

Submission to the Standing Committee on Finance by the Republic of Mali on behalf of the African Group of Negotiators

In response to the call for submissions by the Standing Committee for inputs on the Fourth Standing Committee on Finance Forum on Financial Instruments that Address the Risks of Loss and Damage Associated with the Adverse Effects of Climate Change

6 March 2016

In response to a request from the Executive Committee (Excom) of the Warsaw International Mechanism for Loss and Damage (WIM), in the context of Action Area 7 of the workplan of the WIM, the Standing Committee on Finance has decided to hold a forum on financial instruments that address the risks of loss and damage associated with the adverse effects of climate change.

In preparation for the Forum, the Standing Committee on Finance (SCF) has solicited input related to the possible scope and purpose of the Forum, relevant information/case studies that would inform the Forum, and potential institutions and events to partner with in the organization of the Forum.

The African Group of Negotiators (AGN) is pleased to provide the following input for consideration by the SCF.

I. The African Context for Loss and Damage

As a continent, Africa is often cited as the most vulnerable to climate change. Many African countries have highly vulnerable populations which have low incomes, few assets and are at the same time highly exposed to climate impacts. Of the 54 countries on the continent, 34 are least developed countries (LDCs) and six are small island developing states (SIDS), with three African countries falling in both categories. African countries are facing a range of climate change impacts, from extreme events – storms, floods, droughts, temperature extremes – to slow onset events¹ - including, desertification, and sea level rise.

Climate change on the African continent will bring loss and damage from reduced water availability, with increased droughts, decreased precipitation trends with reduced groundwater recharge, increased frequency of the failure of the long rains in the Horn of Africa, and increased aridity and desertification, particularly in west, south, and north Africa. Coupled with temperature rise, the changes in water availability will have long-term impacts on yields and significantly reduce the grazing area for animals. Temperature rise, coupled with sea level rise and ocean acidification are seriously affecting a lot of livelihoods and activities such as fish harvests. Fish catches off the coast of West Africa are predicted to decline as much as 50 percent by 2050. The impacts of sea level rise on coastal infrastructure and livelihoods are a major concern for Africa.

African countries are particularly dependent on crop production and livestock raising for food and livelihoods, with most agriculture being rain fed. In many countries fisheries are also an important source of food and livelihood. Sixty percent of the population lives in rural areas where they are largely dependent on agriculture and fisheries; rural inhabitants make up 70 per cent of Africans living in extreme poverty. Slow onset impacts of temperature rise, sea level rise, ocean acidification, desertification, and salinization are threatening both food security and the livelihoods of food producers, their families and communities, where there is little buffer of wealth or assets to provide resilience.

¹ Including sea level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinization, land and forest degradation, loss of biodiversity and desertification.

In analyses of financial instruments for loss and damage, there is often a significant focus on weather index-based insurance instruments, including two important initiatives in Africa: the R4 Rural Resilience Initiative of the World Food Program and Oxfam America, and the African Risk Capacity. Each initiative is making a unique contribution to loss and damage finance, but in critically limited ways, due to the inherent limitations of insurance in addressing the spectrum of losses and damages suffered. For example, index-based insurance can address a subset of impacts from extreme events, but is not appropriate for addressing the impacts from slow onset events. As the impacts of climate change intensify insurance will become an increasingly less viable option for addressing loss and damage because as extreme events increase in frequency insurance premiums will also have to increase, pushing it out of the reach of poorer countries and households. Finally, insurance is geared toward low frequency, high impact events, while loss and damage from climate change also happens as a result of low impact, high frequency events.

In this context, clearly African countries will benefit from consideration of a broad range of financial instruments and strategies to address loss and damage from both extreme and slow onset events, and which can address loss and damage experienced by the poorest and most vulnerable, including those living in rural areas.

II. Inputs on the Scope and Purpose of the Forum, Relevant Information and Case Studies that would Inform the Forum

The context for the Forum is framed by decisions 3/CP.18, in particular paragraphs 6 and 7, and 2/CP.19, as well as Article 8 of the Paris Agreement.

In general, the Forum should be designed to look beyond the most common insurance, risk pooling and risk transfer instruments. There have been numerous recent opportunities to focus on insurance, including an emphasis in the in-session workshop on long-term finance held during SB42. When insurance and other risk transfer approaches are discussed, the focus should be on identifying and filling gaps where those approaches are insufficient to address loss and damage, such as in the case of high frequency, low intensity events, and in the case of slow onset impacts.

The **purpose** of the Forum should be to:

- Explore comprehensive risk management, particularly information related to financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change;
- Take stock, map, and discuss the benefits and limits of existing financial instruments and possible innovative solutions for addressing the risks of loss and damage, including impacts from slow onset events;
- Identify gaps in the types of financial instruments and tools available for addressing loss and damage, in particular gaps in financial instruments to address impacts from slow onset events, and provide recommendations for filling those gaps; and
- Develop recommendations for actions and next steps, including future collaboration between the SCF and the Excom.

The **scope** of the Forum should include:

- Broad consideration of financial instruments, with risks and drawbacks of specific tools;
- Means to address losses and damages that may not be addressed by existing financial instruments, such as losses due to slow-onset events, and financial instruments that might be useful for addressing these types of losses and damages;

- Identifying gaps and challenges related to the expansion of coverage – both in terms of risk coverage and country membership – in existing risk pooling and risk transfer instruments such as ARC;
- Consideration of innovative means to provide premium support, such as through insurance-for-work programmes;
- Instruments that can address the range of needs identified in Decision 3/CP.18, paragraph 6, 2/CP.19 and the elements found in Article 8.4 of the Paris Agreement²;
- Solidarity funds (for example, the International Fund for Compensation for Oil Pollution Damage);
- How different tools could fit together, ways to combine and co-design instruments;
- Why successful tools were appropriate and selected;
- Social protection programs and other instruments that can address loss and damage experienced by the poorest and most vulnerable populations (for example, Ethiopia’s Productive Safety Net Programme³);
- Contingency and trust funds such as the World Bank’s Sahel Adaptive Social Protection Trust Fund⁴ and the Bangladesh Climate Change Resilience Fund⁵;
- Financial instruments more broadly related to building resilience against loss and damage associated with extreme and slow onset events; and
- The use of financial instruments for addressing non-economic losses.

Possible case studies

- Programmes that combine risk transfer and social protection elements, for example the R4 Rural Resilience Initiative and its predecessor the Horn of Africa Risk Transfer for Adaptation (HARITA) initiative;
- Cases highlighting the contribution of social protection programs to resilience building and risk transfer payout systems;
- ARC and the role of contingency planning in payout disbursement;
- Case studies ensuring geographical and regional representation
- *Comprehensive risk management (prevention, detection and response)* particularly from developing countries; and
- National good practices and experiences on risks management and insurances.

III. Potential Institutions and Events to Partner with in the Organization of the Forum

Institutions

- World Food Programme
- UNEP
- Anticipate, Absorb and Re-shape, the UN Secretary General’s global resilience initiative
- UNEP Finance Initiative
- UNU/Munich Climate Insurance Initiative

² Early warning systems; emergency preparedness; slow onset events; events that may involve irreversible and permanent loss and damage; comprehensive risk assessment and management; risk insurance facilities, climate risk pooling and other insurance solutions; non-economic losses; resilience of communities, livelihoods and ecosystems.

³ See: <http://www.leap-ethiopia.com>

⁴ See: <http://www.worldbank.org/en/news/feature/2014/07/15/helping-poor-families-build-resilience-to-climate-change-and-other-disasters-in-the-sahel>

⁵ See: <https://www.bccrf-bd.org>

- Munich Re Foundation
- Risk insurance organizations (ARC, Caribbean Catastrophe Risk Insurance Facility, InsuResilience)
- Academic and research institutions undertaking research on slow onset events
- Multilateral/regional development banks
- Institutions with expertise on migration and displacement (e.g., IOM, UNHCR, the Nansen Initiative, other members of the Advisory Group on Human Mobility)
- National risk management institutions

Events

In order to prevent the Forum from being a one-off event that does not provide concrete outcomes that provide support for developing countries, it is important to have the right people in the audience and the right distribution channels after the event, including practitioners, researchers and national decision makers at a high level. Therefore, the AGN proposes the Forum to take place during the Secretary General Summit in New York this year.