



# Climate Action Network

## Submission on the Strategic Workstream on Loss and Damage Action and Support

February 2017

*Climate Action Network International (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 1100 members in over 120 countries. [www.climatenetwork.org](http://www.climatenetwork.org)*

Climate Action Network International (CAN) welcomes the call by COP 22 to propose possible activities for the five-year rolling work plan of the Executive Committee. This submission outlines proposed activities for the specific strategic workstream on enhancing action and support, including finance, technology and capacity-building, as mandated by decision 3/CP.22.

The founding document of the Warsaw International Mechanism for Loss and Damage (WIM), agreed at COP 19 in 2013, identified the facilitation and mobilisation of support as a priority. The first three years of the WIM focused on its other functions of: a) enhancing knowledge; and, b) strengthening dialogue and coordination. Thereby the WIM laid important groundwork, on which key conclusions for the way forward still need to be drawn. However, now it is time to address the more difficult areas which have lacked attention, including e.g. climate-related migration, but in particular **action and support**. In light of the growing loss and damage actually happening, we propose that the WIM should treat finance as a priority for the coming two years - dedicating as much time and resources to the finance (support) workstream as to the other work streams combined. The ExCom should identify the objectives and key activities to reach across 2017 and 2018 as outlined below. Though the 5-year work plan is expected to run into 2021, CAN regards it as crucial to make an ambitious start and deliver activities which make a difference on the ground as soon as possible, and not only by 2021.

Whilst estimates of loss and damage finance needs vary, it is clear that needs are already high and likely to grow. Studies indicate that by mid-century economic global losses and damages costs may exceed \$1 trillion per year, with developing countries shouldering the majority of the burden. These loss and damage costs are on top of the costs of adaptation.<sup>1</sup> In this context, and given the WIM mandate to facilitate and mobilise support, **the overall objective of this workstream should be to urgently generate finance from predictable, adequate and sustainable sources at a scale of billions of dollars to address loss and damage in developing countries before 2020, and growing after 2020, at a scale sufficient to address the problem over and above the finance provided for adaptation. This will require enhancing the understanding of the nature, types and scales of finance developing countries require. It should also lead to enhanced support for addressing loss and damage immediately and in the near-term, in particular for the poorest and most vulnerable populations.**

CAN proposes the following activities for the finance-related work stream as part of the 5-year rolling work plan. Where necessary, this may involve the work of other bodies such as the Standing Committee on Finance, however in an effective manner which does not slow down urgently needed progress on raising funds. Many of these activities should be kick-started as early as possible, at the forthcoming ExCom5 meeting (March 2017).

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<sup>1</sup> See also Bond (2016) [Finance for Loss and Damage: Marrakech and beyond](#)

## **Objective 1: Enhance understanding on activities to fund related to addressing loss and damage.**

**Background:** Decision 2/CP.19 identified that loss and damage finance would be mobilised by the WIM. The Paris Agreement reinforces that Parties should enhance action and support including through the WIM, and makes clear that loss and damage is separate from adaptation by addressing it in its own article, Article 8. Article 8.4 includes some categories that could be considered adaptation (such as early warning systems) relating to loss and damage. Thus, we would like to highlight the importance of reducing loss and damage through adaptation and risk reduction activities as well as the need for further clarity on which activities count as adaptation and which as addressing loss and damage, acknowledging that there will be some areas where it is clear, and some where there is overlap.

In order to ensure openness and transparency and that loss and damage finance is accounted for, there is a need to develop at least a working definition of loss and damage finance (beyond the current SCF climate finance definition) potentially coupled with a concrete list of approaches which are suitable to count as finance to address loss and damage as well as areas of overlap with adaptation, as a potential first step towards accounting for it in future biennial assessments of climate finance.

An accounting system for loss and damage finance should be at the project-level, requiring full information for each activity considered to address loss and damage in developing countries. The accounting system should be real-time, current on funded activities and forward-looking to upcoming funding. It should outline whether it is public or private finance, new and additional, its sources etc. The system should be online and user-friendly, and allow input from recipient governments and civil society. This could also inform the Paris Agreement work on Article 13 which calls for an Enhanced Transparency Framework, building on and advancing current reporting systems.

### **Proposed Activities:**

1. The WIM (UNFCCC) Secretariat should prepare a **background note, drawing from previous WIM work, in time for the May 2017 SB session**. The paper should attempt to draw up an open, non-prescriptive, positive list of actions to address loss and damage and associated types and natures of required finance to support them across the spectrum of the WIM's thematic issues, and distinguishing between measures to reduce loss and damage, and to address occurring loss and damage.
2. The ExCom should hold **open and transparent consultations during the May SB session**, based on the background note, to gather further views.
3. The WIM should open a call for submissions from Parties and Observers to conclude a few weeks after the May 2017 SB meeting inviting views on
  - a. types and nature of actions to address losses and damages for which finance may be required, also clarifying the distinction between action to reduce or minimise loss and damage (i.e. adaptation, resilience building etc.) and action to address occurring loss and damage, and
  - b. specific issues and proposals related to principles and modalities for the accounting of the activities as finance, regardless source and channel.
4. The Secretariat should prepare a revised background note, based on the submissions received and views gathered, for an ExCom meeting later in 2017 where ExCom should draw recommendations to the COP on a) a working definition and positive list of approaches to address loss and damage, and b) in relation to accounting of loss and damage finance.
5. **COP 23 should adopt a decision** establishing a working definition for loss and damage finance ensuring additionality to adaptation finance, and invite Parties and funding organisations such as the development banks to report on loss and damage finance

separately to adaptation finance, while also requesting that the SCF accounts as separate for loss and damage finance in its next biennial assessment of finance.

**Objective 2: Improve understanding of the scale of international finance necessary for addressing loss and damage.**

**Background:** Estimates of loss and damage costs, and finance needed to address these in developing countries, vary. Studies indicate that by mid-century global loss and damage costs may exceed \$1 trillion per year, with developing countries shouldering the majority of the burden. Although some of these costs may be reduced through adaptation and disaster preparedness, overall they will be significant, often on top of the costs of adaptation.

- ActionAid (2010) cites Hope (in [Parry et al. 2009](#)) study estimating a range of USD 0.3-2.8 trillion in 2060, with an annual average of \$1.2 trillion.
- Baarsch et al. (2015) suggest loss and damage costs for developing countries of around \$400bn in 2030, rising to \$1-2 trillion by 2050.
- DARA's [Climate Vulnerability Monitor 2 \(2012\)](#) estimates global climate change-induced loss and damage in 2010 at almost \$700bn (with over 80% of net losses falling on developing countries), rising to \$4 trillion by 2030 (with developing countries bearing over 90% of net losses).
- UNEP's [Africa's Adaptation Gap 2](#) report (2015) estimates loss and damage costs for Africa, assuming cost-optimised adaptation effort, at just over \$100bn per year by 2050 (on top of adaptation costs of \$50bn) if warming is kept below 2°C, and around \$160bn per year (on top of adaptation costs of \$95bn) if warming goes above 4°C.

Generating a more solid understanding of what the *current* and *expected* loss and damage costs could be will also be essential to raise awareness and better understanding on climate change loss and damage, including in relation to different warming level scenarios, and to promote political and investment decisions in order to tackle loss and damage.

**Activities:**

The ExCom should invite in particular researchers and other relevant institutions to submit information (e.g. as scientific papers) by Autumn 2017 on the scale of a) loss and damage costs (current and projected) and b) needs for finance and its application to address loss and damage in developing countries.

Ahead of COP 23, the WIM/UNFCCC Secretariat should produce a technical paper synthesizing the available literature (e.g. the papers above). In addition, it may consider working with a scientific journal to produce a special edition on the basis of the submitted papers.

The WIM should host a special event in conjunction with COP 23, inviting experts to present their findings, and Parties and observers to discuss the implications of such findings.

The WIM should incorporate these findings into its plans to generate and disseminate finance for loss and damage.

The ExCom should also built into its work plan to cooperate with the IPCC, including in advance of its 1.5°C Special Report and the 6<sup>th</sup> Assessment Report, to exchange on matters relevant to loss and damage, the scale of the challenge and the action and support needed.

**Objective 3: Develop a suitable institutional architecture to provide financial support to address loss and damage, inside and outside the UNFCCC, and a plan to implement it.**

**Background:**

Despite not being well documented, some loss and damage finance is currently being provided - for instance some insurance capitalisation and premiums are funding of loss and damage activities; some disaster response funding could also be considered supporting recovery from loss and damage. There are doubtless other loss and damage activities being funded. Whilst it is not clear how much funding is being provided, it is clear that it is not enough.

Loss and damage is a relatively new area, with a need for new financial resources and, potentially, new funding institutions, and one that international law and precedents from other fields (eg. International Oil Pollution Compensation Funds) demonstrate is well placed to generate “polluter pays” sources of finance. Such innovative sources of finance could include fossil fuel levies, aviation levies, financial transaction taxes etc. - consideration should be given as to how these sources of funds should be channelled to loss and damage.

**Activities:**

The WIM ExCom should co-host a workshop at the 7th WIM ExCom meeting in the second half of 2017 in conjunction with the SCF, inviting the GCF, the AF, the LDCF and other interested bodies, Parties and observer organisations to discuss key issues in regards to institutional arrangements for loss and damage financial support. Questions such as whether the GCF and the LDCF should have loss and damage windows and whether the WIM should be endowed with a specific loss and damage finance mechanism (and for which specific purposes) should be addressed.

This discussion should also consider needs and potential options for strengthening risk pooling and social protection financing mechanisms on different levels, including national mechanisms in developing countries, and including considering the potential establishment of a global reinsurance facility.

Following the workshop, the ExCom and the SCF should establish a working group, incorporating relevant representatives, including civil society, to take forward discussions and craft recommendations on next steps for consideration and adoption at COP 23.

These recommendations should include the institutional arrangements for loss and damage finance as well as also steps for implementing these institutional arrangements, with the objective of having a coherent institutional architecture in place by 2019 at the latest, drawing on existing institutions as well as new instruments, where appropriate.

Once endorsed by the COP and the WIM, the working group referred to in the paragraphs above should be given the mandate to establish the institutional arrangements for loss and damage finance, working with the relevant bodies.

**Objective 4: Agree a plan to start generating significant amounts of loss and damage finance before and after 2020, with the amount increasing significantly over time, from sources of finance that are adequate, predictable and equitable.**

**Background:**

Despite the range of cost estimates for loss and damage, it is clear that costs will be high, even at 1.5°C of warming, let alone the 3°C of warming current mitigation pledges have us heading toward. Therefore it is essential to immediately begin putting in place a plan to begin to generate significant and predictable sources of finance for loss and damage.

New and innovative forms of public finance offer significant potential to provide finance for loss and damage. Some of these “new” sources of finance have been under discussion for a number of years and are also referred to in the WIM Information paper on “best practices, challenges and lessons

learned from existing financial instruments”<sup>2</sup>, including by the High Level Advisory Group on Finance, the Leading Group on Innovative Finance and others. They include a Financial Transaction Tax (FTT), a fossil fuel levy (or Carbon Majors Levy), carbon pricing for international aviation and maritime, using a share of revenues from domestic or regional carbon pricing/carbon markets and others.

To be clear, by “innovative” sources of finance we mean new ways and mechanisms -- such as those laid out in CAN’s 2016 submission to the ExCom<sup>3</sup> -- to generate additional and complementary **public finance**. It is clear that private finance will be largely unavailable and inappropriate for addressing loss and damage, in particular for the more vulnerable sections of the population in affected countries.

Innovative finance may play a role in both providing finance and effectively internalising the social and environmental loss and damage incurred by state and non-state actors; for example, through the application of the carbon majors levy. We also emphasise previous assertions made by both the Leading Group on Innovative Finance and the UNDP that innovative finance should add further predictability, quality and efficiency to flows of climate finance.

The UNEP estimates that between USD 26 billion and USD 115 billion could be raised by 2020 from just 3 innovative sources: auctioning of emission allowances (ETS); revenues from international transportation (Carbon Pricing); and a Financial Transaction Tax (FTT). Other opportunities include a proposal for a Global Fossil Fuel Extraction Levy.

#### **Activities:**

Map existing financial sources relevant for loss and damage activities before 2020 and after 2020, and identify gaps in activities funded and on the scale needed.

Explore potential sources of loss and damage finance by:

- a) Inviting submissions from Parties, observers and other relevant organisations on potential sources of finance, including innovative/alternative sources of finance by mid-May 2017;
- b) Requesting the WIM/UNFCCC Secretariat to compile a resource paper, based on submissions received and previous work done in the area (including the High Level Advisory Group on Climate Finance) in time to inform the WIM ExCom 6th meeting (expected for mid 2017);
- c) Hosting a [full day] discussion at the WIM ExCom 6th meeting, with a view to identifying: a number of [alternative/innovative] sources of finance capable of generating finance at scale per year by 2020, with the amount increasing over time as well as a set of future tasks to explore these sources and enable concrete plans to be put in place,
- d) Hosting a second [full day] discussion in autumn 2017 (at the WIM ExCom 7th meeting) to follow up on actions and tasks identified in (c) above, and being informed by the work under **objective 2**, and to prepare a report with recommendations to be presented to COP23;
- e) COP 23 to discuss and agree to institute a number of sources of finance capable of generating resources at a scale of billions of dollars to address loss and damage in developing countries before 2020, and growing after 2020, at a scale sufficient to address the problem over and above the finance provided for adaptation;
- f) The WIM ExCom hosting, in spring 2018, a workshop with Parties, relevant bodies (GCF, AF, LDCF and others relevant), legislators and observers to agree a plan for putting in place

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<sup>2</sup> ExCom (2016) [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](#)

<sup>3</sup> CAN International (2016) [Submission to the Executive Committee of the Warsaw International Mechanism on Loss and Damage](#)

the sources of finance as agreed at COP23, including responsibility for key tasks;

g) The task force identified in f) above meeting virtually and in person sufficient times to create detailed plans to present to COP24 for consideration and adoption;

h) Throughout 2019, the task group, and other relevant bodies, undertaking actions (including, for instance, supporting national legislation) as required to allow for sources of finance to be in place by 2020, and to report on the same at COP25.

This work can also inform the next review of the WIM envisaged for 2019, and the technical paper on sources for loss and damage finance as part of the Financial Mechanism, referred to in decision 4/CP.22.

#### **Objective 5: Agree principles to apply to loss and damage finance, regardless of source or channel.**

##### **Background:**

If other areas of finance are an indication, some loss and damage finance will be provided bilaterally as well as via multilateral organisations. In order to ensure appropriate governance standards are applied to all loss and damage finance provided, an overarching set of principles should be agreed. This also helps to deliver on the Action Area 1<sup>4</sup> of the initial ExCom work plan, now installed as a cross-cutting area in the 5-year work plan framework.

The Paris Agreement provides a key starting point, including through:

- Its preambular provisions stating that “Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity,”
- Art. 7.5 which lays out key guiding principles for adaptation action, incl. “a country-driven, gender-responsive, participatory and fully transparent approach, taking into consideration vulnerable groups, communities and ecosystems, and should be based on and guided by the best available science and, as appropriate, traditional knowledge, knowledge of indigenous peoples and local knowledge systems”, and which we regard as relevant despite addressing loss and damage being beyond adaptation.

In addition, it should apply principles of global equity, including taking into account a “polluter pays”-based approach to generating finance for addressing loss and damage from countries, companies and institutions who significantly contribute to the causes of climate change through fossil fuel emissions.

##### **Activities:**

The WIM should open a call for submissions from Parties and Observers at its March 2017 meeting on principles that should apply to loss and damage finance, regardless of source or channel, and develop a proposal for applying a set of guiding principles to guide loss and damage action at subsequent ExCom meetings with a view to recommending to COP 23 to take a decision on guiding principles.

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<sup>4</sup> “Enhance the understanding of how loss and damage associated with the adverse effects of climate change affect particularly vulnerable developing countries, segments of the population that are already vulnerable owing to geography, socioeconomic status, livelihoods, gender, age, indigenous or minority status or disability, and the ecosystems that they depend on, and of how the implementation of approaches to address loss and damage can benefit them” ([http://unfccc.int/adaptation/workstreams/loss\\_and\\_damage/items/8805.php](http://unfccc.int/adaptation/workstreams/loss_and_damage/items/8805.php)).