AWG-LCA Workshop

Risk management and risk reduction strategies

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Mechanisms to manage financial risks from direct impacts of climate change in developing countries

Main messages

- There is a potential role for insurance-related risk-sharing and transfer mechanisms, as well as non-insurance instruments, in an expanded and strengthened adaptation response to climate change impacts.
- No single mechanism can meet the range of circumstances required by all countries. Developing countries require a portfolio of mechanisms to manage risk, including insurance-related mechanisms.
- The paper reviews several options for managing financial risks from impacts of climate change in developing countries, including, for example:
  - Indexed insurance-related instruments such as catastrophe bonds and other weather derivatives
  - Microinsurance
  - Non-insurance mechanisms such as microfinance, credit schemes, etc.
- Three innovative financing schemes are proposed for managing risk.
- External support in helping developing countries finance appropriate risk-sharing mechanisms is an important element.

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Proposed scheme to manage climate change risks *"scheme C"*

- Expands on proposals for "Scheme A" for a single country insurance policy, and "Scheme B" for a multi-country insurance policy.
- Two components:
  - Technical advisory facility to provide advice on risk modelling and management, and on relevant financial issues.
  - Financial vehicle that gives access to better premiums and greater coverage. Regulates the use of a "responsibility fund", which is a reserve fund including contributions from Annex II Parties, that supplements premiums from beneficiary countries. Part of the fund will be allocated to incentivizing risk reduction, including, for example, through subsidizing retrofitting efforts.
- The scheme covers losses of
  - Populations (e.g. crops and housing) for which local-level entities can serve as intermediaries
  - Governments (e.g. infrastructure and emergency response) for which insurance companies can be intermediaries
- The "risky" portion of the loss distribution is assumed by the reserve fund.

NWP TP

Physical and socio-economic trends in climate-related risks and extreme events, and their implications for sustainable development

Main messages

- Physical trends include increasing and accelerating levels of risk. The risk of physical trends associated with climate change is additional to the risks associated with climate variability.
- Socio-economic trends indicate that vulnerability to climate change impacts is increasing. These include poor levels of human well-being, rapid population growth, poverty, poor health conditions, etc.
- The two sets of trends (physical and socio-economic) are mutually reinforcing.
- The most vulnerable developing countries, including LDCs and SIDS, are worst affected.
- Worsening of current and projected physical and socio-economic trends have significant implications for sustainable development and its associated goals, including MDGs.
- Vigorous and enhanced efforts to adapt – including assisting risk management and risk reduction – is required in many developing countries, especially LDCs and SIDS.
- The current low level of adaptation efforts needs to be redressed urgently within the context of sustainable development.

NWP TP

Integrating practices, tools and systems for climate risk assessment and management and strategies for disaster risk reduction into national policies and programmes

Main messages

- Hazard and vulnerability assessments for informing development planning have already started to incorporate the inputs of climate risk assessments. These shape disaster response requirements.
- There is evidence that Parties are beginning efforts to integrate adaptation and DRR into national strategic planning, sectoral planning and sustainable livelihood initiatives. New and improved metrics for measuring progress in adaptation and DRR integration would be helpful.
- Adaptation and DRR can generate important synergies that can support resilience. The DRR experience and the HFA can provide important input into the adaptation process.
- Successful integration will require additional financial resources.
- Though adaptation covers a range of risks not restricted to disasters, DRR can be considered as a first line of defence in adaptation to climate change.
- Development policy decisions need to take account of input from sources at the local level, particularly from the groups most at risk.
- More progress in integrating top-down and bottom-up methodologies for risk assessment and implementation of action plans is highly desirable.
- Countries and communities suffering most acutely require vulnerability reduction strategies, especially the most vulnerable developing countries such as LDCs and SIDS.

AWG-LCA Information Note
Adaptation-related activities within the United Nations System

UN System entities working on risk include, inter alia:

- The UN Chief Executives Board, UNDP, UNEP, United Nations Economic Commissions, World Bank Group, ISDR, FAO, WMO, UN-OCHA, UNEP FI

Examples of work include:

- National Communications Support Programme (NCSP) providing guidance on vulnerability and adaptation assessment and linking climate risks with national development priorities
- The Climate for Development in Africa Programme (ClimDev-Africa), implemented by the UN ECA and the Africa Commission
- The WMO Disaster Risk Reduction Programme
- Environment and Climate Change, implemented by FAO under the UNDP–Spain MDG Achievement Fund
- The Asian Development Bank (ADB) is helping economies in the region enhance their resilience to climate change by assisting governments to incorporate vulnerability risks into national development strategies and actions
- The Global Facility for Disaster Reduction and Recovery (GFDRR) launched by the World Bank in 2006
- UNEP FI projects include: Principles for Sustainable Insurance Publication on Sustainability and The Insurance Industry Study on Micro-insurance, and Natural Catastrophe Pools and Alternative Risk Transfer Products

Thank you

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