

# Submission on the Strategic Workstream on Loss and Damage Finance

To the Executive Committee of the Warsaw International Mechanism for Loss and Damage  
On behalf of Climate Justice Programme, Heinrich Böll Stiftung, Stamp Out Poverty.

28 February 2017

We welcome the call for input to the five-year rolling workplan of the Executive Committee, as mandated by decision 3/CP.22. This submission outlines proposed activities for the strategic workstream on enhancing action and support, including finance.

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. Yet for its first three years, the WIM has focused on its other functions of: a) enhancing knowledge; and, b) strengthening dialogue and coordination but has neglected the third element of its mandate, c) action and support. In order to make up for lost time, 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 two workstreams combined. Crucially the WIM will need to undertake activities in parallel. Planning the activities sequentially would demonstrate an intent to continue to slow down progress.

**The overall objective, or milestone, for this strategic workstream should be to urgently generate finance for loss and damage from climate change from predictable sources of at least \$50bn per year by 2020, with plans to increase to at least \$200bn per year by 2030, for loss and damage from climate change over and above the finance provided for adaptation.**

Specific objectives and activities to meet this milestone should include the following.

## **Objective 1: Create a definition, and/or positive list, of loss and damage activities to fund.**

**Background:** Decisions by Parties over the last four years have made it clear that loss and damage is separate to adaptation, and that loss and damage finance should be mobilised by the WIM. However, further clarity is required on what constitutes loss and damage finance, and how it is separate to adaptation finance. We acknowledge that there will be some areas where it is clear, and other areas where there is an overlap, or 'grey area'. Agreeing definitions has proved difficult in the past (for instance there is no agreed definition of adaptation within the UNFCCC), so Parties may wish to focus efforts initially on generating a positive list instead of a definition. This positive list could make clear the kind of activities that are clearly loss and damage and outside of the realm of adaptation (for instance: funding for relocation; payment of insurance premiums). As work progresses the positive list could be updated on a regular basis, thus, helping to move toward an internationally accepted definition.

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, and to request Parties, funding organisations, and the SCF to account for it in future biennial assessments of climate finance separately from financing for mitigation and adaptation and not counting toward the USD 100 billion per year by 2020 goal.

The Paris Agreement article 13 calls for an Enhanced Transparency Framework for Parties to report their efforts on mitigation and finance needed, provided and received. Some Loss and Damage finance has begun to flow and modalities are needed to account for those funds. The UNFCCC urgently needs to agree on a body to collect and review these reports, and to set agreed definitions for what counts as Loss and Damage Finance. A common tabular format or other information management system should be established which is capable of categorizing, quantifying and compiling loss and damage finance requirements

and funds provided. This system should be part of a larger tracking system for climate finance for mitigation and adaptation.

**Activities:** Begin with previous WIM work and COP Decisions and seek additional submissions from Parties and Observers. In particular, the positive list should cover a comprehensive range of activities including slow onset events; go beyond the current emphasis on insurance and ensure that the needs of the most vulnerable are met.

The WIM (UNFCCC) Secretariat should draft a background note, drawing from previous WIM work which would compile a working definition of loss and damage and a positive list of activities that may be considered loss and damage, for consideration by participants at the workshop outlined in the following paragraph.

The WIM should organise a two-day workshop, before or after the May 2016 intersessional, inviting participation from the SCF and interested Parties and observer organisations, to discuss definitional and positive list issues. Its objective would be to draw conclusions to inform a future report to COP.

COP23 should adopt a Decision inviting Parties and funding organisations, including the development banks to report on loss and damage finance separately to adaptation finance, while also requesting that the SCF account for loss and damage finance in its next biennial assessment of finance (2018). This reporting should be informed by the outcomes of the WIM workshop mentioned in the paragraph above.

The WIM should open a call for submissions from Parties and Observers for the May 2017 SB46 meeting on principles and modalities for accounting for loss and damage finance, regardless of source or channel. This accounting system should be at the implementation 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. The system should be online and user-friendly, and allow input from recipient governments and civil society. Draft text and a pilot accounting system should be developed in advance of COP23 in November, 2017.

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

**Background:** 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. These loss and damage costs are on top of the costs of adaptation. Estimates available include:

- ActionAid (2010) cites Hope's 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 (2012) estimate 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 efforts, at just over \$100bn per year by 2050 (on top of adaptation costs of \$50bn) if warming is kept below 2oC, and around \$160bn per year (on top of adaptation costs of \$95bn) if warming goes above 4oC.

The WIM could improve the shared understanding of the scale of loss and damage costs, the scale of international finance required, and the amount that is appropriately directed via the WIM, or other international financial institutions.

**Activities:** The WIM should make an open call to the scientific community to submit papers by autumn 2017 on the scale of loss and damage finance, working with a journal if possible for a special edition to be released ahead of COP23.

A series of regional workshops should be held ahead of COP23 to explore needs for various groups of countries, perhaps countries with low lying areas, those experiencing drought and desertification, those experiencing extreme events.

Ahead of COP 23, the WIM/UNFCCC Secretariat should produce a synthesis paper utilising output from above workshops, papers and any additional papers already available.

The WIM should host a special event in conjunction with COP23, inviting scientists to present their findings, and representatives from workshops to present outcomes.

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

### **Objective 3: Agree on a structure (institutional arrangements) to provide loss and damage financial support under 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 insurance capitalisation and premiums are funding of loss and damage activities; some disaster response funding could also be considered 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.

An assessment of 20 years of international aid demonstrates that finance provided bilaterally is less likely to meet the needs of developing countries, and that funds that include developing countries in decision making are more likely to provide funding in line with developing country needs. Loss and damage finance should take this learning into account.

Loss and damage is a new area, with a need for new funds, and one that international law and precedents from other fields 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:** Following from the SCF 2016 Forum, which focused on insurance for, the WIM and the SCF should co-host a workshop at the 7th WIM ExCom meeting in the second half of 2017, inviting the GCF, AF, LDCF, SCCF 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 and how existing institutions, such as the GCF and the LDCF could provide loss and damage finance and whether the WIM should establish its own loss and damage finance mechanism 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 including considering establishing a global reinsurance facility or similar, and ways in which this could be capitalised.

Following the workshop the WIM 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 COP23.

These recommendations should include recommendations as to the institutional arrangements for loss and damage finance as well as also steps for implementing these institutional arrangements, with the objective of having institutional arrangements in place by 2019 at the latest.

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 on a plan to generate loss and damage finance of at least \$50bn per year by 2020, increasing to at least \$200bn per year by 2030 from sources of finance that are adequate, predictable and equitable and additional to adaptation finance.**

**Background:** Despite the range of cost estimates for loss and damage, it is clear that costs will be high (even at 1.5oC of warming, let alone the 3oC of warming current promises have us heading toward). Therefore it is essential to immediately begin work on a plan to generate significant and predictable sources of finance for loss and damage. The benchmark of at least \$50bn per year by 2020, increasing to at least \$200bn per year by 2030, acknowledging that this amount is likely to increase as work on Objective 2 progresses.

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, 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 Appendix C -- to generate additional and complementary **public finance**. It is clear that private finance will be largely unavailable and inappropriate for loss and damage.

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 (Carbon Majors Levy). More information on these sources is available at Appendix C.

- Activities:** Explore potential sources of loss and damage finance by:
- a) Inviting submissions from Parties, observers and other relevant organisations into potential sources of finance, including innovative/alternative sources of finance by 24 April 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 Panel on Alternative Sources of Finance) in time to inform the WIM ExCom 6th meeting in mid 2017;
  - c) Host 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 at least \$50bn 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) Host 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 to prepare a report with recommendations to be presented to COP23;
  - e) COP23 to discuss and agree to institute a number of sources of finance capable of generating at least \$50bn per year by 2020, with the amount increasing over time as well as a set of tasks to put each source in place;
  - f) In spring 2018 the WIM ExCom to host a workshop with Parties, relevant bodies (GCF, AF, LDCF and others relevant), legislators and observers to agree a plan for putting in place the sources of finance as agreed at COP23, including responsibility for key tasks;
  - g) The task group identified in f) above to meet 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 to undertake 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 same at COP25.

**Objective 5: Agree on 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 various 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.

These principles should include equity, pro-poor, polluter pays, priority for the most vulnerable, direct access for communities, and incorporate a human and gender rights approach amongst others.

**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.

The WIM (UNFCCC) Secretariat should draft a note compiling submission inputs to inform the two day workshop of the WIM, to be held before or after the May 2017 intersessional (in conjunction with Objective 1: Creating a definition, or positive list, of loss and damage activities to fund). At this workshop the WIM, and other bodies, Parties and observers, should spend a half day discussing the principles with a view to concluding on a set of principles, and providing guidance to COP23.

COP23 should adopt a Decision noting the guidance on principles generated by the workshop referred to in the paragraph above.

**Overview of activities and outcomes:**

	<b>1: Definition / positive list</b>	<b>2: Scale</b>	<b>3:Institutions</b>	<b>4: Establish sources</b>	<b>5: Principles</b>
21-24 March WIM ExCom 5th meeting	Agree strategic workplan objectives, activities and milestones				
	Call for submissions	Open call to science community for papers	Establish working group to organise workshop	Call for submissions by 24 April	Call for submissions
	UNFCCC to produce compilation note (from submissions and existing background)	Outreach to journals interested in special edition			UNFCCC to produce compilation note
8-18 May Intersessional (and surrounding days)	2-day workshop, output = guidance on definition/ positive list		Workshop announced and agenda released		Incorporate into 2- day workshop, discussion and agreeing guidance on principles for I&d finance
				UNFCCC produce resource paper (from submissions and existing work)	
? June ? WIM ExCom 6th meeting				Full day discussion to identify: sources of finance; and allocate	

				tasks to generate concrete plans	
? Sept ? WIM ExCom 7th meeting		Series of regional workshops exploring scale of needs	Workshop in conjunction with SCF, inviting GCF, AF, LDCF, and other interested bodies, Parties and observers.	Full day discussion to follow up on actions and tasks identified above, and prepare report with recommendations for COP23	
		UNFCCC produces synthesis paper  Journal special edition	WIM and SCF establish working group, to craft recommendations to COP on next steps		
6-17 Nov 2017 COP23	Decision requesting funders to report loss and damage finance using guidance from workshop.	Special event with scientists presenting findings, and workshop representatives presenting outcomes	COP to adopt recommendations to implement institutional arrangements by 2019 at latest.	Discuss and agree to institute sources of finance capable of generating \$50bn pa by 2020, increasing over time, with mandate for WIM, and other relevant bodies, to take action.	Decision noting guidance on principles generated at workshop, and requesting funders apply them.
? March 2018 WIM ExCom 8th meeting			Working group to report on plans and progress		
			. . Working group to undertake work,	WIM hosted workshop with Parties, relevant bodies, legislators and observers to put in place plan to implement sources of finance agreed at COP23. Form task group(s)	
30 Apr-10 May Intersessional			engaging		
			other bodies as appropriate. . . .	Meeting of task group	
? June ? WIM ExCom 9th meeting			Working group to report on progress		
				Meeting of task group	

? Sept ? WIM ExCom 10th meeting					
3-14 Dec 2018 COP24			Progress report to COP; institutions to be in place and ready to receive funds by 2019 at latest.	Presentation from task group on detailed plans for consideration / adoption	
				National legislation; international institutional work as required to implement sources of finance.	
17-27 Jun Intersessional					
11-22 Nov 2019 COP25				Sources of finance in place and beginning to deliver funding.	

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## Appendix A: UNFCCC agreements and decisions, relevant excerpts

COP22/Marrakech Decision on WIM

[http://unfccc.int/files/meetings/marrakech\\_nov\\_2016/application/pdf/auv\\_cop22\\_i7\\_wim1.pdf](http://unfccc.int/files/meetings/marrakech_nov_2016/application/pdf/auv_cop22_i7_wim1.pdf)

5. Invites Parties and relevant organizations to submit views and relevant inputs on possible activities under each strategic workstream as contained in the indicative framework for the five-year rolling work plan of the Executive Committee, with a focus on work-streams for [finance related topics] and [additional results from the initial two-year workplan], by 28 February 2017; Parties should submit their views via the submission portal at <http://www.unfccc.int/5900>. Observers and other stakeholders should e-mail their submissions to [secretariat@unfccc.int](mailto:secretariat@unfccc.int).

Paris Agreement, Article 8 [http://unfccc.int/paris\\_agreement/items/9485.php](http://unfccc.int/paris_agreement/items/9485.php)

Article 8.3. **Parties should enhance** understanding, action and **support, including through the Warsaw International Mechanism**, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change.

Decision 2/CP.19 establishing the Warsaw International Mechanism (WIM) for loss and damage

<http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf>

Paragraph 5(c) **Enhancing action and support, including finance**, technology and capacity-building, to address loss and damage ... including by: ... (iii) **Facilitating the mobilization and securing of expertise, and enhancement of support, including finance**, technology and capacity-building, **to strengthen existing approaches and, where necessary, facilitate the development and implementation of additional approaches to address loss and damage** associated with climate change impacts, including extreme weather events and slow onset events; Paragraph 7. Decides that, in exercising the functions outlined in paragraph 5 above, **the Warsaw international mechanism will**, inter alia:

(a) **Facilitate support** of actions to address loss and damage;

## Appendix B: Relevant dates

2017

21-24 March	WIM ExCom 5th meeting
4-6 April	GCF 16th meeting
8-18 May	Intersessional
? June ?	WIM ExCom 6th meeting
4-6 July	GCF 17th meeting (alternative sources)
4-8 Sept	SCF 16th meeting
? Sept ?	WIM ExCom 7th meeting
3-5 Oct	GCF 18th meeting
6-17 Nov	COP23



## Appendix C: Climate Action Network submission, March 2016:

[https://unfccc.int/files/adaptation/groups\\_committees/loss\\_and\\_damage\\_executive\\_committee/application/pdf/can\\_submission\\_to\\_the\\_excom\\_of\\_the\\_wim\\_on\\_loss\\_and\\_damage\\_finance.pdf](https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/can_submission_to_the_excom_of_the_wim_on_loss_and_damage_finance.pdf)

### Financial instruments to address loss and damage associated with the adverse effects of climate change

Submission to the Executive Committee of the Warsaw International Mechanism on Loss and Damage

#### Introduction

Loss and damage are the adverse effects of climate change that go beyond people's capacity to cope and adapt to climate change impacts (Warner, van der Geest and Kreft 2013; LDC 2012). Loss and damage impacts range from extreme events, for example, weather-related natural hazards, to slow-onset events, including sea-level rise; increasing temperatures; ocean acidification; glacial retreat and related impacts; salinization; land and forest degradation; loss of biodiversity; and desertification (UNFCCC 2012).

Communities are already experiencing significant loss and damage to quality of life, livelihoods, food, and livelihood security as well as secondary loss and damage in the form of stress on the social fabric essential for adaptive capacity and resilience (LDC 2012).

We welcome the agreement at Paris to aim to keep warming to 1.5°C. This would prevent some of the worst impacts of climate change, but will still pose serious challenges, especially for least-developed countries, small island developing states, African countries and a number of vulnerable Latin American countries including with drought, ocean acidification, and sea-level rise (Schaeffer et al. 2013, pp. 3–4). Hence, even with the best possible future mitigation efforts, vulnerable countries will still have to deal with loss and damage (LDC 2012; Verheyen and Roderick 2008, pp. 10–11). Even worse, current mitigation ambitions as expressed in the INDCs might still lead the world to a warming in the order of 3°C of average by the end of this century. This level of warming may be beyond the limits of adaptation for a large number of countries (Schaeffer et al. 2013, p. 4), in particular as it results in significantly higher increases in many regions.

Effective and timely adaptation approaches – such as integrating disaster risk-reduction; climate change adaptation and sustainable development; ecosystem-based approaches for building resilience; sector-specific measures and tools (UNFCCC 2012); and community-based adaptation – can be utilised to reduce loss and damage by increasing resilience to climate change impacts. The international community lags well behind what is necessary to provide support for adaptation, hence increasing the expected burden of loss and damage upon the most vulnerable.

At its heart, loss and damage concerns fairness and justice when dealing with climate impacts. As a result there are a number of principles which it is relevant to bear in mind when considering approaches in this area. These include the principles of equity and common but differentiated responsibilities enshrined within the UNFCCC and Paris agreement, but also the general obligation in international environmental law that states should ensure that activities within their jurisdiction and control respect the environment of other states and areas beyond their national jurisdiction.[1]

In line with equity and human rights requirements, CAN is of the view that it is of particular importance to **address the needs and concerns of those segments of the population which are particularly vulnerable**, in line with the WIM work plan. For many financial instruments, this also requires an in-depth understanding of the livelihood situations of these population groups, people and communities, and therefore we encourage every institution involved in the setting up and delivery of finance to address loss and damage to pay special attention to this and work closely with the vulnerable.

Furthermore, given the principles set out above, the origin of climate change caused by anthropogenic greenhouse gas emissions and also to provide incentives for the reduction of emissions, **CAN also supports the introduction and use of instruments which apply the polluter pays principle**, generating resources from those countries, institutions, or individuals who produce (or have produced) significant emissions[2]. The generation of additional resources is urgently required to (partially) cover costs occurring as a consequence of climate change and in many vulnerable developing countries undermining poverty reduction and sustainable development progress. Such resources can then also help scaling-up effective delivery mechanisms for channelling resources to the vulnerable and most affected for addressing the spectrum of loss and damage (incl. e.g. disaster relief, insurance, relocation efforts).

**This submission will focus on instruments which can generate new and additional resources, as one experience with current instruments is that their scale is insufficient to meet the growing loss and damage.** Of course, their effective use on the ground depends on important factors and variables in the context of pro-poor sustainable development approaches, but also being concerned that this crucial dimension lacks political attention.

### Scale of need for loss and damage finance

Estimates of the loss and damage associated with climate impacts indicating certain levels of financial needs are wide - but even low estimates show the need for loss and damage finance as substantial:[3]

- [Oxfam \(Climate Action Tracker 2015\)](#) 2050 economic damage for developing countries could be **\$1.85 trillion per year (about 1.45% of GDP)** for current iNDCs/current policy pathway leading to 3.6oC of warming.
- [AMCEN/UNEP Africa's Adaptation Gap 2 Report \(2014\)](#) with all cost effective adaptation **Africa loss and damage is estimated at ~\$100bn per year by 2050** for warming below 2°C, at least double that if warming goes above 4°C.
- [UNEP Adaptation Gap Report \(2014\)](#) the indicative cost of **adaptation and the residual damage (loss and damage) for the LDCs ~US\$50 billion/year by 2025/2030 and possibly double this value (US\$100 billion/year) by 2050** at 2°C.
- [Climate Vulnerability Monitor 2 \(2012\)](#), from DARA and the Climate Vulnerability Forum climate change caused net **global economic losses of \$609 billion in 2010, expected to increase to \$4.3 trillion by 2030. 80-90% of these costs are projected to fall on developing countries, with the LDCs suffering the worst.**
- [Dr Chris Hope \(in Parry et al. 2009\)](#) estimated that **by 2060 global loss and damage will be about US\$1.2 trillion per year**
- [Burke, Hsiang, and Miguel \(Nature 2015\)](#) said existing Integrated Assessment Models under-estimate future climate-change costs. Rather at **5°C GDP falls 25 - 75%.**

Three specific recent examples show how climate change can fuel natural hazards and increase the economic and non-economic damages for populations:

- Hurricane Tomas devastated Saint Lucia in 2010 and wiped out the equivalent of 43% of its GDP (World Bank 2013, p. 6).
- In the Horn of Africa, a prolonged drought that ended in 2011 and which, at its peak, left 13.3 million people with food shortages, caused total losses of \$12.1 billion in Kenya alone (Government of Kenya 2012 in World Bank 2013, p. 6).
- 2013 Typhoon Yolanda (Haiyan) displaced 4 million people, destroyed or damaged 1 million houses, killed at least 6,300 people, and caused approximately US\$2 billion in damage in the Philippines. In the preceding years the Philippines had six typhoons with combined damages of US\$2.8 billion (NDRRMC in Wikipedia).

### New financial instruments that should be considered

The following section will elaborate on potential new financial instruments to raise resources for climate action, which should include loss and damage action, as experience from current financial instruments is that their scale lags far behind what is needed. In particular developed country governments have a responsibility to ensure that sufficient finance for loss and damage is provided and to make proven and new solutions of finance delivery work at the scale required. Both by providing financial support in the form of public funds via government treasuries, in addition to existing commitments to mitigation and adaptation finance, and in establishing new and innovative forms of finance. There is support for this approach in the ILC principles on the allocation of loss in cases of transboundary harm[4] which advocate for states to establish industry-wide funds for victims of harm at the national level (Principle 4(4)) and consult with states affected, or likely to be affected, to mitigate the impacts of the damage.

New and innovative forms of public finance offer significant potential to address the funding gap that exists in both adaptation and loss and damage. Some of these “new” sources of finance have been under discussion for a number of years, 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 for international solidarity, and others.

It is important to clear up any confusion about what is meant by “innovative” sources of finance and how they can contribute to overall climate finance. Innovative sources of finance should continue to be defined as new ways and mechanisms -- such as those we lay out in this paper -- to generate additional and complementary public finance resources for international climate finance and sustainable development. In recent years, many donor countries and blocs have begun referring to ‘innovative finance’ as a means to leverage finance, mostly in the forms of investments, from the private sector which are then counted and labelled as climate finance. Innovative finance did not - and should

not - exclusively set out to use existing and already scarce public resources to further leverage and incentivise private sector finance.

Innovative finance may play a role in both increasing finance to complement existing public flows and effectively internalise the social and environmental damage and costs incurred by state and non-state actors; for example, through the application of the FTT and 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 finance, particularly ODA.

During 2010 significant work was undertaken on innovative sources of finance, including from the Leading Group on innovative finance and High Level Advisory Group on Climate Finance (AGF). New ideas have been explored since then in a range of fora, including the recent Africa Adaptation Gap Report 2, the IMO and ICAO. 2016 is the year to begin unlocking these ideas as the scale and interconnectedness of the climate, sustainable development and poverty reduction, disaster risk challenges become clear, and the need to generate large sums of additional resources is clearer than ever.

The UNEP estimates that between USD 26 billion & 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 (to be paid into the Warsaw International Mechanism for Loss & Damage) as well as shifting finance from dormant mechanisms. A short background on each is explored below.

Once established, the resources that these instruments would generate could for good reasons be used for different purposes, incl. climate change adaptation, but also addressing loss and damage, e.g. oriented towards the main work areas of the Warsaw International Mechanisms which reflect support needs. They could be channelled through different existing or also new instruments in support of actions in developing countries, as appropriate.

### **Carbon pricing (taxes or markets)**

Mechanisms to price carbon at national levels help internalise the cost of pollution and are central to many governments' efforts to reduce emissions. As a result of carbon pricing, such mechanisms raise revenues, which could play a significant role in raising finance for climate action, domestically for all countries, and internationally for those countries with greater capacity and responsibility.

The adoption of such mechanisms should be accompanied by agreed standards and rules for the use of the revenues they generate. The EU's Emissions Trading Scheme is a particular case in point, as it urges EU Member States to allocate 50% of revenues from the auctioning of emissions allowances for climate action, though this is not an obligation. In 2013, EU Member States used 87% of auction revenues amounting to EUR 3 billion for climate action, though the large majority of this was used domestically and it is unclear how much of this simply displaced other domestic budgetary sources. From the finance generated, less than EUR 500 million, or just 13%, of these revenues went to international climate finance, from just five EU Member States. Firmer commitments need to be made to support efforts to raise international climate finance and provide an example to other countries setting up carbon pricing mechanisms (whether taxes or markets). However, it is worth noting that the unpredictability of carbon market auction revenues means that these should be conceived as part of a broader package of financing.

There are concrete re-enforcing ways to deliver additional international climate finance:

1. Member States should seek to establish an ETS International Climate Fund, which can be replenished by a percentage of total auctionable permits to be withheld at European level before permits are distributed to Member States. The Fund could channel revenues directly to the Green Climate Fund for mitigation and adaptation actions in developing countries, as well as to existing or new instruments which address loss and damage. Depending on the percentage of allowances dedicated in this way, and dependent on the carbon price, climate finance contributions generated by the EU carbon market could deliver between 1 to 3.4 bn a year.
2. Changing the current rules to stop giving emissions allowances for free to companies, hence generating billions in finance.

## **Fossil Fuel Levies (Carbon Levy)**

A global fossil fuel extraction levy (a “Carbon Levy”) would provide a new source of finance and ensure that the fossil fuel industry pays for the climate loss and damage that their products are causing.

A proposal on how a Carbon Levy could work was made in June 2014 and uses [The Carbon Majors Report](#) that attributes 63% of emissions in the atmosphere to 90 specific entities, known as the Carbon Majors - including investor owned entities such as Chevron, ExxonMobil, Saudi Aramco, BP, Gazprom, and Shell, and state owned entities and states. It is based on existing international law and precedents for such a scheme – including the oil spill regime (IOPC) where companies that ship oil pay a levy into an international mechanism that provides compensation in cases of oil spills.

The Carbon Levy proposal is for a global fossil fuel extraction levy, applied to each tonne of coal, barrel of oil and cubic litre of gas extracted. It could be paid directly into the financial mechanism or an international fund on loss and damage, e.g. set up as part of the Warsaw International Mechanism for Loss and Damage.

Equity, or differentiation, can be incorporated via a process allowing developing countries at a low level of development to “opt-out” by keeping the funds raised by the levy on fossil fuel extraction within their own budgets for climate change purposes.

The fossil fuel extraction levy is a new idea, and could provide a new source of finance for loss and damage, with the co-benefit of placing a price on carbon. At a low level of \$2 per tonne of CO<sub>2</sub>e the levy would raise approximately \$50 billion per year. The levy would need to increase each year, as the costs of loss and damage increase and as fossil fuels are phased out and the volume of extraction decreases.

## **Financial Transactions Tax (FTT)**

A financial transactions tax is the application of a modest levy on financial trades, such as on stocks, bonds and derivatives.

Ten European countries, including Germany, France, Italy and Spain, are in the process of establishing a regional FTT, with the goal of having it operational by 2017. French President Francois Hollande has pledged to seek agreement amongst the 10 countries to commit FTT revenues to the Green Climate Fund (GCF) and a mechanism to implement this. After Paris, the pressure to ensure public climate finance, specifically for adaptation, is delivered, will continue to increase. France and its European partners have to work to: 1) set a minimum amount of revenues to be mobilised by the FTT, for example, EUR 34 billion per annum the EU commission estimates will be generated; 2) commit to earmark a significant proportion of these revenues to international solidarity and the GCF, and; 3) ensure the FTT is implemented as early as possible in 2017.

Other developed countries, particularly those with large financial markets, should also establish a broad FTT covering all financial instruments and applying to all financial actors, dedicating a significant proportion of forthcoming revenues for international climate finance, a portion of which may be allocated to loss and damage.

## **Carbon Pricing for International Aviation and Maritime Transport**

Carbon pricing for the sectors of international aviation and maritime transport have been identified as potential sources of revenue for, inter alia, the following reasons:

- Fuels used for international transport are currently exempt from taxation;
- Emissions from these international sectors are not included in national emissions targets, and are the fastest growing emissions of any sector globally;
- Carbon pricing – levies or carbon markets – applied in a fair and equitable way can be effective ways to achieve emissions reductions in these sectors, as well as raising revenue that can be used for climate change adaptation, mitigation, and addressing loss and damage;
- These sectors can raise substantial revenue for climate finance - the AGF estimated that a carbon price of \$25 per tonne on international transport emissions could generate around \$30 billion in total revenue annually, of which over \$10 billion could be used for climate finance as a contribution from developed countries.
- Specific proposals have been put forward by certain countries, such as the International Air Passenger Adaptation Levy, by the group of Least Developed Countries

Market-based Measures (MBMs) – Carbon Pricing – have been under consideration in the International Maritime Organization (IMO) and International Civil Aviation Organization (ICAO) for well over a decade, during which time very

little progress has been made. The shipping industry itself, after supporting global MBMs as an alternative to a patchwork of regional measures, withdrew its support when it became clear that the EU would not proceed with implementation of strong regional measures. The environmental integrity of ICAO's proposal of carbon neutral growth after 2020, through a market-based mechanism, to be agreed at its triennial assembly in September/October 2016, is in doubt. And efforts to use this MBM as a means of raising revenue are being resisted. Other types of MBMs including those that could generate revenue to be used for climate finance are still officially on the table, though receiving little attention.

Neither IMO nor ICAO has agreed to an emissions reduction target. Both sectors have argued that a carbon price will have little utility in controlling emissions, given the historically high fuel prices in recent years. The recent drop in fuel prices, however, undermines this argument and has already resulted in changing practices such as speeding up ships that result in lower efficiency and higher emissions, and airline operators preferring to lease older less fuel efficient aircraft over purchasing newer more fuel efficient ones.

The recent proposal from the Marshall Islands for the IMO to set a sector-wide international shipping emissions reductions target is welcome - and IMO member states should move to adopt and implement this quickly. If ICAO does agree to an MBM later in 2016, it must be environmentally robust and should include provisions which raise revenue for climate finance.

Appropriate mechanisms that can be the basis for differentiating between countries based on their level of development, capacities and responsibilities, while respecting the approaches and customary practices of these bodies have been proposed, and should be implemented.

### **Financial instruments from other fields**

#### ***International Oil Pollution Compensation Fund (IOPC)***

The oil spill liability schemes provide the most practical example of an active international liability scheme that compensates victims of environmental damage (Daniel n.d., pp. 225, 227).

Oil spill pollution became a serious concern to the international community during the 1950s, when there was a major expansion in movement of oil by sea, and in the following decades a major increase in oil spills. The international community adopted a number of treaties establishing duties to prevent pollution, and eventually a liability scheme. The initial regime, with instruments from 1967, 1969, 1971, and 1977, was amended in 1992 by two protocols, which broadened the scope of the original treaties and increased compensation limits (1992 Civil Liability Convention (CLC 92) and the 1992 Fund Convention).

The IOPC funds are financed by levies on entities that receive more than 150,000 tonnes of oil per year. Governments are obliged to monitor and submit this information annually to the IOPC Secretariat (Verheyen and Roderick 2008, p.25).

The international scheme that governs liability for oil spill pollution has been one of the most widely accepted international liability schemes (Xue 2003, p.60). Corporate entities have contributed at a rate of 99.8% (Jacobsson 2007, p.7).

Damage must result from oil pollution and have caused a quantifiable economic loss including: property damage; costs of clean-up operations; economic losses by fisher people or those engaged in mariculture; economic losses in the tourism sector; and costs for reinstatement of the environment.

Anyone may bring a claim for compensation within the courts of a Contracting State or States, which provides a useful precedent for allowing communities to directly access the International Mechanism for loss and damage.

The IOPC Fund is not a perfect model - it does not provide compensation at a high enough level, and communities have had difficulties to access it - but it does provide an existing example of a polluter pays approach to dealing with loss and damage that has wide acceptance across governments and industry.

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[1] See, for example, Art 4.2 UNFCCC Convention, Principle 21 of the Stockholm declaration, Principle 2 of the Rio declaration and the ICJ 1996 advisory opinion on nuclear tests.

[2] The International Law Association's draft principles on climate change also underline the need to "make good" or provide some form of compensation for the unequal use of the global atmosphere in the past by industrialized countries.

[3] The figures listed cannot be directly compared as they relate to different assessments. However, the main purpose here is to provide an illustration of the substantial financial implications of loss and damage.

[4] <http://legal.un.org/avl/ha/palcthaoha/palcthaoha.html>

# Appendix D: BOND DEG Working Paper

[https://www.bond.org.uk/sites/default/files/resource-documents/deg\\_ld\\_series\\_finance\\_for\\_loss\\_and\\_damage\\_nov16\\_final-1.pdf](https://www.bond.org.uk/sites/default/files/resource-documents/deg_ld_series_finance_for_loss_and_damage_nov16_final-1.pdf)

## Finance for Loss and Damage: Marrakech and beyond

December 2016

### 1. Introduction

This paper contains recommendations from BOND members on the subject of finance for loss and damage associated with climate change impacts (henceforth L&D) for governments to take up at COP22/CMA1 in Marrakech and beyond. While it is positive that the Paris Agreement states that Parties should enhance support for L&D, including through the Warsaw International Mechanism (WIM), efforts to date have been extremely slow in this area, and more resources are needed. We welcome the WIM's 'framework' for a five-year workplan,[2] but note that it contains only a placeholder for finance-related activities. We expect the Marrakech Conference to give the clear message to the WIM that it should – with support from the Standing Committee on Finance (SCF) – focus on this area in 2017.

### 2. Context

#### *L&D is already a real manifestation of climate injustice*

Climate change is already affecting poor people around the world, and for some climate change impacts have already crossed the line into loss and damage. Impacts such as Cyclone Pam that damaged or destroyed 80% of buildings on Vanuatu and put back development efforts[3]; increasingly erratic rainfall and extreme droughts that have resulted in food shortages across the Sahel region[4]; two years of extreme drought in the southern Africa region that have combined with El Niño to leave, for instance, 40% of the population of Malawi food insecure and in need of assistance[5]; and rising sea levels that a resulting in people in low lying areas, such as Bangladesh, already losing their land[6]. These people have suffered loss and damage from climate change. Overwhelmingly the people facing the worst impacts are poor, and have contributed almost nothing to the pollution causing climate change. The Paris Agreement acknowledged this injustice and established L&D as a standalone element (Article 8) acknowledging that the international community must provide support, including finance, for L&D. Rich and historically polluting countries, such as the UK and other developed countries, have a responsibility to live up to the commitments made in the Paris Agreement to ensure that the poorest and the most vulnerable are not left facing the devastating consequences of our pollution on their own.

### 3. L&D finance is additional and needs to be defined

*L&D finance is separate from and must be additional to adaptation finance, and the CMA must agree a definition of L&D finance to operationalise this distinction*

- The Paris Agreement makes clear that L&D is separate from adaptation by addressing it in its own article (Article 8). Article 8.3 states that “Parties should enhance understanding, action and support, including through the Warsaw International Mechanism, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change”.
- Article 8.4 does, however, include some categories of adaptation and broader resilience building activities (such as early warning systems) in those areas it mentions relating to L&D. This highlights the importance of reducing L&D through adaptation and risk reduction activities, but there is still a clear need for an internationally agreed definition of what should be counted as finance for L&D, which the Paris Agreement states that Parties should enhance, and which should be accounted for in the global stocktakes. This in turn might be helped by a definition of L&D.
- The Standing Committee on Finance (SCF)'s definition of “climate finance” (copied below) does not include L&D: there is therefore a specific need to develop a definition of L&D finance, and to request that the SCF account for it in future biennial assessments of climate finance – from 2018 onwards.
  - “Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.” ([2014 Biennial Assessment and Overview of Climate Finance Flows, p.5](#))
- **Recommendations:**

- COP22/CMA1 should ask the WIM and the SCF to jointly undertake work to develop a definition for L&D finance, which would then be used by Parties to report on L&D finance separately to adaptation finance, and by the SCF in their next biennial assessment of finance.
- This definition would help to avoid double counting and ensure that L&D finance does not undermine or duplicate adaptation finance.

#### 4. The scale of L&D finance needs

*L&D finance needs may reach the order of a trillion dollars a year, i.e. around the same order of magnitude or even more as adaptation finance needs – further studies on L&D finance needs are required*

- Available studies on the global scale of L&D indicates that this figure rise to around \$1 trillion per year: [ActionAid \(2010\)](#) cite Hope's 2009 study estimating a range of USD 0.3-2.8 trillion in 2060 after mitigation and adaptation, with an average of \$1.2 trillion. Annual damage would continue to rise after this year, with a total damage of \$275 trillion from 2000 to 2200 with likely adaptation and with stabilising emissions at 450ppm – this figure increases to \$890 trillion with a business-as-usual emissions trajectory. More recently, [Baarsch et al. \(2015\)](#) suggest L&D costs (not needs) for developing countries of around \$400bn in 2030, rising to \$1-2 trillion by 2050. [DARA \(2012\)](#) estimate global climate change-induced L&D 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 L&D 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.
- Further work is required on the methodologies and processes for estimating L&D and associated finance needs, as well as non-economic losses.
  - **The Marrakech Conference should invite the IPCC to coordinate a scientific assessment to estimate the total economic and non-economic L&D and its associated finance needs for different mitigation, adaptation and global temperature scenarios. This should identify and apply suitable methodologies for estimating the percentage of projected damage from specific categories of disasters that can be attributed to climate change (*ex ante*). It should also evaluate methodologies for attributing specific events to climate change (*ex post*) and recommend how these could be used to inform disbursement of and accounting for L&D finance.**
  - **The WIM should then use the IPCC findings to inform its work on finance (though it should not wait for this report to finalise and start work on its five-year workplan).**

#### 5. Finance targets and their interdependence

*L&D must be reduced by enhanced mitigation and adaptation effort, and COP22/CMA1 should establish a process to determine separate finance targets for adaptation and L&D, which, from 2025, are dependent on the level of mitigation effort achieved*

- Given that the Paris Agreement states that Parties should provide support for L&D, yet L&D is not included in the SFC's current definition of climate finance and the \$100bn per year by 2020 is committed to mitigation and adaptation, the UNFCCC must establish new and additional L&D finance targets. Separate adaptation and L&D finance targets should be set in a way that builds in their dependence on global warming scenarios (i.e. mitigation effort).
- COP22/CMA1 should establish a process to determine separate science-based finance targets for adaptation and L&D.
  - **Given that L&D is already a reality, COP22/CMA1 should send a clear message that additional funds must be set aside for L&D immediately, and agree to establish a target for L&D finance from 2020 on top of the \$100bn per year. If time allows, this target should be informed by the above-mentioned IPCC assessment, taking into account the levels of adaptation support provided. Otherwise, existing studies should be used to derive an appropriate target for 2020.**
  - **As part of the process for establishing an increased overall level of climate finance after 2025, adaptation and L&D finance targets from 2026 to 2030 should be set based on bottom-up scientific needs assessments, where possible, and linked to mitigation efforts, with a minimum 2030 adaptation finance target set at USD 140bn per year, as suggested by [UNEP \(2016\)](#). Further, the L&D finance targets should be informed by the above-mentioned IPCC assessment and dependent upon the required adaptation support being provided.**

## 6. Mechanisms for L&D finance

*COP22/CMA1 should ask WIM and the SCF to identify finance mechanisms for L&D: a WIM finance panel should be established and ensure sufficient L&D finance is equitably mobilised and appropriately allocated*

- Currently the climate finance mechanisms of the UNFCCC do not address L&D. There is therefore a need to determine which will be the finance mechanisms for L&D. Questions such as whether the GCF and the LDCF should have L&D windows and whether the WIM should establish its own L&D finance mechanism should be addressed.
- It should be noted that finance used to fund activities aimed at reducing L&D is not L&D finance: for example, finance for early warning systems and emergency preparedness would be disaster risk reduction finance or, to the extent that these activities are a response to projected impacts of climate change, adaptation finance, not L&D finance: this should be clarified through the definition mentioned above.
  - **COP22/CMA1 should mandate the strengthening, including through the adequate resourcing, of the WIM as a forum for facilitating financing, technology cooperation, capacity development and knowledge exchange for addressing L&D.**
  - **COP22/CMA1 should further request WIM to establish a finance panel whose primary role is to coordinate efforts to ensure that adequate finance for L&D is equitably raised and allocated to and disbursed by the most appropriate finance mechanisms under the Convention, in association with the development and application of appropriate policy and legal frameworks. The panel's first task should be to identify, in collaboration with the SCF, the financial mechanism of the Paris Agreement and other appropriate funds and mechanisms, for both slow- and rapid-onset events, including the proposal of any new mechanisms deemed necessary.**

## 7. Expanding the focus from insurance

*L&D finance requires a comprehensive approach, with a range of financial mechanisms, instruments and policy and legal frameworks, which must be rights-based and gender equitable – there is currently too much focus on insurance in the L&D finance discussion*

- The right forms of insurance can be an element of a comprehensive L&D finance approach, but there is currently too much focus on insurance. Insurance cannot cover all L&D, and in many circumstances more cost-effective and equitable solutions, such as enhanced social protection, exist for L&D and for the broader objective of comprehensive risk management. In particular, the poorest and most vulnerable may be uninsurable to certain climate risks, such as sea-level rise and other slow onset events.
- The desirable aspects of a well-functioning insurance scheme – timely provision of finance in response to pre-determined trigger conditions having been met – are not unique to a premiums-based insurance model and can be used with contingency funds, for example. Further analysis and discussion of the potential role for catastrophe bonds, and their suitability for the poorest and most vulnerable countries, is also required.
- The recent El Niño-induced droughts and flooding have demonstrated the need for more joined-up discussion and planning among humanitarian, development and climate sectors, including their finance mechanisms, and alignment of social protection, climate change and disaster risk reduction policies.
- The design, implementation and monitoring of a comprehensive L&D finance system must be participatory, bottom-up, rights-based, gender-equitable and subject to adequate environmental and social safeguards.

## 8. The appropriate role for the right kind of insurance

*All climate risk insurance should be openly and transparently assessed as appropriate, equitable, effective and pro-poor. There should be no assumption that poor people can, or should, pay premiums for climate risk insurance.*

- Insurance and financial risk transfer mechanisms, if applied appropriately, **can be a useful component** of L&D finance. By providing timely payments to prevent economic losses insurance can prevent people falling into poverty; it can provide greater security for investments and access to credit; and it can encourage a planned, contractual rather than *ad hoc* way of dealing with risk.
- However, **insurance should not be over-emphasized**, as it is only relevant for some climate impacts and others, such as highly probable, slow-onset events or very frequent events, may not be insurable. A comprehensive climate risk framework including mitigation, adaptation, and disaster risk reduction (DRR), social protection schemes, and equitable access to resources and public services are all essential and should not be overlooked or under-funded in favour of insurance.
- Insurance should be driven by the demands and needs of climate change-affected **communities**, including by their participating in the design of schemes, in contingency planning and in the tracking and accountability of



payouts. Gender equity should be ensured, and adverse impacts on the poorest, including landless, who may not be able to access insurance schemes or their eventual payouts, must be avoided.

- Where climate risk insurance is appropriate, climate justice and equity dictate that there must be **sustained, predictable and long-term financial support to pay the premiums** for vulnerable countries (macro-level insurance), individuals (micro-level) and associations (meso-level). In most rich countries, agriculture and flood insurance is heavily subsidised by the government ([Bond, 2016](#)).
- Climate risk insurance should not be a mechanism for private companies to **profit** from the risk faced by the poor and vulnerable, nor should it be a mechanism to **transfer responsibility** from historically polluting countries to the poor.
- Climate risk insurance schemes should reduce, never increase, **financial risk** to the poor. Basis risk funds[7] and other back-ups are necessary to ensure that where the insurance model fails the poorest are not left bearing the brunt.
- At present **development partners are focusing too much on one insurance model – sovereign risk pooling** – whereas different models are appropriate for different contexts. For example, more should be done to promote the delivery of insurance at scale through member-owned institutions of the poor such as cooperatives and self-help groups, and to strengthen these institutions. A risk-layering approach is also important: micro-insurance for individuals, may be better suited to more localised and lower-threshold climate shocks, which *do not* trigger at the relatively high threshold of macro-level models. **All levels of insurance must be made affordable and accessible through appropriate premium support.** An equitable and cost-effective solution to the current piecemeal financing arrangements would be a **global social protection and crisis fund**, which would support developing countries to put in place universal social protection minimums and scale these up in times of crisis through a **not-for-profit reinsurance arm** (based on the proposal by De Schutter & Sepúlveda in [Underwriting the Poor, 2012](#)).
- Insurance should be treated as a mechanism for addressing L&D and its financing treated as L&D finance, as pay-outs address L&D. Aspects to promote adaptation (e.g. incentives for risk reduction) must be tested for additionality (i.e. would they have happened anyway) and robustness (i.e. will they actually have the claimed adaptation effect) and only the relevant portion of the cost attributed to adaptation.
- Insurers should use their \$30 trillion in assets to become a global force for divestment and sustainable investment. Currently, just 1% of insurers are assessing the risk of stranded assets in their investments and only 5% are measuring portfolio carbon emissions ([Bond, 2016](#)).
  - **Governments should not allow (nor subsidise) private insurance companies to engage in climate risk insurance until they have divested from fossil fuels.**
  - **The WIM Clearing House on Risk Transfer, the G7 InsuResilience initiative, the Insurance Development Forum and other bodies dealing with climate risk insurance schemes, should adopt pro-poor principles (sketched out above, and available in more detail in [Bond's companion paper on insurance](#)), and should report against these principles in a fully transparent manner.**

## 9. Sources of L&D finance

*Innovative but equitable sources of finance are required to meet the scale of adaptation and L&D finance needs, and suitable options exist – governments must commit to their utilisation at COP22/CMA1 and put in place the necessary policies and laws*

- There is a huge gap in finance for both adaptation and L&D of the order of hundreds of billions of dollars a year, likely to rise to the order of trillions, much of which needs to be provided in the form of public grants from rich nations. Hence rich nations must respond by identifying sources of finance of this order and putting in place the policies and legal frameworks required to generate them at the level required. .
- A solution that implicitly says that the only way to finance L&D is to open up profit-making opportunities for the private insurance market is not acceptable – the insurance component of an international L&D finance system must be not-for-profit.
- Furthermore, while climate and catastrophe bonds may hold potential for raising funds for certain investments, there are doubts over whether the poorest of countries will be able to attract such investments, and even more so for L&D ([WIM, 2016](#)).
- However, there are indeed innovative, equitable, adequate and additional sources of financing that could be made available for L&D with sufficient political will. These include (see [Durand et al., 2016](#)):
  - financial transaction tax
  - international airline passenger levy
  - bunker fuels levy

- (progressive and equitable) carbon taxes
- fossil fuel majors levy
- reallocation of fossil fuel subsidies and military budgets
- Such efforts to raise funds for L&D finance must also be supported by sustainable investment from sovereign and private investors, including insurance and pensions companies.
- Developing countries and development partners should also build up contingency funds for use as soon as early warning systems signal impending crises. But the capacity of developing countries to put aside such funds is very limited. This highlights the importance of debt cancellation, or debt swaps for climate change action where appropriate, as some SIDS are now doing or requesting.[8] It also underlines the need for developed countries to enable developing countries to enhance their domestic resource mobilisation, including through the former ensuring that their companies pay fair tax levels when operating in the latter. Development partners should furthermore provide contingency funds in the form of grants not credit.
  - **At COP22, governments should mandate the WIM to develop a strong finance stream within its workplan, including a plan to explore the innovative sources of finance mentioned above, with options for how each could be implemented and the potential for raising finance from each. These options should be brought forward for a decision leading to implementation at COP23 or 24. This work should take place within the context of the massive gap in L&D finance, recognizing that developing countries urgently need financial help to deal with L&D from climate impacts.**

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[1] This paper was written by Jonathan Reeves (ActionAid UK) and Julie-Anne Richards (for RESULTS UK), with inputs from other DEG members.

[2] As set out in the [WIM Executive Committee's report to COP22](#)

[3] [Al Jazeera, 16 March 2015](#)

[4] UNCCD 2014. [Desertification: The Invisible Front Line](#)

[5] CARE 2016. [Factsheet: El Nino Drought Crisis in Southern Africa](#). August 2016

[6] Mortreux, C. and Adams, H. 2015. Setting the scene: national and deltaic migration trends in India, Bangladesh and Ghana. Deltas, Vulnerability and Climate Change: Migration and Adaptation (DECCMA)

[7] Basis risk is the difference between the pay-out triggered (or not) by a peril in a parametric or index-based insurance scheme and the actual damage experienced by the insured. A basis risk fund is a back-up mechanism to ensure that damage is (at least partially) paid for even when the parameter or index used in the scheme does not reach the pre-determined threshold for a pay-out. Basis risk often occurs due to inadequate data or monitoring systems or poorly designed indices.

[8] See for example the [Commonwealth proposal](#), the [ECLAC Caribbean Resilience Fund proposal](#) and [the Seychelles debt swap](#).