

Annex III

Summary report on and recommendations of the 2016 forum of the Standing Committee on Finance

[English only]

A. Summary report on 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

1. 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 benefited from the input and support provided by the Philippine Insurers and Reinsurers Association and the United Nations Environment Programme Finance Initiative (UNEP FI) through the Principles for Sustainable Insurance 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 acceptance of an invitation from the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (hereinafter referred to as the 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 (in the public and private sectors) 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. The specific goals of the 2016 SCF forum were to:

(a) Understand and take stock of existing financial instruments across different levels (e.g. local, national, regional and international) and sectors;

(b) Share and learn from country experiences and case studies on the benefits, limits, gaps and good practices from the different financial instruments;

(c) Explore ways for scaling up and 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 the gaps in and limits of existing approaches;

(d) Contribute to developing possible conclusions of and/or recommendations on actions and next steps to be taken 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 the gaps and limits.

¹ <<http://unfccc.int/8805.php>>.

5. The 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, panellists and facilitators. Participants and resource persons attending the forum represented different regions and a diverse range of institutions, including governments, risk pooling facilities, donor agencies, multilateral development banks, private sector entities, the Executive Committee, academia and civil society.

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

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

2. 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 was presented by representatives of expert institutions including the African Climate & Development Initiative (ACDI) and the Grantham Research Institute on Climate Change and Environment. The presentations highlighted that the risks of loss and damage are many and varied, and can include rapid-onset events that create natural hazards such as storms and heat waves as well as slow-onset events that lead to hazards including droughts, salinization and permafrost melt. The representative of ACDI highlighted that different communities have different exposure levels depending upon who or what (e.g. people, property, food or infrastructure) are at risk to the particular hazard and different vulnerabilities to these risks depending upon their sensitivity to exposure with regard to the particular hazard. The social impact of loss and damage for a given hazard varies depending upon the exposure and vulnerability of the community in question.

9. Given the complexity of these risks, the representative of the Grantham Research Institute noted that there is a range of different approaches to addressing the risks associated with loss and damage. This makes it difficult to develop a typology that neatly categorizes the various 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, and 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 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 that attempt to avoid risks ex ante and could therefore be considered as averting or minimizing approaches (e.g. 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 unavoided 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). It was 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 events related to climate change that 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 disasters. Risk transfer approaches shift the risks of loss and damage from one entity to another, and are often used where the risks posed by loss and damage are greater than the country's ability to manage these risks. Managing slow-onset events involves approaches that use 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, because current approaches are more suited to extreme weather events and other rapid-onset events.

13. The representative of the Munich Climate Insurance Initiative (MCII) explained that risk transfer schemes are more suitable for addressing events that are of a high severity but which do not occur frequently (e.g. super storms and severe droughts or floods that cause significant damage or loss of life). In contrast, she suggested that tools other than insurance, such as contingency finance, should be sought for low-severity, more frequent events (e.g. small-scale droughts or floods that 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

² An 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, is available at https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/information_paper_aa7d_april_2016.pdf.

exceed national capacities and that 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 panellists responded that there is a disconnection between the 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 panellists further emphasized the need to understand the scope and uses of the various financial instruments. Some participants stressed that there are differing 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 the risks of loss and damage seems to be on insurance, and other instruments are not being sufficiently explored.

3. 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 4 provides an overview of these four types of financial instruments.

Figure 4

Overview of existing financial instruments discussed during the 2016 forum of the Standing Committee on Finance

<p style="text-align: center;">Risk transfer schemes</p> <ul style="list-style-type: none"> • Description: Schemes where an individual or organization pays a premium to transfer their risk to another party, usually in the form of an insurance contract. • Examples: <ul style="list-style-type: none"> - African Risk Capacity - Caribbean Catastrophe Risk Insurance Facility - Sahel Crop Insurance scheme 	<p style="text-align: center;">Social protection schemes</p> <ul style="list-style-type: none"> • Description: Policies and programmes designed to reduce exposure to, and enhance capacity to respond to, economic and social risks. Includes targeted cash transfers after a catastrophe, building resilience and adaptive capacity, smart use of climate information and climate risk management tools, helping vulnerable people prepare for a disaster and protecting them in disaster situations. • Example: <ul style="list-style-type: none"> - Red Cross Haiyan livelihoods programme
<p style="text-align: center;">Catastrophe and resilience bonds</p> <ul style="list-style-type: none"> • Description: Bonds that allow insurers or governments to transfer their risks to investors. If a disaster occurs within the life of the bond, some of the interest and/or principal of the bond will be forgiven. This money can be used to fund the post-disaster relief effort. If no disaster occurs, the insurer or government must pay back the principal and interest to the investors. • Example: <ul style="list-style-type: none"> - Mexico's MultiCat Bond 	<p style="text-align: center;">Contingency finance</p> <ul style="list-style-type: none"> • Description: Finance in the form of a line of credit or a fund that a government can draw on in the case of an emergency to allow for early response and early recovery measures. • Examples: <ul style="list-style-type: none"> - African Risk Capacity - Nicaragua contingency loan from the Inter-American Development Bank - Japan International Cooperation Agency contingency credit programme

(a) Risk transfer schemes

18. As outlined in paragraph 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 during high-severity infrequent events. A common form of a risk transfer scheme is insurance. The representative of the Grantham Research Institute outlined that risk transfer schemes are usually utilized for risks that 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 MCII show that while 76 per cent of all fatalities from disaster events occurs in low-income and lower- to middle-income countries, only 2 per cent of these losses are insured (compared to 94 per cent of losses for high-income countries). It was outlined that challenges for low- and lower- to middle-income countries in insuring against these losses include that there are: 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 is 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 quickly, as they do not require a damage assessment to be undertaken.

20. The representative of 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 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 quickly to such losses.

21. A representative of the African Risk Capacity (ARC) described some of the successes and challenges of ARC, which is a specialized agency of the African Union that also provides index-based drought insurance. She described ARC successes as arising from the fact that ARC is owned by member States, that it takes an interdisciplinary approach and that it adopts a cost-effective model which uses a small amount of finance to catalyse/leverage private capital from the market. In order for a country to take out insurance with ARC, it is 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 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 that can be used to assess risks and therefore used as the basis for implementing insurance schemes.

(b) Social protection schemes

23. The representative of the International Federation of Red Cross and Red Crescent Societies (IFRC) Climate Centre explained that social protection consists of policies and programmes 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 to manage climate and disaster risks by: providing targeted cash transfers when most needed, supporting resilience and adaptive capacity through long-term support, making 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 people 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, training and skills development. Examples of social protection associated with coping with risks that 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 of the Resilience Design & Research 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 that occur infrequently. A further challenge with risk transfer schemes is that, unlike in other insurance markets which can be forecast with high accuracy, it is difficult to forecast the frequency, intensity or duration of events related to climate change. Therefore, in situations where these challenges prevent risk transfer schemes from operating or from providing adequate insurance coverage, social protection schemes can play a role in protecting those not covered by insurance.

26. A representative of the World Bank emphasized the importance of social protection programmes such as safety net programmes in dealing with disaster events. Safety net programmes can protect households and allow them to respond 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 in Africa and South-east Asia) tend to be moving towards providing programmes for cash transfers in the case of disaster events because such programmes are efficient, flexible and fast, and can be targeted to community needs. Country experience shows the majority of such programmes utilize on-site, manual distribution of cash payments, because 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 programmes, for example, by utilizing contingency funds to finance safety net programme payouts in the aftermath of a catastrophe.

(c) 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 a 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 to 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, was renewed again for the period 2012–2015, and covered earthquakes and hurricanes. This was 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 per cent 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 will operate in a similar manner to catastrophe bonds, but will take into account any infrastructure improvements undertaken by the bond issuer that lead to reduced financial risks and will therefore reduce the amount of interest or principal needed to be repaid on the bond (e.g. if a city issues a resilience bond to finance damage from flooding but if, during the course of the bond, it builds a seawall that 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 such 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 and catastrophe bonds); data and capacity development to make catastrophe and resilience bonds operational; and support, particularly in the initial phase, for example, by the use of subsidies.

(d) Contingency finance

32. Contingency finance is an example of a risk retention approach for addressing loss and damage, as explained in paragraph 11 above. It can come in the form of a loan that 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 of ARC, it was explained as a risk pooling mechanism that offers the ability to pay out 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. 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 the Inter-American Development Bank for USD 186 million, with a payout triggered on the occurrence of specified events (e.g. a magnitude 6 earthquake that affects 2 per cent of the population, or sustained winds of 73 mph). 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 such contingency loans are advantageous because they provide a source of

finance that 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 formulated on the basis of 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 that are not severe enough to trigger access to the finance.

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

35. Participants in the forum 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. 73 mph wind speed) is met and on the request of the country. There was some discussion on 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 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 tackling 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 summarizes and compares some of the challenges and opportunities of the different financial instruments discussed.

Table 1
Comparison of challenges and opportunities of financial instruments discussed during the 2016 forum of the Standing Committee on Finance

	<i>Challenges</i>	<i>Opportunities</i>
Risk transfer schemes	Difficult to apply to slow-onset events	Suitable for sudden-onset events
	Less suitable for high-frequency low-severity events	Index-based insurance can reduce administrative costs and result in faster pay out (payout is based on occurrence of a pre-defined event and does not require a loss assessment)
	Insurance premiums can be a barrier for vulnerable countries	Can reduce some of the indirect effects of loss and damage by improving the capacity to respond to such losses
	Limited access to insurance and a small percentage of the population currently covered in vulnerable countries	
Social protection schemes	Often suffer from inadequate funding	Can increase adaptive capacity, prevent and reduce risks and enhance livelihoods
	Can be difficult to identify the persons entitled to payouts in disaster situations or to target payouts to the areas most in need	Can address both sudden- and slow-onset events Can be combined with contingency finance to ensure adequate funding
	Need for investment in adequate data to feed into social protection schemes	Cash transfers can ensure predictable funding in case of catastrophe and are fast, flexible and easily targeted to community needs

	<i>Challenges</i>	<i>Opportunities</i>
Catastrophe and resilience bonds	Challenge in structuring bonds to ensure they are financially sustainable and enhance short-term benefits as well as long-term resilience	Allow governments or insurers to transfer their risk to investors and ensure they will have adequate funding to address the aftermath of a catastrophe
	Need for capacity-building to make instruments operational in vulnerable countries	Can take into account investments in more resilient infrastructure through a rebate on the amount of the bond to be paid back to investors
Contingency finance	Contingency loans can be prohibitive for countries that already have significant debt	Allows for fast disbursement of finance as the money is already available
	Loan repayment periods can be challenging for some countries	Can be more straightforward than insurance as loans/access to funds are pre-approved before event occurs
	Often requires participating countries to develop disaster risk management plans in order to participate, which could be a barrier	Until loans are called upon, does not impose a cost to the country Having a disaster risk management plan as a prerequisite can also lead to greater preparedness in a disaster situation

Cross-cutting challenges

Deficits in climate and weather data that can be used as the basis for designing and deploying financial instruments

Difficult to forecast frequency, intensity or duration of climate events

Need for basic information on vulnerability and exposure (such as risk/vulnerability assessments)

Need to embed financial instruments in comprehensive risk management strategies

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

38. Various experiences from national and regional funding schemes were discussed through presentations and breakout groups during 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 explained that the PSF is a fund that 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 of the European Commission outlined the experiences of the EU 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 work together with preventive measures.

41. Representatives of 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 in the

insurance scheme for public infrastructure/facilities was presented and the importance of integrating incentives towards risk reduction into the insurance scheme 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. Panellists agreed that there is a difference between risk and impacts, but 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 panellist emphasized that risk analysis can help to provide guidance on what mechanisms or approaches will be needed to address loss and damage when it occurs in the future.

5. 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 of 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, because 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 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 related 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 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 International Monetary Fund or World Bank should be sought. 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 share 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 relationships; however, these are not sufficiently extensive 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 for disasters that are not related to climate change. 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 single 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 that 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.

6. 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 and public sector actors, as well as local, national, regional and international actors. The roles of the beneficiaries of finance (e.g. governments, local communities or projects that 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 by themselves.

52. With respect to the roles that governments can play, issues 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 governments 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 governments 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 that offer instruments to address the risks of loss and damage were suggested; these included: ensuring that 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 great deal of 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 multilateral development banks.

54. A representative of 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: enhancing climate information services, strengthening institutional and policy frameworks, concrete action on the ground, and climate finance and investments.

55. Representatives of the United Nations Development Programme (UNDP) and ARC discussed that a role 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 on 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. The role of UNDP 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 ADB outlined its role 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 such as governments, regulators, businesses, individuals and the insurance industry were identified as having a role to play 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 G7 include signalling 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, data quality, and risk capital and investment opportunities, while civil society can provide research and outreach, M&E and advocacy.

58. The panellist 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 of 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 community could learn much from the outcomes of other international discussions and recommendations related to disaster risk management.

7. Conclusions

60. The 2016 SCF forum provided comprehensive insights into the mix and use of various existing and other potential financial instruments that address the risks of loss and damage by discussing opportunities, challenges, limitations and gaps. It brought together a number of important stakeholders from the public and private sphere to share views on the roles and functions of different actors and to identify ways of scaling up and replicating good practices, and finding new financing options.

61. In order to make instruments operational and sustainable, having a good understanding of the risks was regarded as a key prerequisite. This involves assessing the nature of the hazard (rapid- versus slow-onset events), the exposure level and the vulnerability of communities to the impacts of climate change. However, as identified, countries often face capacity constraints in data gathering and risk modelling, as well as a lack of accessible, complete and adequate climate change data on which to base financial instruments. On this aspect, the forum underlined the importance of providing support to build the capacity of institutions.

62. The technical inputs and country examples showed that there is a diverse set of financial instruments that can be used to address the risks of loss and damage on the basis of different country contexts and the multi-causality of the risks faced. This means that there is no 'one-size-fits-all' approach and no single financial instrument can cover all the risks associated with loss and damage. For example, risk transfer schemes are more suited to address events that are of a high severity but which do not occur frequently, while contingency finance provides an option for low-severity, frequent events.

63. Taking into account the matters raised above, complementary approaches are needed that build long-term resilience while putting countries in a position to be able to immediately respond to disaster after they occur. Finding smart ways of combining instruments will be crucial for addressing the risks of loss and damage in a comprehensive and holistic manner. In this regard, beyond finance, critical elements include: enhancing enabling policies to facilitate comprehensive risk management, strengthening capacities of communities and involving the private sector.

64. The 2016 SCF forum revealed that major gaps still exist, particularly with regard to addressing slow-onset events. More work will be needed on how to address slow-onset events, because current approaches are directed towards extreme weather events and other rapid-onset events. On the basis of its existing experiences and data utilized for existing instruments, the insurance sector can contribute to the discussion and support the development of new instruments in this field.

65. While opportunities for scaling up financial instruments exist, governments can promote the take-up of good practices by strengthening policies and regulatory frameworks that incentivize public and private stakeholders to avert, minimize and address loss and damage. This may include public-private partnerships to identify the most suitable financial instrument tailored to the local context.

66. The forum demonstrated that greater discussion will be needed on the sustainability, affordability and accessibility of financial instruments, in particular for the most vulnerable. To this end, participants noted opportunities for funding at the national level (e.g. fiscal measures, carbon pricing or fossil fuel subsidy reform) and the international level (e.g. debt relief). In addition, the role of the GCF in supporting activities relating to addressing the risks of loss and damage was highlighted.

67. The 2016 SCF forum noted the importance of learning from experiences of the private sector and existing initiatives, including humanitarian efforts for disasters that are not related to climate change in order to replicate and scale up good practices. For this, it

remains important to engage and share knowledge among different stakeholders from the public and private sphere, as well as from different sectors, to ensure that a broad range of actions is identified and pursued. Relating to this, the need for an institutionalized platform in which stakeholders, including public and private financial institutions, can discuss best practices, enhance regional cooperation and strengthen public–private partnerships was mentioned as a possible way forward.

B. Recommendations of the Standing Committee on Finance

68. On the basis of the conclusions of its 2016 forum, the SCF highlights the following recommendations for consideration by the Conference of the Parties (COP):

(a) Encourage the Executive Committee to take the outcomes of the forum into account in its future work, in particular, in relation to action area 7 of its workplan, and promote further discussion with Parties, international organizations and expert institutions, inter alia, on innovative financing options and instruments that address the risks of loss and damage;

(b) Invite government institutions, the private sector and institutions working in humanitarian assistance and disaster risk management to share knowledge and enhance coordination and collaboration in order to better integrate approaches and to enhance the scaling up and replication of good practices;

(c) Encourage Parties, research institutions and the private sector, inter alia, the insurance industry, to advance discussions and expedite work on suitable solutions and approaches that address slow-onset events;

(d) Encourage Parties and institutions providing technical assistance to continue supporting capacity-building activities to countries, in particular, for assessing the risks related to climate change, data gathering and modelling, to facilitate comprehensive risk management and enable a better understanding on which to base financial instruments.

C. Follow-up activities of the Standing Committee on Finance in 2017

69. To build upon the rich discussions that took place in Manila, the SCF decided to undertake the following activities in relation to the subject of its 2016 forum:

(a) Consider ways of contributing to a side event organized by the Executive Committee at COP 22 in order to further disseminate the outcomes of the forum;

(b) Continue its consideration of how to include financial instruments that address the risks of loss and damage in its work related to the biennial assessment and overview of climate finance flows;

(c) Continue exchanging information and following up developments with the Executive Committee on matters relating to financial instruments that address the risks of loss and damage as appropriate;

(d) Enhance the dissemination of the outcomes of the forum through outreach activities and products.