United Nations
Climate Change Secretariat

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Dear Sir/Madam,

On behalf of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (hereinafter referred to as the Executive Committee) of the United Nations Framework Convention on Climate Change and in our capacity as its Co-Chairs, we are pleased to inform you of an opportunity for your organization to engage with our work on loss and damage associated with climate change impacts.

The Conference of the Parties (COP), at its nineteenth session, established the Warsaw International Mechanism to address loss and damage associated with the adverse effects of climate change through its three main functions: enhancing knowledge and understanding of comprehensive risk management approaches; strengthening dialogue, coordination, coherence and synergies among relevant stakeholders; and enhancing action and support, including finance, technology and capacity building. The Executive Committee is mandated to guide the implementation of these functions. The COP, at its twentieth session, approved the initial **two-year workplan** of the Executive Committee.

Action Area 7 of this workplan calls for encouragement of comprehensive risk management by the diffusion of information related to financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change to facilitate finance in loss and damage situations in accordance with the policies of each developing country and region, taking into account the necessary national efforts to establish enabling environments.

These financial instruments and tools may include: comprehensive risk management capacity with risk pooling and transfer; catastrophe risk insurance; contingency finance; climate-themed bonds and their certification; catastrophe bonds; and financing approaches to making development climate resilient, among other innovative financial instruments and tools.

In the above context, the Executive Committee would like to:

(a) Encourage **public bilateral and multilateral institutions and funds and private investors** to incorporate climate risk and resilience into development projects and into investment criteria and decisions (activity (a) of Action Area 7);

(b) Encourage, promote and coordinate with **research and development processes** on financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change (activity (b) of Action Area 7).

The expected result of these and other complementary activities of the initial two-year workplan is improved understanding by public bilateral and multilateral institutions and funds, private financial institutions and developed and developing countries on the range of financial instruments and tools to enhance action and support, including finance, technology and capacity-building, to address loss and damage associated with the adverse effects of climate change.

In light of this, we would like to invite you to provide relevant information on any **efforts that your organization has undertaken or plans to undertake to incorporate climate risk and resilience into development projects and into investment criteria and decisions**. We also invite you to provide relevant information on any **research and development efforts** that your organization has undertaken on financial instruments and tools that address the risks of loss and damage associated with the adverse effects of climate change. For both of these topics, in addition to learning about your efforts generally, we would be particularly interested to learn of any good practices, lessons learned, gaps and/or challenges associated with such efforts.

Finally, we invite you to **provide relevant information in response to:**

(a) The **key messages enclosed below**, including making recommendations for addressing any gaps and challenges highlighted in the key messages; and

(b) An open call for submissions 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**'. More information about the call and the information received to date are available at <http://unfccc.int/9432>.

Lastly, we would also like to invite your organization to attend future meetings of the Executive Committee. The next meeting of the Executive Committee is to take place from 19–23 September 2016 in Bonn, Germany.

Please kindly send any communication with respect to the above invitation to <loss-damage@unfccc.int>.

We are most happy to answer any questions you may have as you consider this invitation.

Yours sincerely,

Pepetua Latasi and Shereen D'Souza
Co-Chairs of the Executive Committee

Useful links:

- <Initial two-year workplan of the Executive Committee>.
- <Article 8 of the Paris Agreement; and Decision 1/CP.21 on adoption of the Paris Agreement>.
- <Decision 2/CP.19 on the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts>.
- <Information paper compiling the information received in response to the first round of call for inputs; and 19 sets of submissions received>.

Key messages

- **Enabling environments are central to the effective employment of financial instruments**
    - Favourable policy and institutional environments are an important precondition for the successful introduction or scaling up of financial instruments.
    - Accelerating the building of capacity that already exists within the insurance system could be beneficial, although in the context of less developed countries and markets, ordinary market forces are likely to be insufficient. Thus, continued careful use of donor support, such as for the initial capitalization of risk pools, may be necessary to accelerate the closing of coverage and preparedness gaps.

- **Putting in place financial instruments requires rigorous risk assessment**
    - Thorough risk assessment and analysis is a prerequisite for using financial instruments and tools in the loss and damage context.

- **Comprehensive climate risk management requires a smart combination of financial instruments and tools**
    - Different types of financial instruments and tools should be embedded in strategies that include risk prevention, reduction, preparedness, response and recovery.
    - Comprehensive climate risk management should build on and expand the scope of existing strategies, and synergize with financial schemes designed to address risks not directly associated with climate change.
    - Insurance can be a part of a comprehensive risk management process that includes emphasis on risk identification, risk reduction and risk assessment.
    - In addition, more innovative tools to deal with particular losses and damages, such as those caused by slow onset events, could be integrated.

- **Linking financing for disaster risk management and adaptation bears large potential for minimizing, averting and addressing loss and damage**
    - There is significant potential in linking disaster risk and climate adaptation financing. In this regard, financial instruments and tools that can address the risks of loss and damage should be integrated into national adaptation plans and other relevant processes.
    - Risk financing strategies should be designed in a sustainable and viable manner, both in economic and social terms.

- **Ongoing capacity-building and appropriate donor engagement is required for the effective use of financial instruments**
    - Ongoing capacity-building is needed so that users are able to build demand for financing instruments and enhance their capacity to produce comprehensive risk management plans and integrate risk finance.
    - Donor engagement is needed, especially in the early stages of a programme or new instrument.

- **Specific financial instruments and tools are needed to reach the most vulnerable**
    - Special attention for capacity-building and financial instruments are needed in order to enable the most vulnerable to partake in comprehensive risk management approaches, given many financial instruments require preconditions, such as a certain level of liquidity or credit worthiness that the most vulnerable are not able to meet.
    - Integration of social protection schemes, disaster risk reduction and climate change adaptation can help improve the livelihoods of poor people.

- **Public-private partnerships can enhance effectiveness of financial instruments**
    - Expertise and experience of the private sector is vital to the effective application of most financial instruments.
    - Governments can incentivize the provision of financial products by the private sector.

- Given that loss and damage affects the most vulnerable segments of populations, the role of the private sector in protecting these populations needs to be clarified and, where appropriate, complemented by public policies, for example social safety nets.

- **Existing financial instruments and tools may be inadequate to address the full spectrum of losses and damages associated with the adverse effects of climate change**
  - Important gaps remain regarding instruments that could be applied in the context of slow onset events and for cases of non-economic losses and damages.
  - Further analysis may be useful for a better understanding of what kind of 'novel' instruments could fill such gap.
  - Discussion may be needed regarding the appropriateness of financial instruments for non-economic losses.
  - Existing financial instruments may fall short of generating financial resources at a scale sufficient to meet the growing requirements related to potential future losses and damages associated with the adverse effects of climate change.
  - Further attention may be needed for innovative schemes, instruments and tools in order to meet the growing demand for financial instruments within the interconnected areas of adaptation to climate change, dealing with loss and damage, disaster risk management and sustainable development.
  - Consideration of the suitability of financial mechanisms in terms of effectiveness and affordability ('does it work and for whom'?) is needed.
  - Considerations on funding options – who would pay for the financial instruments and who would be the recipients – is needed.
  - Consideration of the extent of demand for insurance and needs of end-users is necessary to develop an effective insurance program, as most of the discourse to date has focused on the supply and operational aspects of insurance.

- **Insurance can be a valuable risk management tool, but it is not the only one**
  - Limitations and gaps exist, e.g. low-lying island existential risks and certain slow onset events.
  - Further guidance is needed about when to use financial instruments, including insurance, in the loss and damage space and when not. It could be helpful to differentiate among the instruments most useful for various types of loss and damage.
  - Implementation and ongoing monitoring requires insurance regulatory oversight to ensure effectiveness in meeting objectives and continued sustainability.
  - The typical one-year time horizon of many insurance products represents a limitation, especially for slow onset events. Modifications of current insurance programs/products may be needed.

- **Ideally, insurance premiums should be risk-related to promote loss prevention/loss reduction, considering affordability and availability**
  - Well thought-out program design is important to: (i) enhance achievement of risk management objectives; (ii) determine appropriate roles of the public and private sectors that may differ by jurisdiction, especially to promote participation and determine appropriate funding/premium payments; (iii) focus on the vulnerable population.
  - Equity and fairness aspects need to be considered at the design phase.