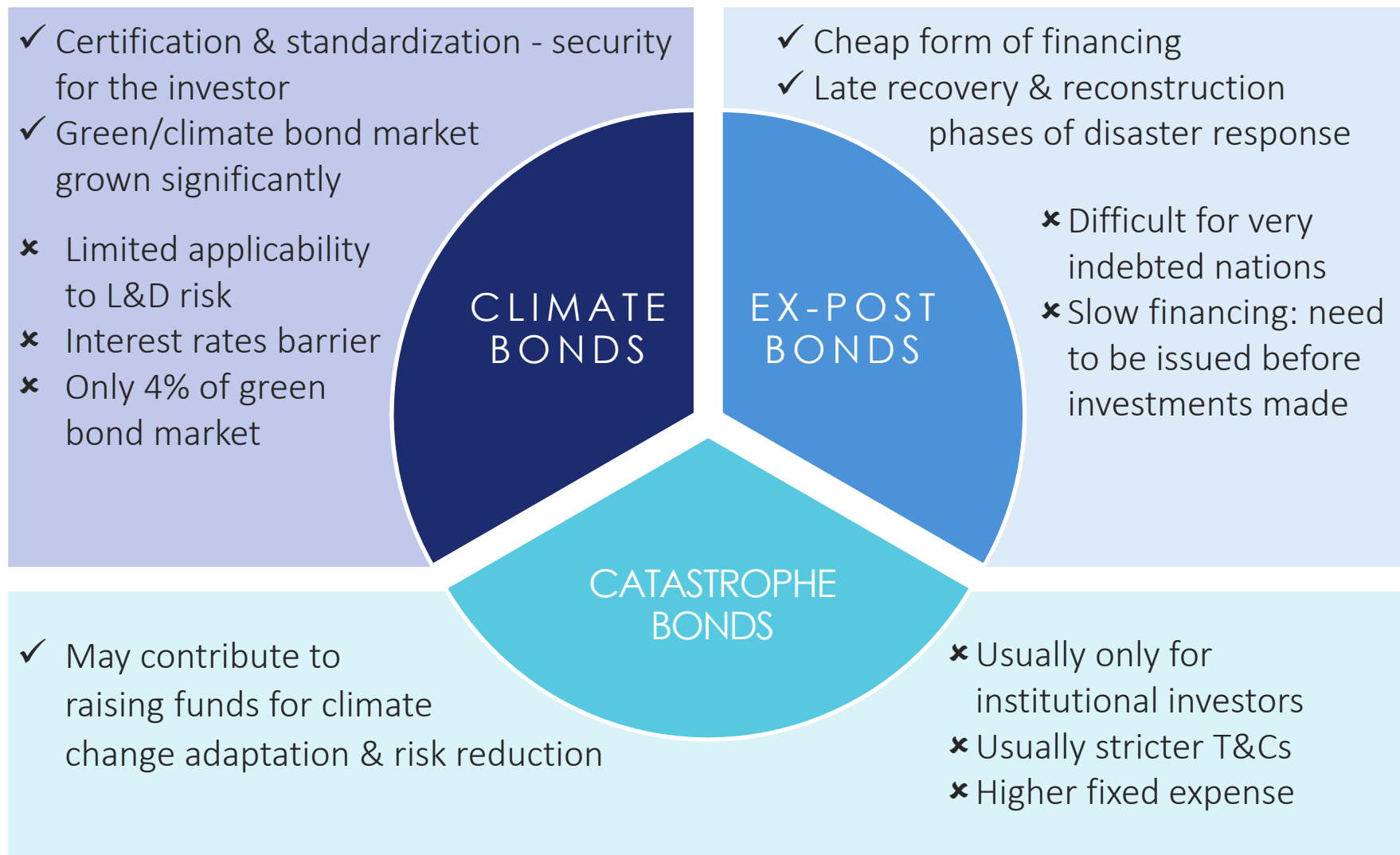
- Climate bonds
- Standard & certification schemes



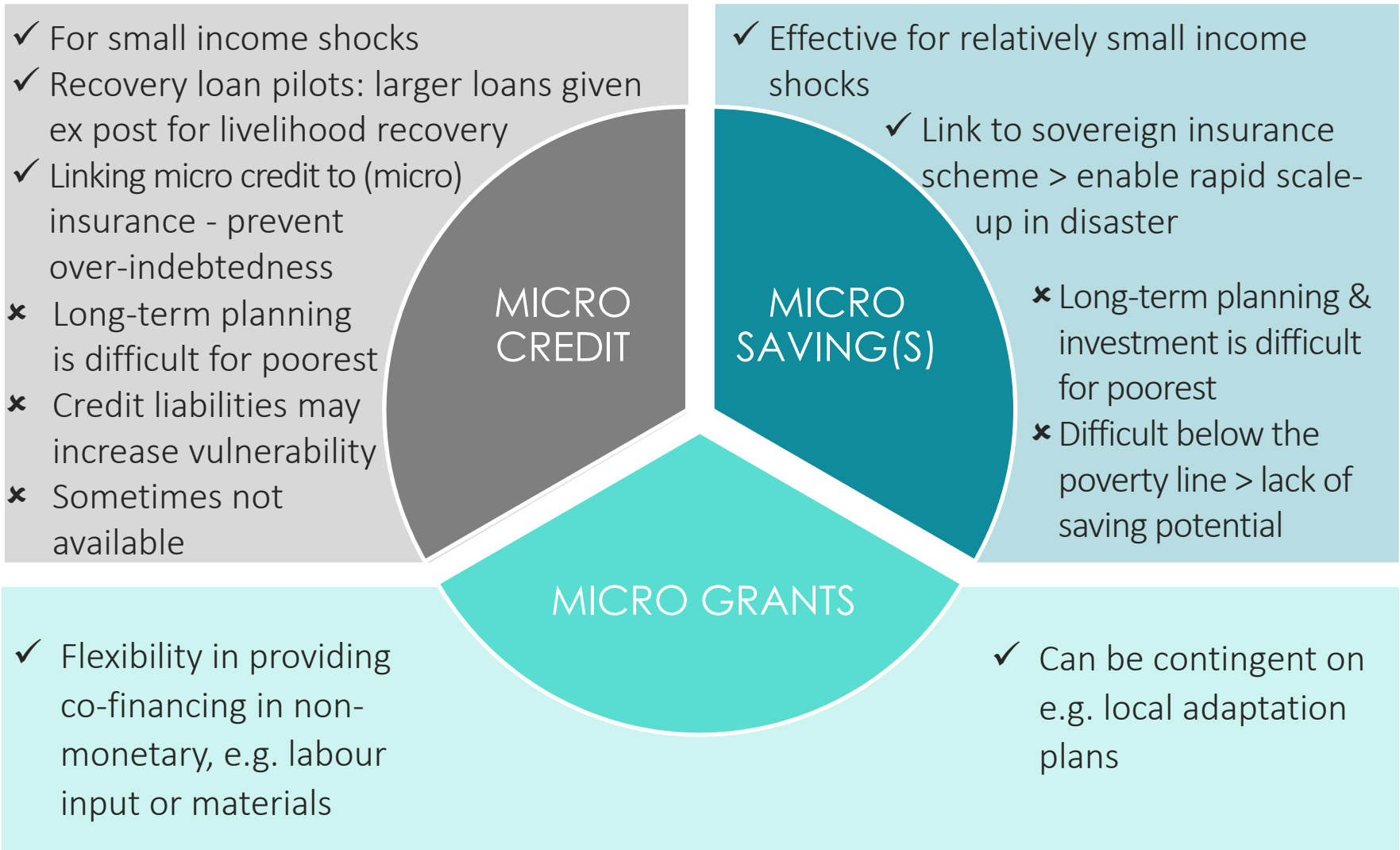
STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: RISK TRANSFER, RISK POOLING & CATASTROPHE RISK INSURANCE



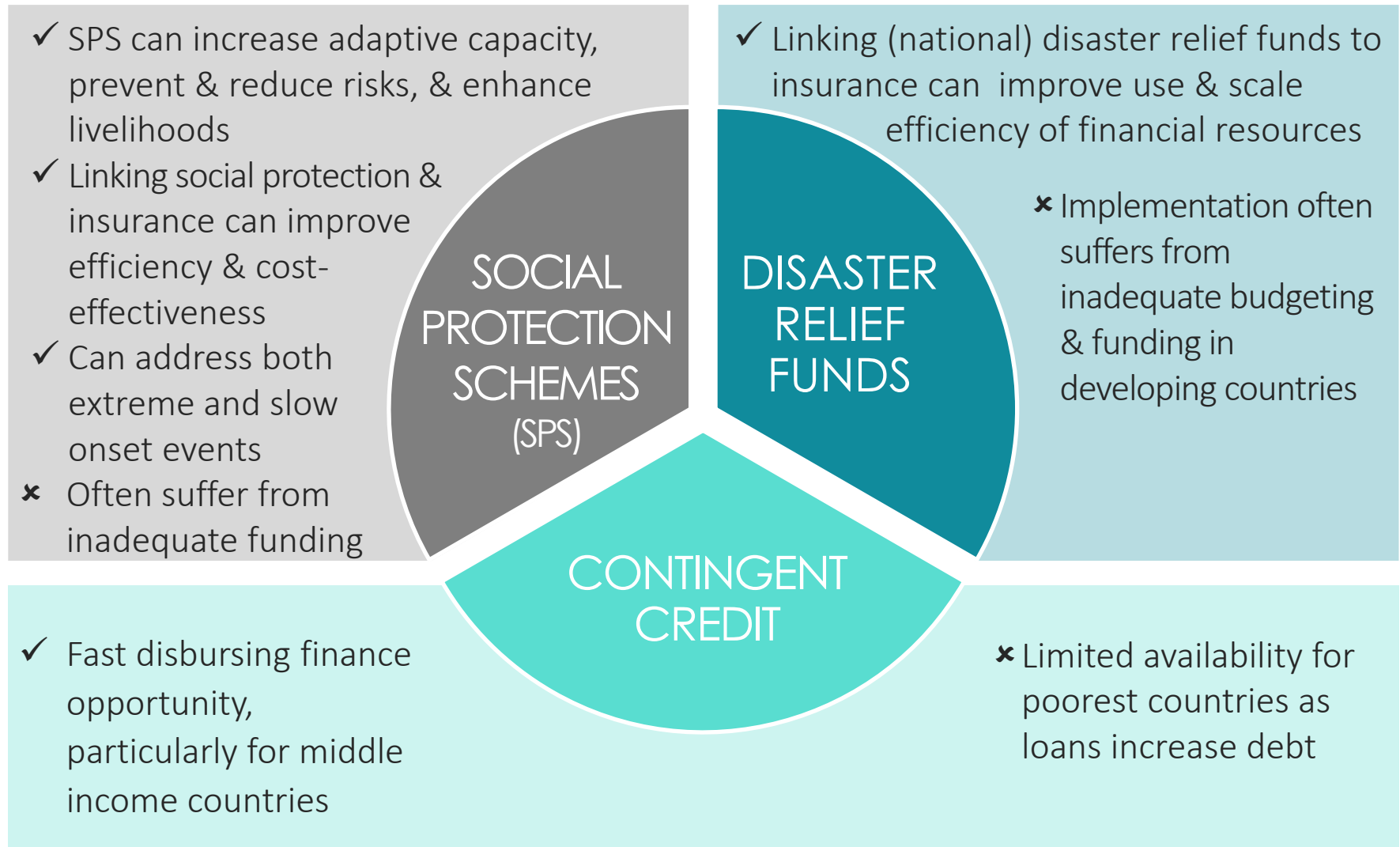
STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CLIMATE-THEMED BONDS AND THEIR CERTIFICATION & CATASTROPHE BONDS



STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CONTINGENCY FINANCE (1)



STRENGTHS, ADVANTAGES, POTENTIAL & CHALLENGES: CONTINGENCY FINANCE (2)



INFORMATION PAPER ON FINANCIAL INSTRUMENTS & TOOLS THAT ADDRESS LOSS & DAMAGE

EXECUTIVE COMMITTEE OF THE WARSAW INTERNATIONAL MECHANISM FOR LOSS AND DAMAGE



INFORMATION PAPER
APRIL 2016

A summary based upon submissions received in the context of Action Area 7(d) of the initial two-year work plan of the Executive Committee of the Warsaw International Mechanism for Loss and Damage UNFCCC

BEST PRACTICES, CHALLENGES AND LESSONS LEARNED FROM EXISTING FINANCIAL INSTRUMENTS AT ALL LEVELS THAT ADDRESS THE RISK OF LOSS AND DAMAGE ASSOCIATED WITH THE ADVERSE EFFECTS OF CLIMATE CHANGE

I. INTRODUCTION

MANDATE

The Conference of the Parties (COP), at its nineteenth session, established the Warsaw International Mechanism to address loss and damage associated with the adverse effects of climate change, including extreme events and slow onset events, and to enhance the ability of vulnerable to the adverse effects of climate change.



The Executive Committee (Execom) is mandated to...

As part of its initial two-year workplan, the Execom is to manage the diffusion of information on the risks of loss and damage associated with climate change in action regions, taking into account the necessary...

To this end, the Execom invited, in February 2016, information on best practices, challenges and lessons learned that address the risk of loss and damage...

The submitted information is expected to contribute to the development of financial instruments by public, bilateral and multilateral and developed and developing countries.

SCOPE

This information document summarizes information received from organizations in response to the call. European Commission (EC), Centre for Climate Change and the Environment, CMC and Development Lab, Brown University, Resilient Climate Bonds Initiative, Food and Agriculture Organization (FAO), Disaster Reduction and Recovery Network, Munich Climate Insurance Programme (Munich), UNFCCC, and UNFCCC.

Section 2.1.1, paragraph 1, of the call for submissions is available at: <http://unfccc.int/loss-damage>

The call for submissions is available at: <http://unfccc.int/loss-damage>

Submissions are also available at: <http://unfccc.int/loss-damage>

II. LANDSCAPE OF FINANCIAL INSTRUMENTS AND TOOLS IN PRACTICE EMERGING FROM THE SUBMISSIONS

Challenges relating to loss and damage associated with the broad range of responses at different levels, including the development of adequate policy and regulatory environment or address losses and damages. These responses extend to management, transfer and pooling, contingency measures, resilient development. Financing is needed towards all the have reported experience with and lessons from a variety of be applied to raise and channel this finance at all levels.

Table 1 provides an overview of the reported financial instruments and categories of possible instruments listed under Action Area 7(d).

These instruments and tools have been applied at different regional, meso or micro) depending on where reported act could serve to establish an enabling policy or regulatory environment (climate risk approach) or to raise and/or channel financial instruments (climate bonds, disaster relief funds). Many of the instruments climate resilient (e.g. climate bonds, social protection, contingent liabilities), both in general and with regard to their application.

Table 2 provides a summary of reported strengths and challenges according to the experience of Parties and organizations. Instruments have been applied.

III. LESSONS LEARNED AND GOOD PRACTICES EMERGING FROM THE SUBMISSIONS

A number of valuable lessons are reported from the application of the financial instruments and tools described in the previous section. These lessons can be taken into account when applying these and similar financial instruments in the future to address risks associated with climate change.

Enabling environments are central to the effective employment of financial instruments

Favourable policy and institutional environments are an important precondition for the successful introduction or scaling up of financial instruments, and their absence is often a strong market barrier in developing countries. Creating an appropriate enabling environment, especially in less developed countries, requires a comprehensive approach.

Accelerating the building of capacity that already exists within the insurance system could be beneficial, although in the context of less developed countries and markets, ordinary market forces are likely to be insufficient. Thus, continued careful use of donor support, such as for the initial capitalization of risk pools, may be necessary to accelerate the closing of coverage and preparedness gaps.

Financial instruments that are aimed at averting, minimizing and addressing loss and damage, as well as favourable policies and regulations are among the factors that help to reduce exposure of assets, including financial assets, to risk. Such policies and regulations may include risk reduction and adaptation plans, such as national adaptation plans, contingency planning, organization of the institutional environment for risk reduction and response, building codes, or regulations associated with specific financial services, such as insurance or disaster management funds.

Other favourable factors include political buy-in from governments and relevant decision-makers, involvement of all relevant stakeholders, availability of data and information, provision of support services (e.g. technology, loss assessment, actuaries) and back-up mechanisms (e.g. reinsurance, donor support).

Box 1 showcases the regulatory environment for financial instruments for disaster risk management in Turkey.



For details of call and the information paper, see unfccc.int/9432

For further information
on loss and damage under the UNFCCC

Visit **www.unfccc.int/656**

Contact the Executive Committee at
loss-damage@unfccc.int

Thank you!

