

Submission by the United States of America

The role of the Convention in addressing loss and damage associated with the adverse effects of climate change

16 November 2012

The United States is committed to working with developing countries to understand how climate change may affect key economic sectors and vulnerable communities and to identify solutions to increase the resilience of those sectors and communities to climate change and variability. We define “loss and damage” broadly as the adverse consequences of climate change. We believe the loss and damage work program has made progress in helping developing countries better understand how to assess climate risk and to adapt to climate change by using risk management approaches appropriately and cost effectively.

These risk management approaches are: risk reduction, risk retention, risk transfer, and post disaster assistance.

- **Risk reduction** approaches are adaptation measures aimed at reducing loss and damage. According to the Caribbean Catastrophe Risk Insurance Facility’s Economics of Climate Adaptation Initiative, some countries can avoid up to 90 percent of expected damage by implementing cost-effective risk reduction measures. Risk reduction can be the most cost effective way of reducing the amount of primary losses (which result immediately from an event, such as wind damage from a hurricane) and secondary losses (which result after an event, such as additional damage caused by a landslide after a flood) suffered as a result of events of all different severities.
- **Risk retention** approaches, such as savings accounts or national contingency funds, are best targeted to moderately adverse events that happen too frequently to be insured on the market, but are severe enough that not all losses can be averted through risk reduction measures. For example, a farmer may be able to cope with a moderate drought if she has reduced her risks by filling up a water storage tank earlier during the rainy season; but she may still have a reduced yield and need to take money out of savings to pay for inputs needed for the next planting season. With risk retention approaches, individuals and governments can plan ahead and quickly access resources for response and recovery.
- **Risk transfer** approaches, such as insurance, limit the sudden financial impact for affected individuals or governments by distributing risk to other players in the market. Insurance is not a stand-alone solution. Nevertheless, for events of a relatively low frequency and high severity, insurance can be the most cost-effective tool. By giving risk a clear monetary cost, insurance gives countries, communities, and individuals an incentive to reduce risk or to shift to more resilient crops or livelihoods. This, in turn, can reduce primary and secondary losses.
- The amount of **post-disaster assistance** needed will be reduced to the extent that these risk management tools have been used.

The expert meetings on loss and damage this year demonstrated that many countries and communities are already implementing innovative risk management approaches. At the Africa expert meeting, for example, experts presented the Rural Resilience Initiative, which is supported by USAID and other donors and implemented by the World Food Program and its partners. The initiative is helping poor farmers in Ethiopia and Senegal implement a comprehensive risk management approach that increases their resilience to drought. It builds on existing World Food Program food-for-work programs. It provides farmers with increased access to credit, innovative insurance products, and savings mechanisms. It also promotes risk reduction measures like soil conservation and water storage. Each of these tools is targeted at the risks that they can most effectively address. The program aims to determine and demonstrate the conditions and requirements for effectively scaling up these solutions for vulnerable communities. It is evaluating its impact to show the effectiveness of combining tools into a comprehensive package.

The expert meetings also highlighted several needs and priorities. They identified the importance of raising awareness and building the capacity of developing countries to make decisions about how to target and use various risk management approaches to adapt to climate change – and how to allocate limited public funds among them. These kinds of decisions depend on the circumstances, priorities, and needs of individual countries. At the meetings, developing countries underscored the need to use bottom-up approaches and not be prescriptive, to leverage local and indigenous knowledge, to understand local priorities and needs, and to build on existing coping mechanisms. They also affirmed the importance of strengthening coordination and collaboration between the disaster risk reduction community and the adaptation community.

The United States believes that the concept of an international mechanism being pushed by some Parties would not meet the needs and priorities that countries themselves identified through the work program.

- First, an international mechanism with an international insurance pool and a compensation/rehabilitation pillar **would inhibit a country-driven approach to adaptation**. This concept of an international mechanism presumes that all vulnerable countries want a significant portion of adaptation resources to be used for insurance premiums or set aside for later use in rehabilitation, rather than invested in urgent implementation of adaptation approaches today that can actually avert or reduce losses and damages in the first place. Such a mechanism undermines the ability of individual countries to develop their own priorities based upon their specific circumstances and needs. We believe vulnerable countries should be able to decide to reduce risks and avert loss and damage. An international mechanism with insurance and compensation pillars could severely undermine countries' abilities to make those decisions at the national level, and reduce resources left for those kinds of measures.
- Second, an international mechanism that includes insurance and compensation/rehabilitation pillars **would have to put a monetary value on the lives, livelihoods and assets of the most vulnerable countries and populations**. The evaluation of risks is based on the economic value assigned to lives, livelihoods and assets. The international

community, however, does not have the capacity to make a normative judgment, on a centralized basis, of what gets valued and what does not. A centralized decision about valuation would very likely result in undervaluing poorer communities, cheaper land, and subsistence livelihoods.

- Third, there is mounting evidence that subsidized premiums **reduce the overall availability of insurance tools** by crowding out private insurance providers, which cannot compete with artificially low premiums that do not reflect real risk. Therefore, creating an international insurance pool with fully subsidized premiums would actually reduce the overall availability of insurance for vulnerable countries and communities.
- Fourth, there is also mounting evidence that subsidized premiums **could incentivize mal-adaptation, leaving vulnerable countries and communities at even greater risk of loss and damage**. If the cost of insurance is lowered as a result of subsidies, it can impede climate change adaptation by eliminating the motivation to reduce risks, thus increasing moral hazard. There would be no incentive, for example, to stop building on a flood plain because the insured individual, community, or country would know that they would receive a payout if their assets were destroyed.
- Fifth, an international insurance pool operated under the Convention **would not have the agility to make quick payments**, due to bureaucratic delays and political influences. One of the advantages of risk transfer pools is that payouts are made to affected countries or populations more quickly than humanitarian assistance can be allocated and distributed. If the insurance payout from an international insurance pool operated under the Convention arrives months or years after the adverse event occurred, it will not be available for urgent recovery needs.
- Sixth, it **would be technically impossible to establish an insurance mechanism that paid out an amount that can be proven to be equivalent to the damages directly attributable to climate change**. Attribution of specific incidences of loss and damage to climate change, as opposed to natural climate variability and/or vulnerabilities stemming from non-climatic stresses and trends like deforestation and development patterns, is technically impossible in most every case. This is confounded by a lack of climate observing stations in the developing world that allow for monitoring of the climate system and would provide indicators for when thresholds are passed. Regional pools outside the Convention provide payouts that are proportional to the risk faced and the premium paid, and therefore do not need to assess damages and make climate change attributions.
- Seventh, an **international insurance pool would favor some countries over others** because climate change will impact different countries very differently. Some countries are at risk of frequent tropical storms, for example, and those countries could receive a disproportionate amount of payouts, draining the pool for other countries facing less frequent or less severe types of risks. Some countries may have more insurable risks and would benefit from an international insurance pool, while others may not have many insurable risks and would not benefit.

- And finally, an international insurance pool **could disproportionately favor countries that already have the capacity to participate**. The most vulnerable countries, often with less institutional capacity, could be excluded from benefiting from an international insurance pool as a result of their capacity gaps. For example, joining a multi-country insurance pool implies an often onerous approval process at the national level, as it binds a country to other sovereign states; it often requires Parliamentary approval. Countries with less capacity to understand and to explain how a global insurance pool works, and with overburdened government staff and government administration systems, may experience significant delays in joining the mechanism and benefiting from available resources. For these countries, risk management assistance provided bilaterally or regionally would likely have quicker and more tangible benefits.

While the United States does not support the concept of an international mechanism as proposed by some Parties, we do believe that the Convention has a critical role to play in continuing to raise the profile of, and enhance the implementation of, adaptation action through the implementation of the Cancun Adaptation Framework in order to reduce the risk of loss and damage. The Convention can facilitate greater capacity of developing countries to make decisions about when and how to implement these climate risk management approaches at the national and sub-national levels. It can encourage Parties, relevant institutions, and the private sector to:

- Document work being undertaken;
- Evaluate the impact of climate risk management tools on climate vulnerability and loss and damage;
- Share knowledge and lessons learned;
- Help fill capacity and data gaps; and
- Engage in new implementation efforts, including scaling up or replicating promising pilots.

Furthermore, relevant adaptation bodies and agenda items under the Convention, such as the Adaptation Committee, the Least Developed Countries Group, and the Nairobi Work Program can use the outputs of this loss and damage work program to strengthen understanding and capacity for comprehensive risk management, including as it relates to medium- and long-term national adaptation planning.

It is the strong view of the United States that opportunities for adaptation are far from exhausted. There is still significant room for increasing adaptive capacity and, as a result, considerable opportunity to reduce the risk of loss and damage.