

Germanwatch Submission on the

Standing Committee on Finance Call for evidence: information and data for the preparation of the 2020 Report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement

Introduction

This document responds to the SCF Call for evidence by providing information for the preparation of the 2020 report on the determination of developing country Party needs - with a special focus on the topic of Loss & Damage. It consists of three parts and provides information on

1. Data on financial needs to address Loss & Damage;
2. Challenges and gaps with regard to Loss & Damage finance;
3. Information on general challenges for determining the needs of developing countries (not related specifically to L&D).

Part 1 and 2 are based on the publication “Steps towards closing the Loss&Damage finance gap” by Schäfer/Künzel (2019). Part 3 is based on the publication “Determining the Needs of Developing Countries to Implement the Paris Agreement and the Convention” by Affana et al. (2019).

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Part 1: Information and data on the needs of developing country Parties

Data on financial needs to address Loss & Damage

Minimizing and addressing L&D needs financial means. There are no official and commonly accepted estimates of L&D finance needs and the existing estimates vary significantly. According to the IPCC, AR5 estimates of global annual economic losses for additional temperature increases of ~2 C are

incomplete, but lie in the range of between 0.2 and 2.0 % of GDP.²⁰ Beyond this very general assessment, the following estimates of finance needs for losses and damages exist:

- Markandya/ González-Eguino (2018) estimate (for non-Annex I countries), total residual damages from 116–435 billion USD in 2020, rising to 290–580 billion USD in 2030, 551–1,016 billion USD in 2040 and 1,132–1,741 billion USD in 2050. Their figures depend on the climate scenario, the discount rate, the assumed parameters of the climate model and the socioeconomic model. The analysis is based on the case where equilibrium temperatures increase by 2.5–3.4 °C, implying some mitigation, but less than is required under the Paris accord. They note that uncertainties regarding these sources are very large and meaningful projections of residual damages in the medium to long-term are not possible.
- Baarsch et al. (2015) estimate macroeconomic damages for developing countries of around 400 billion USD in 2030 and 1–1.8 trillion USD by 2050.
- UNEP Adaptation Gap Report (2014) estimates the indicative costs of adaptation and the residual damages for Least Developed Countries (LDCs) at around 50 billion USD/year by 2025/2030.

Part 2: Challenges, gaps and opportunities

2.1 Gap and Opportunity: An annual stocktake of national financial L&D needs

A big gap with regard to finance for addressing Loss & Damage is the lack of an annual stocktake of national financial L&D needs and L&D funding available. A big opportunity for determining the needs of developing countries with regard to L&D finance would be the development of an annual L&D finance gap report.

Article 9 of the Paris Agreement includes finance for many climate-related actions. Although it contains no mention of L&D, Art. 9.4 focuses on countries with the greatest loss and damage burdens, stating, the provision of scaled-up financial resources should ... [take] into account ... the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States.(UNFCCC, 2015, see also Durand et al. 2016). As explained under Argument 2, there are no official estimates of Loss&Damage finance needs and the existing estimates vary significantly and are based on different methods. What is missing more-over is an accurate assessment of the current status quo of L&D finance accompanied by a definition of L&D

measures. A reliable assessment of both, finance needs for L&D measures and the funding available on an annual basis is needed. One way to get there would be a L&D Finance Gap Report – similar to the Adaptation Finance Gap or the Emissions Gap Reports. Both reports assess the gap between adaptation needs/ambition and reality and were requested by Parties. The adaptation gap report focuses on gaps in developing countries in three important areas of finance, technology and knowledge.

The method of the L&D Gap Report for assessing finance needs could follow the successfully tested structure of the Technology Needs Assessment. To determine their climate technology priorities, countries undertake technology needs assessments (TNAs). All developing countries may receive support to conduct a TNA. Support is provided by the UNEP DTU Partnership and the Global Environment Facility. Since 2010, UNEP DTU has supported more than 80 countries to conduct TNAs. An important role is played by the Technology Executive Committee (TEC). It analyses TNAs and, together with key stakeholders and practitioners, developed guidance for preparing TNAs. The L&D Finance Gap report would provide space to address the following methodological challenges in assessing L&D Finance needs:

- Issues relating to the time horizon under consideration and related uncertainty. Future climate change varies with the future emission scenario and the climate model output for a particular scenario.
- The relationship between adaptation expenditures and L&D (Markandya /González- Eguino 2018).
- The adaptation deficit, which relates to the adverse impacts of current climate variability and extremes, which many countries have not incorporated in their adaptation plans. Future adaptation will be less effective if the adaptation deficit is not addressed and hence the bigger the adaptation deficit, the larger L&D will be (ibid).

2.2 Technical challenges with regard to Loss & Damage finance

The analysis of current potential financial means for L&D reveals that developed countries are only open to finance some L&D measures to a very limited extent. However, three key technical challenges with regard to L&D finance can be identified:

Challenge 1

Funding is mainly available (even though in insufficient scales) for ex-ante measures, aiming at reducing the residual risk of future economic L&D that cannot be or will not be avoided through

mitigation and/or adaptation. Moreover, the UNFCCC paper classifies risk reduction projects as relevant for L&D, which we would classify as adaptation measures (as the impact can still be avoided).

Challenge 2

There is so far little to no funding with regard to measures minimizing and addressing L&D ex-post, with the objective to minimize the scale of L&D and address irreversible impacts that could not be or were not avoided after an impact materialized.

Challenge 3

There is little to no funding for dealing with non-economic losses, both ex-ante and ex-post.

Additional challenges were identified in a literature review:

Challenge 4

The funding already provided outside the UNFCCC regime to address L&D is by far not sufficient – especially regarding the growing number and intensity of extreme weather events. The High Level Panel on Humanitarian Financing diagnosed a humanitarian funding gap in 2015 of 15 billion USD – this lack of money lead to fatalities and forced people into lives without dignity (High Level Panel on humanitarian financing 2016) . Additionally, a development funding gap can be identified as the Official Development Assistance (ODA) which is aimed at 0,7 % of OECD DAC donor countries GNI by 2020 has only reached 0,31 % of the combined GNI of those countries in 2018. And the share of assistance for the neediest countries is even declining (OECD 2019). Applied to the Sustainable Development Goals (SDGs) this threshold would not be sufficient to reach them. A report by Oxfam identified an increase of roughly 62,5 % on 2015 ODA levels or an additional 250 Billion USD by 2025 being necessary – complemented by additional funding channels (Martin/Walker 2015).

Challenge 5

Applied instruments to address Loss&Damage, like insurance solutions, are an important component of a broader climate risk management, if designed carefully. However, they face limitations: There is a risk to only focus on people who can afford a premium and therefore potentially increases marginalization of the poor who are not able to do so, while international support for insurance premiums for the poor is so far insufficient. Additionally, not all losses and damages can be covered by insurances, e.g. at least by now the instrument is not suitable to address slow onset processes (Schaefer et al 2016). Above these limitations, latest experiences show, that ongoing climate change

is also changing the circumstances: The insurance industry is already discussing growing climate risks which may be impossible to model and therefore are ultimately uninsurable (Shankelmann 2017). According to prime minister of Barbados, devastation by hurricane Dorian on the island state exceeded the capacity of the Caribbean Catastrophe Risk Insurance (CCRIF) to fully address the consequences; in particular it left a gap to finance rebuilding (Prime Minister's Office Barbados 2019).

Challenge 6

Currently, financial support for L&D does not follow core justice principles for international relations, fortified by a majority of states in the international community. In particular, the polluter pays principle and the principle of common but differentiated responsibilities and capability need to be applied. A lot of countries (France (83%), Germany (62%), or Japan (53.70%) in 2016) provide a substantial share of funding via loans to concessional terms. "Loans can play an important role, especially in so called "bankable" projects, where investments deliver a return. However, they still contradict the universal principle of "polluter pays", as loans have to be repaid" (ActAlliance 2018). However, the current practice of most developed countries is to report these instruments at their face value (not the net value of the concessional loan) – making the level of assistance received by developing countries very intransparent (Oxfam 2018). Moreover, a huge part of climate finance is channeled to richer developing countries, primarily due to the increase focus on private investments which are more likely to deliver a return in emerging economies (ActAlliance 2018). To finance L&D measures grants are needed so that vulnerable countries whose risks of being hit by an extreme event have grown through climate change while they have contributed least to it, do not have to bear the cost (e.g. for insurance premiums) themselves. A seventh challenge applies to the political circumstances in which L&D finance is discussed:

Challenge 7

It is currently very difficult to get dynamics into the UNFCCC L&D debate. On the one hand, discussions on a solution are not progressing because developed countries fear the establishment of a bottomless compensation mechanism – with no clear estimates of the cost. On the other hand, the lack of an officially accepted definition for L&D allows developed countries to blur the boundaries to adaptation.

Table: Loss & Damage measures finance is needed for

	Ex-ante L&D measures		Ex-post L&D measures	
	Addressing residual risks of L&D Objective: Addressing the residual risk of L&D that cannot or will not be avoided through mitigation and/or adaptation		Addressing actual L&D Objective: Minimizing and responding to the socio-economic or human effects of irreversible impacts that could not or were not avoided.	
	Economic losses	Non economic losses	Economic losses	Non economic losses
Sudden onset	<p><u>Risk assessment</u> (to assess the residual risk for L&D, e.g. for displacement)</p> <p><u>Setting up Financial Risk Transfer Instruments</u> (e.g. Insurance (Index- and indemnity based, incl. Micro insurance, Regional risk pools) and Risk-linked securities (incl. Catastrophe bonds/Climate bonds))</p> <p><u>Setting up Risk Retention Solutions</u> (e.g. National and international disaster funds, Contingency funds, Contingency credit, Savings)</p> <p><u>Setting up Social protection schemes</u></p> <p><u>Capacity building</u> (for the aforementioned measures)</p>	<p><u>Risk assessment</u></p>	<p><u>Recovery and Rehabilitation</u> (e.g. finance for the provision of emergency shelter, access to health, water and sanitation, food and livelihood support, access to education and rehabilitation of schools, protection and support for vulnerable groups) - can be financed by <u>payouts of financial risk transfer instruments or through risk retention instruments</u></p>	<p><u>Recognition of loss</u> (accompanied by financial payments or not)</p> <p><u>Active remembrance</u> (e.g. through museum exhibitions, school curricula)</p> <p><u>Counselling</u></p> <p><u>Official apologies</u></p>
Slow onset	<p><u>Setting up Risk transfer solutions</u>, e.g. via catastrophe bonds</p>			

Description of the table: L&D measures concern climate change impacts that are expected to materialize as they have not or will not be prevented or minimized by mitigation or adaptation.¹⁶ While mitigation and adaptation can avert L&D, L&D measures themselves are not expected to prevent these impacts altogether.¹⁷ They aim at addressing the addressing the (potential) socio-economic or human effects of actual irreversible impacts.¹⁸ L&D measures can be applied both, before and after an impact.

- Before an impact (ex-ante), L&D measures aim at addressing the residual risk of irreversible impacts that cannot or will not be avoided through mitigation and/or adaptation.
- After an impact (ex-post) L&D measures aim at addressing actual L&D by minimizing or responding to the socio-economic or human effects of actual irreversible impacts. While e.g. rapid reaction can reduce the scale of L&D, addressing L&D aims at responding to irreversible impacts that could not or were not avoided.

- Measures for both, minimizing and addressing L&D need to cover both economic as well as non-economic losses and damages. The following table provides an overview of potential measures to minimize and address L&D.

Part 3: General challenges for determining the needs of developing countries (not related specifically to L&D)

The linkages between country reporting on their specific needs and determination of the needs of developing countries shows that under the UNFCCC, different opportunities exist for approaching the determination of those needs. So far, a rag rug of requirements, formats, channels and approaches exists, which cannot guarantee a comprehensive coverage of needs determination in countries. In case Parties are asked to simply name their needs without providing a systematic approach, the result will be an unstructured provision of incomplete, fragmented and intransparent information of varying quality. The comparison of needs between countries is therefore rather difficult. In terms of quantification, based on the current situation it appears impossible to derive robust numbers on the overall climate finance needs of developing countries in a bottom-up approach based on country reporting and aggregating activity level numbers. Needs could also be specified in a qualitative manner, which still would require a certain structure and common understanding of minimum requirements for describing a “need”.

In addition, the approaches undertaken by multilateral agencies, international organizations and research institutions for assessing support needs of developing countries are manifold. For various purposes or scopes, approaches exist that envisage to overcome information gaps concerning support needs on the country level through modelling or workarounds such as gap analysis. An enhanced quality of needs determination – in particular for comparing across countries - will however depend on improved data quality.

Lastly, research activities as well as donor-driven approaches indicate that success factors appear to be structured approaches with robust and transparent underlying data, with a prioritization of activities, and with consultative processes that allow a bottom-up estimation of support needs for individual measures, scopes or purposes. A more standardized approach for support needs determination - guided by the SCF report – appears core in this regard.

Recommendations to be considered by the SCF for the way forward (not related specifically to L&D):

The determination of the needs of developing countries would not only provide a clear understanding on financial and non-financial needs, but could also contribute to the predictability, mobilization, provision, accessibility, and adequacy of climate finance flows to be consistent with the objectives of the Paris Agreement. As such, the SCF should consider how its report could inform and potentially influence other agenda items of the Paris Agreement, such as:

- The Global Stocktake
 - The global stocktake will be informed by multiple reports elaborated within and outside the UNFCCC. Thereby, the 2020 needs determination report will provide valuable input to the global stocktake with regard to investment and support needs to meet the Paris agreement long-term goals.
- The post-2025 climate finance target
 - Different from the USD 100 billion goal, Parties decided that the new post-2025 climate finance target will be negotiated. Depending on the date by when the post-2025 climate finance target will be determined, work towards identifying the needs under the SCF could inform the new goal. At current stage, the methodological shortcomings and difficulties in determining needs would not allow to establish such a link. However, time could be used to enhance the methodologies and thereby make the 2024 needs determination report a valuable input to the new political goal. Thereby, the new goal would be based on a technical foundation rather than being a purely political goal.
- The enhanced transparency framework
 - If Parties decided to inform the needs determination report through figures provided by developing country Parties under their reporting in accordance with Art. 13 of the Paris Agreement, this could motivate developing country Parties to provide more extensive and detailed reporting under transparency of support needed.

The SCF should further considers other aspects that are important, such as how to:

- Identify success factors for needs determination that have worked in contexts of various countries, instruments and scopes;

- Aim towards a standardized approach with common formats and guidance in order to allow for global comparability of information provided;
- Learn from donor-driven approaches and identify potential champions such as the NAMA Facility or the Green Climate Fund (GCF);
- Understand how information gaps can be addressed through application of modelling and other methodological approaches that have worked well for international organizations;
- Further assess how needs determination from domestic public planning processes works in developing countries, in order to derive lessons for comparable formulation of support needs across countries;
- Continue the inclusive process of letting countries and experts sharing their lessons and experiences;
- Related to this, focus on methodologies that ensure bottom-up processes of needs determination, such as consultative processes or project cost determination (e.g. MAC curves) => robust and transparent bottom-up processes may enhance the credibility of identified needs;
- Reflect on the experiences with prior processes under the UNFCCC, such as the NEEDS project and the NBF project, as well as work conducted by the Adaptation Committee (AC), in collaboration with the Least Developed Countries Experts Group.

Literature

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