

Fourteenth meeting of the Standing Committee on Finance Bonn, Germany, 3–5 October 2016

Background paper on the 2016 SCF forum

Proposed actions by the Standing Committee on Finance

The Standing Committee on Finance will be invited to:

- a) Consider and agree on the summary of the outcomes of the 2016 SCF forum, including conclusions, recommendations and follow-up activities by the SCF, to be included in the SCF report to COP 22.

I. Actions for consideration by the SCF

1. Based on the experience and practice of the 2015 forum, the SCF is invited to consider and agree on the summary of the outcomes of the 2016 SCF forum, including conclusions and recommendations, for inclusion in the report of the SCF to COP22.

II. Background

2. At its 11th meeting, the SCF decided to dedicate its 2016 SCF forum to “*financial instruments that address the risks of loss and damage associated with the adverse effects of climate change*”, in response to the invitation by the Executive Committee on the Warsaw International Mechanism for loss and damage associated with climate change impacts (Executive Committee), as outlined in Action Area 7 of the workplan of the Executive Committee. Mr. Richard Sherman and Mr. Stephan Kellenberger were appointed as co-facilitators to support the preparations of the forum.
3. During its 13th meeting, the co-facilitators recalled the decision made intersessionally to hold the 2016 SCF forum in Manila together with the Asian Development Bank. The SCF adopted the programme of the 2016 SCF forum, including the themes and guiding questions for the individual sessions. It also agreed that the co-facilitators, with the support of the working group and the secretariat, would continue to identify speakers and resource persons for the forum and publish the final programme, including speakers, ahead of the forum.
4. The SCF also agreed that, as in the past, a draft summary of the forum’s outcomes, including conclusions and recommendations, will be prepared and annexed to the SCF report to COP 22.
5. Hosted by the ADB and in collaboration with the Climate Change Commission of the government of the Philippines, the 2016 SCF forum took place on 5-6 September in the premises of the ADB in Manila. Around 200 participants attended the two-day 2016 SCF forum, representing different regions and a variety of institutions, including public and private sector, NGOs, think tanks and international organizations. The 2016 SCF forum included 20 technical presentations and 14 break-out group and plenary discussions. Presentations focused on the spectrum of risks of loss and damage and the range of approaches available to address these, case studies of existing financial instruments, national and regional funding schemes, new financing approaches and instruments, limitations of existing instruments, enabling environments and the roles and functions of different actors.
6. Building on the summary of the 2016 SCF forum, the SCF will deliberate on potential conclusions, recommendations and follow-up activities by the SCF that could be included in the report of the SCF to COP 22. The draft summary report of the 2016 SCF forum is contained in annex I of this document.



Annex I: Draft summary report of the 2016 SCF forum**I. Draft summary report of the 2016 forum of the Standing Committee on Finance on financial instruments that address the risks of loss and damage associated with the adverse effects of climate change****A. Introduction**

1. The 2016 forum of the Standing Committee on Finance (SCF) took place on 5 and 6 September 2016 at the headquarters of the Asian Development Bank (ADB) in Manila. It was organized in collaboration with the ADB and the Climate Change Commission of the government of the Philippines and benefitted from the input and support provided by the Philippine Insurers and Reinsurers Association (PIRA) and UNEP FI through the Principles for Sustainable Insurance (PSI) Initiative.

2. The theme of the forum was “*financial instruments that address the risks of loss and damage associated with the adverse effects of climate change*”. This was based on the SCF’s acceptance of an invitation by the Executive Committee of the Warsaw International Mechanism on Loss and Damage (Executive Committee) to dedicate the 2016 SCF forum to this theme, as outlined in Action Area 7 of the workplan of the Executive Committee.¹

3. The overall objective of the forum was to provide a platform for discussing and sharing information, knowledge and good practices, among expert organizations (both public and private) and UNFCCC stakeholders, on financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change.

4. Specific goals the 2016 SCF forum identified, included:

- To understand and take stock of existing financial instruments across different levels (e.g. local, national, regional and international levels) and sectors;
- To share and learn from country experiences and case-studies about the benefits, limits, gaps, and good practices from these different financial instruments;
- To explore ways for scaling up, replicating good practices and potential innovative financial instruments that can be used to address the risks of loss and damage in developing countries, particularly with respect to gaps and limits of existing approaches.
- To contribute to developing possible conclusions and/or recommendations on actions and next steps of how financial instruments to address the risks of loss and damage associated with the adverse effects of climate change can be designed and effectively deployed and what steps might be taken to address gaps and limits.

5. This year’s forum was organized as a stand-alone-event effectively mobilizing participation by around 200 participants. More than 30 resource persons were engaged in the forum as presenters, panelists and facilitators. Participants and resource persons attending the forum represented different regions and a diverse range of institutions, including government representatives, representatives of risk pooling facilities, donor agencies, multilateral development banks, private sector entities, the Executive Committee, academia and the civil society.

6. The forum took the form of a mixture of presentations, panel discussions and interactive break-out group discussions. To capitalize on the expertise present at the forum some presentation sessions were run as parallel plenaries, to enable a greater number of country experiences to be shared. Break-out group discussions were run on both days, enabling an interactive sharing of ideas. Discussion leaders and rapporteurs reported

¹ <http://unfccc.int/8805.php>

back to the plenary session at the end of each breakout group discussion. The forum made use of online webcasting and twitter to broaden virtual participation and to enhance the transparency and the dissemination of information of the forum.

7. Day one of the forum began with scene-setting presentations which provided an overview of the types of risks of loss and damage and the existing spectrum of approaches to addressing these risks. The following sessions explored existing financial instruments that can address the risks of loss and damage. The forum looked at various instruments some of which included risk transfer schemes, social protection schemes, catastrophe and resilience bonds and contingency finance and discussed respective benefits, challenges, limitations and gaps. Day two began with a set of parallel presentations, one focusing on national and/or regional funding schemes and the second set of presentations focusing on new financing approaches and potential alternative options, instruments and opportunities that address the risks of loss and damage. This was followed by discussions considering the role of enabling environments and the roles of different actors, including the public and private sector, in utilizing financial instruments to address the risks of loss and damage.

B. The range of approaches that address the risks of loss and damage

8. Information on the risks of loss and damage associated with the adverse effects of climate change and the spectrum of existing approaches to address these were presented by expert institutions including the African Climate and Development Initiative (ACDI) at the University of Cape Town and the Grantham Research Institute on Climate Change and Environment, based at the London School of Economics and Political Science. The presentations highlighted that the risks of loss and damage are many and varied and can include rapid onset events which create hazards such as storms and heat waves as well as slow onset events leading to hazards including droughts, salinization and permafrost melt. The representative of ACDI highlighted that different communities have different exposure levels based on who and/or what (e.g. people, property, food, infrastructure) is at risk to the particular hazard and different vulnerabilities to these risks based on their sensitivity to exposure with regards to the particular hazard. The social impact of loss and damage for a given hazard varies based on the exposure and vulnerability of the community in question.

9. Given the complexity of these risks, the representative from the Grantham Institute noted that there are a range of different approaches to addressing the risks associated with loss and damage. This makes it difficult to develop a typology which neatly categorizes the different approaches. One possible typology arises from Article 8 of the Paris Agreement which states that: “Parties recognize the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change...”. *Averting* loss and damage refers to adapting to the risk before it occurs, *minimizing* loss and damage refers to attempts to reduce the impact of the loss and damage that does occur while *addressing* loss and damage refers to attempts to deal with the impacts that are unavoidable in the aftermath of a hazard occurring.

10. The representative of the International Institute for Applied Systems Analysis (IIASA) outlined that there are two basic sets of measures to address the risks of loss and damage: prospective measures and curative measures. Prospective measures include measures which attempt to avoid risks *ex ante* and could therefore be considered *averting* or *minimizing approaches* (these include integrative risk management, catastrophe risk insurance, contingency finance, and catastrophe bonds). Examples presented included drought management and improving resource management in local communities. Curative measures are designed to *address* unavoids and unavoidable impacts of loss and damage after they occur and include climate bonds, resilience financing instruments and taxes and levies (some of these may also have a prospective function, for example through providing financial support for instruments used to avert and minimize loss and damage). The presentation highlighted that while prospective measures are gaining popularity, curative measures remain novel.

11. Another typology, (which is also used to categorize financial instruments that address the risks of loss and damage) is to classify approaches into 1) risk reduction; 2) risk retention; 3) risk transfer; 4) managing slow onset climatic processes; and 5) enabling environments and managing the impacts of climate variability and change. *Risk reduction* approaches are measures that are undertaken before disasters occur and can be used most effectively in the case of climate-related events which occur frequently with relatively small impacts (e.g. flood barriers, or technology for mitigation of drought). *Risk retention* approaches allow countries to ‘self-insure’ against climatic stressors, for example through social protection measures or through establishing

reserve funds in preparation for disaster events. *Risk transfer* approaches shift the risks of loss and damage from one entity to another, often used where the risks posed by loss and damage are greater than a country's ability to manage these risks. *Managing slow onset events* involves approaches which take a combination of risk reduction measures and climate adaptation. Finally, *enabling environments* can also be used to develop frameworks or institutions that link the different approaches to addressing loss and damage.

12. The presentations emphasized that it is important to select the right mix of approaches to addressing the risks of loss and damage and the importance of integrated approaches. Different loss and damage risks, including rapid onset *versus* slow onset events as well as economic *versus* non-economic losses, require different responses. It was highlighted that a major gap exists in addressing slow onset events, as current approaches are more suited to extreme weather events and other rapid onset events.

13. The representative from the Munich Climate Insurance Initiative (MCII) explained that risk transfer schemes are more suited for addressing events which are high severity but not very frequent (for example, super storms, severe drought or floods causing large damages or loss of life). In contrast she suggested that tools other than insurance, such as contingency finance, should be looked to for low severity, more frequent events (for example, smaller scale droughts or floods which occur on a regular basis).

14. The representative of the Executive Committee outlined that the spectrum of financial instruments includes risk transfer approaches such as risk pooling and transfer, catastrophe risk insurance, climate-themed bonds and catastrophe bonds, as well as risk retention approaches such as contingency finance and social protection schemes.² She noted that key challenges for promoting comprehensive risk management approaches are that existing financial instruments are not available to all, that the risks of loss and damage may exceed national capacities and existing financial instruments may not be enough. Possible ways forward were discussed, including improving enabling environments to facilitate comprehensive risk management, smarter design of financial instruments, using combinations of tools, regional cooperation, public-private partnerships and developing specific instruments to meet the needs of the most vulnerable.

15. Some participants questioned what factors are delaying public and private investment in renewable sources of energy. The panelists responded that there is a disconnect between risk models used in the insurance sector and business investment decisions. However, they noted that there is a growing understanding of, and increasing research into, how risk models can be used to inform investment decisions in the business sector.

16. The panelists further emphasized the need to understand the scope and uses of the various financial instruments. Some participants stressed that there are various different financing needs associated with loss and damage, including compensation, investment, subsidization, taxes and other forms of public finance. However, as some participants observed, the main focus in addressing loss and damage seems to be on insurance and other instruments are not being explored enough.

² The Information Paper on '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' by the Executive Committee of the Warsaw International Mechanism for Loss and Damage can be accessed at: https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/information_paper_aa7d_april_2016.pdf.

C. Benefits, challenges and limitations of existing financial instruments that address the risks of loss and damage

17. Four of the main financial instruments addressed through presentations and breakout groups during the forum were risk transfer schemes (including insurance products and tools); social protection schemes; catastrophe and resilience bonds; and contingency finance. Figure 1 provides an overview of these four types of financial instruments.

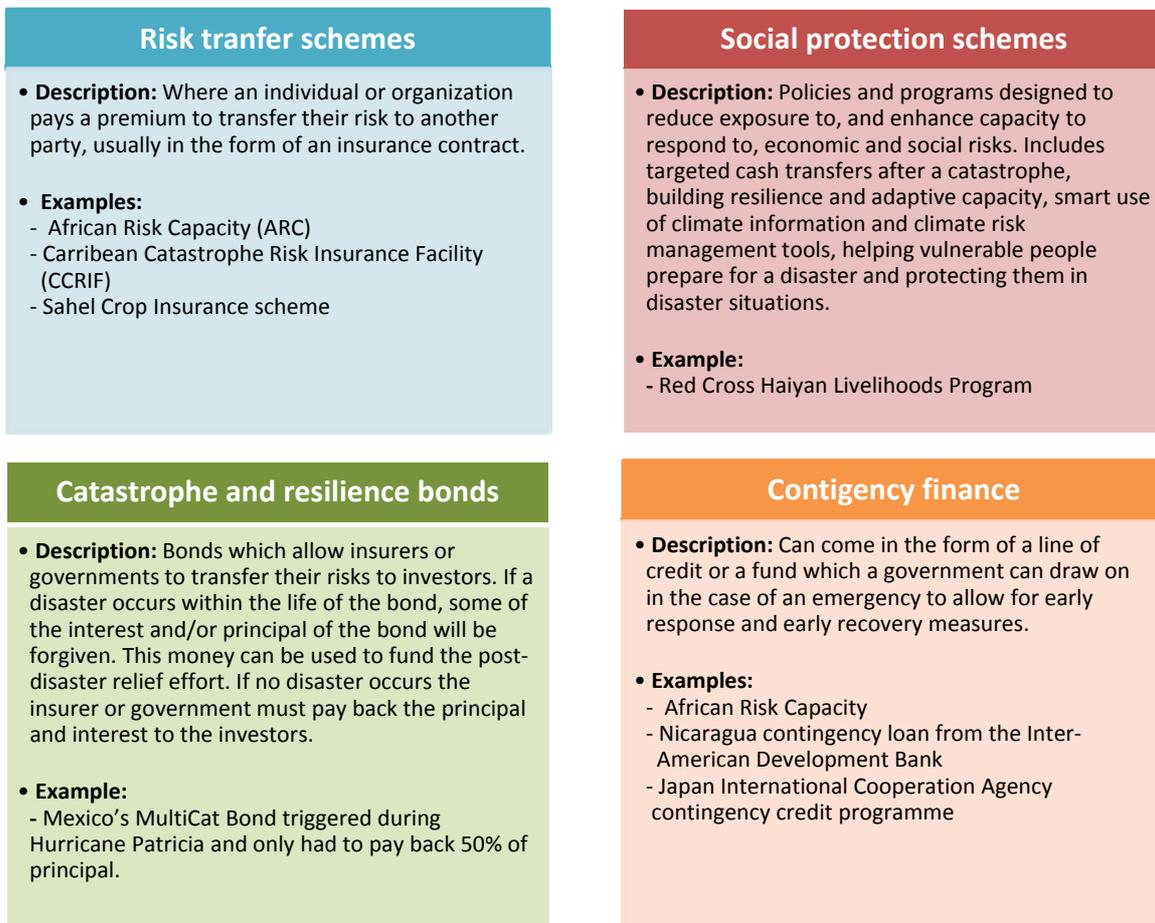


Figure 1: Overview of existing financial instruments discussed

1. Risk transfer schemes

18. As outlined in paragraphs 11 above, risk transfer approaches shift the risks of loss and damage from one entity to another, and are often used when the risks being transferred exceed the country's capacity to manage the risk, such as high severity infrequent events. A common form of risk transfer scheme is insurance. The representative from the Grantham Institute outlined that risk transfer schemes are usually utilized for risks which exceed one's capacity for risk reduction or risk retention (e.g. contingency credit, public reserves or calamity funds where finance is set aside in preparation for a catastrophe). Data from the Munich Climate Insurance Initiative (MCII) data shows that while 76% of all fatalities from disaster events occur in low income and lower-middle income countries, only 2% of these losses are insured (compared to 94% of losses for high income countries). The presentation outlined that challenges for low and lower-middle income countries in insuring against these losses include that there is less familiarity with insurance within these countries, limited purchasing power to cover the costs of insurance, limited financial and regulatory infrastructure, and lack of a clear business case for insurers to participate in the markets of vulnerable communities. There is also generally a lack of customer understanding of insurance instruments in emerging markets and of the risks associated with loss and damage, along with an expectation that governments will protect citizens from extreme weather events.

19. An example of a risk transfer scheme presented by the MCII representative was the Sahel Crop Insurance scheme. Over 15,000 farmers in Burkina Faso and Mali have taken out policies under this scheme with Allianz Africa, which provides easy payouts in the event of crop failure as well as basic financial education for farmers. This is an index-based (or parametric) insurance scheme, as the payout is triggered when a drought occurs (compared to indemnity insurance, where a payout is made on the basis of the loss and damage suffered). Payouts can therefore be made more quickly as they don't require a damage assessment to be undertaken first.

20. The representative from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) emphasized the importance of pursuing financial instruments such as insurance before disasters occur. In particular he outlined that developing countries have a higher propensity for post-disaster resource deficits, which can cause governments to have to divert resources from development loans and to rely on new loans and donations from the international community. This can create or exacerbate a situation of over-indebtedness. He further explained that while risk transfer does not directly prevent or reduce the risks of loss and damage, it can reduce some of the indirect effects of loss and damage by increasing financial liquidity and the capacity to respond more quickly to such losses.

21. A representative from African Risk Capacity (ARC) described some of the successes and challenges of ARC, a specialized agency of the African Union which also provides index-based drought insurance. She described ARC's successes as arising from the fact that ARC is member state owned, that it takes an interdisciplinary approach and that it adopts a cost-effective model which uses a small amount of finance to catalyze/leverage private capital from the market. In order for a country to take out insurance with ARC it is also a prerequisite that the country submits a plan for the use of a potential ARC payout. It was identified that financing for less resilient countries is a challenge because they have less capacity to pay insurance premiums. A suggested way forward was to tap development partners to assist high risk countries in paying the premiums.

22. Some participants noted the limitations of insurance including that insurance solutions do not cover all risks. Further, there are challenges relating to having access to insurance, the percentage of the population covered, and the fact that there are certain risks that cannot be paid for. A lack of conducive policy and regulatory frameworks to encourage and govern insurance in some countries was also highlighted. Participants also discussed capacity constraints of countries in data gathering as well as deficits of accessible, complete and adequate climate change data which can be used to assess risks and therefore used as the basis for implementing insurance schemes.

2. Social protection schemes

23. The representative from the International Federation of Red Cross and Red Crescent Societies (IFRC) Climate Centre explained that social protection consists of "policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks, such as unemployment, exclusion, sickness, disability and old age". Social protection schemes are an example of a risk retention approach as described in paragraph 11 above. She further explained that social protection can help manage climate and disaster risks by providing targeted cash transfers when most needed, supporting resilience and adaptive capacity through long-term support, making better use of climate information and climate risk management tools, addressing vulnerability, helping vulnerable people to respond before the disaster happens and protecting the most vulnerable when disaster does happen.

24. Examples provided by the representative of IFRC of social protection associated with risk *mitigation* were discussed including cash transfer, asset and livelihood diversification, community-driven infrastructure, weather-based insurance and training and skills development. Examples of social protection associated with *coping* with risks which were discussed include public works (e.g. schemes involving food for assets, cash for work, or insurance for work), cash and in-kind transfers and access to credit. Social protection associated with risk *reduction* includes conditional cash transfers, microcredit and public works (particularly rebuilding or developing infrastructure).

25. The representative from Resilience Design Labs highlighted that one benefit of social protection schemes is that they are important in order to fill gaps in other financial tools, including risk transfer. A challenge with risk transfer at the household level is that people do not tend to plan for high-risk events which occur infrequently. A further challenge with risk transfer schemes is that, unlike in other insurance markets which can be forecast with a lot of accuracy, it is difficult to forecast the frequency, intensity or duration of climate change related events. Therefore, in situations where these challenges prevent risk transfer schemes

from operating or from providing adequate insurance coverage social protection schemes can have a role in protecting those not covered by insurance.

26. A representative from the World Bank emphasized the importance of social protection programs such as safety net programs in dealing with disaster events. Safety net programs can protect households and allow them to respond better to shocks by ensuring predictable transfers in the case of a catastrophe and protecting community assets. He noted that this can reduce reliance on humanitarian response which is important, as the need for humanitarian aid is increasing faster than the availability of aid. In particular, he highlighted that developing countries (particularly in Latin America, but also African and South East Asian countries) tend to be moving towards providing programs for cash transfers in the case of disaster events because such programs are more efficient, flexible, faster and can be more targeted to community needs. Country experience shows the majority of such programs utilize on-site, manual distribution of cash payments as this tends to be the most effective and easiest option in times of disaster. One challenge with such cash payout systems is identifying the right beneficiaries and targeting payouts to the communities most in need.

27. Participants discussed the importance of investing in data infrastructure (e.g. infrastructure that can gather relevant climate and weather data) to feed into social protection schemes. Some participants also suggested that there should be increased investment in documenting and sharing indigenous coping strategies to climate change in order to help increase adaptive capacity before a catastrophe occurs. Participants discussed that it is important to have an integrated climate risk management approach. A suggestion as to how to integrate different financial instruments was to leverage contingency funds in order to improve social protection programs, for example by utilizing contingency funds to finance safety net program payouts in the aftermath of a catastrophe.

3. Catastrophe and resilience bonds

28. The representative of Swiss Re explained that catastrophe bonds are “financial instruments designed to help manage the financial risks associated with potentially devastating natural disasters, and have been utilized by sponsors from both private sectors and public sectors around the globe.” Catastrophe bonds are another example of risk transfer scheme, often used by reinsurance companies that want to transfer the risks of their insurance contracts. He explained that reinsurance companies issue a catastrophe bond to investors, and if no catastrophe occurs during the life of the bond the reinsurance company will have to repay the principal amount of the bond to investors plus interest. However, if a catastrophe does occur the reinsurance company will not have to pay back the entire principal and/or interest amount and can instead use this to pay out their insurance claim-holders.

29. The representative of Swiss Re outlined the example of a catastrophe bond issued in Mexico, which was the first catastrophe bond to be utilized by a national government. The bond was issued in 2006 and was renewed again for the period of 2012-15. It covered both earthquakes and hurricanes. This was also one of the first catastrophe bonds to be triggered. When Hurricane Patricia made landfall in October 2015 the bond was triggered and Mexico only had to repay 50% of the principal of the bond to investors. The remaining amount was used to cover the payout to address the aftermath of the hurricane.

30. It was further explained that resilience bonds are a new type of bond being developed by the RE.bound programme, in which Swiss Re has participated. Resilience bonds would operate similarly to catastrophe bonds but will take into account any infrastructure improvements undertaken by the bond issuer which lead to reduced financial risks and will therefore reduce the amount of interest or principal needed to be repaid on the bond (for example if a city issues a resilience bond to finance damage from flooding but during the course of the bond builds a seawall which lowers the risk of flooding, this will be reflected through a lower amount to be repaid to investors).

31. During the discussions the point was re-emphasized that the concept of resilience bonds is still in its infancy. A benefit of bonds underlined by participants is that they offer the potential to diversify the scope of action beyond insurance products. A challenge noted in making bonds sustainable is that there is a need to structure them in a way that they enhance short-term benefits and long-term resilience. Further factors needed for success that were touched upon include the need for a comprehensive country strategy, “champions” in the public sector and among development banks who can foster partnerships with the private sector, build trust and create a paradigm shift towards greater utilization of financial instruments (including insurance, as well as

catastrophe bonds); data and capacity development to make catastrophe and resilience bonds operational; and support, particularly in the initial phase, for example by subsidies.

4. Contingency finance

32. Contingency finance is a form of risk retention approach to addressing loss and damage, as explained in paragraph 11. It can come in the form of a loan which the government can draw on in the case of an emergency to allow for early response and early recovery measures. Another form of contingency finance is an established fund from which governments can draw quickly in the case of disaster. Contingency finance or credit is often dependent on the country maintaining a satisfactory disaster risk management programme. For example, in the presentation by the representative from African Risk Capacity (ARC), it was explained as a risk pooling mechanism which offers the ability to payout funds to African governments to provide emergency services to areas devastated by drought. It was outlined that ARC incorporates three critical elements: early warning, contingency planning and index-based insurance risk pooling. As outlined above, access to the risk pool, and therefore access to payouts, is contingent on participating countries submitting plans for the use of a potential ARC payout.

33. In Nicaragua a contingency loan agreement was entered into with Inter-American Development Bank for 186 million USD, with a payout triggered on the occurrence of specified events (for example, a magnitude 6 earthquake which affects 2% of the population, or sustained winds of 73mph). This loan cushions the impact on public finance and increases the availability of funding in the immediate aftermath of an event. It was highlighted that contingency loans such as this are advantageous as they provide a source of finance which is readily available and can therefore be drawn on more quickly than insurance. However, it was noted that basing access to contingency finance on objective criteria based on the intensity of the particular hazard does not take into account the vulnerability of the particular country or community, which may be vulnerable to hazards which are not severe enough to trigger access to the finance.

34. Another example discussed was Japan International Cooperation Agency (JICA) which is a contingency credit programme which has provided support to the Philippines, Peru and El Salvador. Beneficiaries of JICA also need to develop disaster reduction plans in order to participate and JICA can provide technical assistance in preparing these plans.

35. Participants noted that a benefit of contingency finance is that it can be more straightforward than insurance because the loan is pre-approved before the event occurs and the funds are made available as soon as the threshold (e.g. 73mph wind speed) is met and on the request of the country. There was some discussion of the issue of accessibility and costs of contingency finance. It was noted that repayment periods of contingency loans could pose a challenge to some countries. However, one benefit that was highlighted was that until the point a contingency loan is called on it does not impose a cost on the country.

36. Another question raised was in what order should different financial instruments to address the risks of loss and damage be used in addressing the impacts of an event, for example whether contingency finance should be called upon before public domestic finance sourced from other areas. Participants noted that the ordering would depend on the country in question, its current level of debt and the amount of damage to be addressed.

37. Table 1 below summarizes and compares some of the challenges and opportunities of the different financial instruments discussed.

Table 1: Comparison of challenges and opportunities

	Challenges	Opportunities
Risk Transfer Schemes	<p>Difficult to apply to slow onset events.</p> <p>Less suitable for high frequency low severity events.</p> <p>Insurance premiums can be a barrier for vulnerable countries.</p> <p>Limited access to insurance and only a small percentage of the population currently covered in vulnerable countries.</p>	<p>Suitable for sudden onset events.</p> <p>Index-based insurance can reduce administrative costs and result in faster payout (payout is based on occurrence of a pre-defined event and does not require a loss assessment).</p> <p>Can reduce some of the indirect effects of loss and damage by improving the capacity to respond to such losses.</p>
Social Protection Schemes	<p>Often suffer from inadequate funding.</p> <p>It can be difficult to identify the persons entitled to payouts in disaster situations or to target payouts to the areas most in need.</p> <p>Need for investment in adequate data to feed into social protection schemes.</p>	<p>Can increase adaptive capacity, prevent and reduce risks and enhance livelihoods.</p> <p>Can address both sudden and slow-onset events.</p> <p>Can be combined with contingency finance to ensure adequate funding.</p> <p>Cash transfers can ensure predictable funding in case of catastrophe and are fast, flexible and easily targeted to community needs.</p>
Catastrophe and Resilience Bonds	<p>Challenge in structuring bonds to ensure they are financially sustainable and enhance short-term benefits as well as long-term resilience.</p> <p>Need for capacity building to make instruments operational in vulnerable countries.</p>	<p>Allows governments or insurers to transfer their risk to investors and ensure they will have adequate funding to address the aftermath of a catastrophe.</p> <p>Resilience bonds can take into account investments in more resilient infrastructure through a rebate on the amount of the bond to be paid back to investors.</p>
Contingency Finance	<p>Contingency loans can be prohibitive for countries which already have significant debt.</p> <p>Loan repayment periods can be challenging for some countries.</p> <p>Often require participating countries to develop disaster risk management plans in order to participate, which could be a barrier.</p>	<p>Allows for fast disbursement of finance as the money is already available.</p> <p>Can be more straightforward than insurance as loan/access to fund is pre-approved before event occurs.</p> <p>Until loan is called upon does not impose a cost to the country.</p> <p>Having a disaster risk management plan as a prerequisite can also lead to greater preparedness in a disaster situation.</p>
<p>Cross cutting challenges:</p> <p>Deficits in climate and weather data that can be used as the basis for designing and deploying financial instruments.</p> <p>Difficult to forecast frequency, intensity or duration of climate events.</p> <p>Need for more basic information on vulnerability and exposure (such as risk/vulnerability assessments).</p> <p>Need to embed financial instruments in comprehensive risk management strategies.</p>		

D. Experiences from national and regional funding schemes that address the risks of loss and damage

38. Various different experiences from national and regional funding schemes were discussed through presentations and break-out groups throughout the forum.
39. An example of a national funding scheme discussed was the Philippine Survival Fund (PSF). A representative of the Institute for Climate and Sustainable Cities (iCSC) explained that the PSF is a fund which incentivizes climate action from local governments. While PSF is an adaptation fund, some of the projects it funds also feed into loss and damage. One example is a climate change adaptation programme designed to rehabilitate and protect watersheds for sustained water supply, manage and stabilize the river and river ecosystems, improve forest cover and improve resilience to climate impacts.
40. The representative from the European Commission outlined the EU's experiences in financing climate related expenditure. He highlighted that risks can be decreased through government partnerships with the insurance industry and increased insurance coverage. He suggested access to insurance could be increased through direct and indirect subsidies for premiums, and emphasized that financial instruments addressing climate resilience should go hand in hand with preventive measures.
41. Representatives from JICA and the Philippines described the experience of the Government Service Insurance System (GSIS) in responding to disasters in the Philippines. GSIS was established to insure national agencies and municipalities against disaster risk in the Philippines, which is highly prone to natural disasters. The experience of GSIS was discussed and the need for both index-based (where payment is made when a particular pre-determined event occurs) and indemnity insurance (where payment is made when the insured suffers a loss) was highlighted.
42. A participant highlighted the importance of addressing the impacts of loss and damage and not merely focusing on risk, emphasizing that the impacts of loss and damage are real and are occurring now in countries around the world. Panelists agreed that there is a difference between risk and impacts, however stressed that risk must not be dismissed. The representative of the EU highlighted that risk assessment is a tool which supports addressing loss and damage. For example, without a risk assessment to indicate the effect of a flood or storm, no dyke to address this risk can be built. Another panelist emphasized that risk analysis can help provide guidance on what mechanisms or approaches will be needed to address loss and damage when it occurs in the future.

E. Exploring ways to replicate and scale-up good practices and identify other financing approaches and instruments to address the risks of loss and damage

43. To start off the discussion on ways to replicate and scale-up existing financial instruments, a representative from the United Nations Environment Program Finance Initiative (UNEP FI) emphasized the importance of having a good understanding of the risk associated with loss and damage, including rapid onset and slow onset events. He argued that loss and damage risks could be built into the existing risk-assessment system used by financial institutions, particularly the insurance industry, and that initiatives should capitalize on existing systems and channels.
44. In this context, participants also discussed the conceptual and practical overlaps between risk reduction and resilience building. Participants observed that integrating instruments used to address adaptation and loss and damage could be a way forward. It was also noted by the representative of the European Commission that approaches to addressing the risks of loss and damage should be bottom up as local communities may not express their needs in the same way that the finance and insurance industry may understand them with respect to loss and damage.
45. Some participants also suggested that the public sector should provide policy and regulatory frameworks so that the private sector may support the efforts of governments in meeting obligations to reduce the risks of loss and damage through public-private partnerships.

46. Some participants also suggested that there needs to be greater discussion of where to source funding for loss and damage, for example from more innovative and new sources including taxes, fossil fuel subsidy reform, debt relief and others, especially for the most vulnerable, instead of relying too heavily on public funding. Participants also explored the potential role of the Green Climate Fund (GCF) and how it could support activities relating to addressing the risks of loss and damage. Some participants argued that the GCF should have an expanded mandate to also support loss and damage. In this regard it was also suggested that the GCF could set aside a certain percentage of its funds to address slow onset events. Others argued that the GCF would be weakened if its mandate was broadened and that alternate institutions such as the IMF or World Bank should be looked to. Further suggestions included governments putting aside money specifically for loss and damage that could be disbursed through a global fund based on the global vulnerability index.
47. Participants questioned whether a forum existed in which organizations such as ARC, CCRIF and others can talk about best practices. It was noted that no such institutionalized platform exists, but as financial instruments addressing loss and damage constitute a small community there are some informal relations, however not to the extent to enable full discussion of best practices.
48. In order to replicate and scale up good practices participants noted the importance of learning from existing initiatives, including humanitarian efforts related to non-climate related disasters. The importance of basing financial mechanisms to address the risks of loss and damage in a local context, taking into account the necessities of the particular community, was also emphasized. In this context it was again noted that no one financial instrument can cover all risks associated with loss and damage. Therefore it is important to look at how to combine what is currently available to address all needs.
49. Some participants suggested that the idea of a Solidarity Fund to pool risks, including for the most vulnerable countries such as small island developing states, needs to be explored seriously.
50. While existing financial instruments have limitations in addressing slow onset events, participants highlighted that with greater innovation existing instruments could be broadened to cover slow onset events. Some participants suggested the insurance industry has a key role in posing solutions by determining how existing instruments can serve a broader range of risks relating to loss and damage, including slow onset events.

F. Roles of different actors and ways of strengthening linkages and collaboration

51. The roles of many different actors were discussed throughout the forum, including private sector and public sector actors, as well as local, national, regional and international actors. The roles of the beneficiaries of finance (for example the governments, local communities, or projects which receive and disburse the climate finance) in addressing the risks of loss and damage that were discussed include assessing needs, identifying delivery mechanisms and understanding financial instruments. It was also noted by participants that many developing and vulnerable countries are already making significant efforts to address loss and damage and are doing much of this themselves
52. With respect to the roles that governments can play, roles that were discussed include understanding risks, managing the regulatory environment, ensuring financial instruments are seen as part of a comprehensive framework and providing incentives for the development or application of appropriate financial instruments and negotiating with the private sector. As a participant highlighted, loss and damage is not necessarily a revenue generating area. Therefore, the role of government in incentivizing private sector participation in the market relating to disaster risk management and loss and damage was emphasized. In particular, it was argued the government should have a role in incentivizing the creation of locally customized solutions by insurance companies. Governments were also identified as having a role in designing comprehensive disaster risk financing strategies and implementing pilot projects (city-level governments and other actors including insurance companies and microfinance institutions could also play a role here).
53. Potential roles of financial institutions which offer instruments to address the risks of loss and damage were suggested to include ensuring the regulatory environment is conducive to financial tools, providing data, ensuring clarity in identification of loss and damage to guide investment in adaptation and sharing experiences between facilities. A participant suggested that there is a need for the private sector to become more effective in relation to addressing loss and damage. It was also suggested in the plenary discussion that financial instrument proprietors, such as insurance companies, have a lot of the knowledge and understanding

of financial literacy relating to loss and damage and that a means by which these private sector institutions can pass on this knowledge to the public sector should be developed, possibly facilitated by MDBs.

54. A representative from the Africa Adaptation Initiative (AAI) presented on the role of the AAI, a regional level actor. It was explained that AAI was created in response to a mandate by African Heads of State at the 25th African Union Summit in June 2015. AAI was described as being stakeholder-driven with the aim to support the implementation of national adaptation processes, promote cooperation and collaboration, enhance communication, develop partnerships with implementing partners and build on and partner with existing initiatives, institutions and systems in Africa. The four pillars of AAI were described, which involve enhancing climate information services, strengthening institutional and policy frameworks, concrete action on the ground, and climate finance and investments.

55. Representatives from the UNDP and ARC discussed that one role that their organizations can take on when disbursing funds to support loss and damage is to first carry out country assessments based on criteria such as: the capacity of the country to plan, access and deliver finance; the capacity of the country to report and monitor its finances; and existing tools to address risk. A key takeaway from these discussions was that sustainable solutions require government and all relevant stakeholders to be engaged. UNDP's role was further described by a participant as providing an understanding of the local landscape and facilitating dialogue between the providers of financial instruments and the local community.

56. A representative of the ADB outlined the role of ADB in relation to disaster response. This included a focus on strengthening enabling environments, including through analysis of the demand and supply constraints to the development of enhanced disaster risk financing arrangements. Some of the constraints highlighted in fulfilling this role include the need for adequate assessments of disaster risk, including the fiscal burden posed by disasters and funding gaps, and the need to enhance technical disaster risk financing knowledge and understanding. Actors including governments, regulators, businesses, individuals and the insurance industry were identified as having a role in addressing these two constraints.

57. A representative of the G7 InsuResilience programme identified one of its roles as being to boost indirect insurance, which involves intermediaries such as municipalities or national governments coordinating payouts to the affected population. In fulfilling its goal of "increasing by up to 400 million the [number] of people in the most vulnerable developing countries who have access to direct or indirect insurance coverage" it identified numerous roles for different actors. Suggested roles for the G7 include signaling commitment and leadership, providing funds for implementation and keeping track of milestones and monitoring and evaluation (M&E). Donor roles were noted to include funding and joint implementation, coordination, innovative approaches and M&E of results. Regional entities can provide a political umbrella for risk pools and represent constituency interests and needs. The insurance sector can provide know how, data collection and data quality and risk capital and investment opportunities, while civil society can provide research and outreach, M&E and advocacy.

58. The panelist from the Philippines House of Representatives noted that in his experience in the Philippines financing loss and damage is currently primarily met through domestic public efforts, however international support is necessary. It was suggested that the GCF should have a role in providing loss and damage funding. The representative from the Asiability Group noted it was important to look to the role of banks to see what alternative solutions they could provide to complement insurance. He also suggested mobile network operators could have a role in the distribution of insurance and other financial tools.

59. It was also highlighted that much work on disaster risk management has been done in other forums and instead of trying to 'reinvent the wheel', the climate change world could learn much from the outcomes of other international discussions and recommendations relating to disaster risk management.

[Placeholder for any conclusions, recommendations, follow-up activities by the SCF; to be discussed at SCF14]