



## Submission by the Republic of Vanuatu

To the

### Executive Committee of the Warsaw International Mechanism for Loss and Damage of the UNFCCC

29 January 2018

The Republic of Vanuatu's response to the call for submissions by the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (Executive Committee) on the type and nature of actions to address loss and damage for which finance may be required.

Vanuatu *notes* that the Executive Committee will consider the information received through the submissions to support the secretariat in determining the scope of a technical paper which will serve as an input to the review of the Warsaw International Mechanism for Loss and Damage in 2019 (decision 4/CP.22, paragraph 2 (f) and (g)).

Vanuatu also *notes* that this call for submissions is undertaken in the context of the five-year rolling workplan of the Executive Committee, activity 1(a) of the strategic workstream (e) 'Enhanced cooperation and facilitation in relation to action and support, including finance, technology and capacity-building, to address loss and damage associated with the adverse effects of climate change'.

The UNFCCC Taskforce of Vanuatu's National Advisory Board on Climate Change & Disaster Risk Reduction *thanks* the Executive Committee for requesting the views of Small Island, least developed countries like the Republic of Vanuatu.

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## Executive Summary

Led by the Republic of Vanuatu in 1991, the Alliance of Small Island States (AOSIS) and Least Developed Countries have been advocating for climate-induced loss and damage to be recognized under the UNFCCC processes, largely to address the considerable financial hardships caused by climate change in our most vulnerable nations. In 2013, the United Nations Framework Convention on Climate Change (UNFCCC) negotiations shifted substantially with the creation of the Warsaw International Mechanism on Loss and Damage (WIM). It was agreed that the WIM would fulfill three key mandates a) enhance knowledge; b) strengthen dialogue and coordination and c) enhance action and support, including finance for loss and damage.

Vanuatu forwards that the third element of the internationally agreed mandate of the WIM has been unacceptably neglected. Negligible work has been undertaken by the Executive Committee of the WIM on how to fund loss and damage, how it fits with other streams of finance, and how loss and damage finance should be channeled to vulnerable countries. Vanuatu sees this as direct contradiction of Decision 2/CP.19 establishing the Warsaw international mechanism for loss and damage associated with climate change impacts to c) Enhancing action and support, including finance, technology and capacity building, to address loss and damage associated with the adverse effects of climate change, so as to enable countries to undertake actions pursuant to decision 3/CP.18, paragraph 6, including by: (iii) Facilitating the mobilization and securing of expertise, and enhancement of support, including finance, technology and capacity-building, to strengthen existing approaches and, where necessary, facilitate the development and implementation of additional approaches to address loss and damage associated with climate change impacts, including extreme weather events and slow onset events;

While Vanuatu continues to experience unacceptable levels of climate-induced loss and damage with each passing year, negotiators from several developed countries continue to thwart dialogue and concrete agreement on Loss & Damage finance.

Vanuatu's submission recommends a number of elements that urgently need to be addressed, including:

- Firm establishment of a stand-alone finance arm of the WIM, no later than during the review of the WIM at COP25. (NOT a roadmap or workplan towards the eventual establishment of a working arm).
- Starting with the 2018 Suva Dialogue on Loss & Damage, the WIM ExCom and the SCF must invest time and resources in 2018 & 2019 to consider and propose tangible L&D finance mechanisms.
- SBSTA negotiations on Accounting & Transparency must include loss and damage.
- The WIM Ex Com's June 2019 technical paper<sup>1</sup> on financial instruments for loss and damage must include:
  - o A clear definition of "loss and damage finance"
  - o Estimates of loss and damage costs, and associated finance needs in developing countries
  - o An agreed minimum target for Loss & Damage financial flows (per year by 2020 and 2030)

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<sup>1</sup> 4/CP.22 <http://unfccc.int/resource/docs/2016/cop22/eng/10a01.pdf#page=10>

2. Also recommends that:

- (f) As an input to the review in 2019, a technical paper be prepared by the secretariat elaborating the sources of financial support, as provided through the Financial Mechanism, for addressing loss and damage as described in relevant decisions, as well as modalities for accessing such support;
- (g) The technical paper referred to in paragraph 2(f) above include an elaboration of finance available for addressing loss and damage as described in relevant decisions, outside the Financial Mechanism, as well as the modalities for accessing it;

- Sources of loss and damage finance (including public finance and new innovative sources)
- A comprehensive set of agreed modalities for channeling loss and damage finance, including direct access.
- Firm proposal how to anchor loss and damage within overarching framework of the UNFCCC financial mechanism, including formal links to the Green Climate Fund and the Adaptation Fund.

## 1. Vanuatu's Climate Loss & Damage Costs and Experience

Vanuatu, like other Pacific Islands, is among the most vulnerable countries in the world to the effects of Climate change, be it from slow onset hazards like Rising Sea levels or Extreme Weather events. Vanuatu is already facing loss and damage - at a scale that is well beyond our coping capacity. While national adaptation and mitigation initiatives are yielding benefits among the most vulnerable, they are simply inadequate to meet the scale of loss and damage Vanuatu is now experiencing each year.

The Global Facility for Disaster Reduction and Recovery (GFDRR) estimates that Vanuatu incurs an average of \$48 million per year in losses due to natural disasters like tropical cyclones, a figure that is equivalent to 6.6 percent of national GDP. A report from the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) Vanuatu Full report with financial analysis cites losses and damages from a range of climate disasters over the past decades, including tropical cyclone Uma damage of VT 14.4 billion (US\$150 million) when an estimated 95 percent of the building stock was damaged, although insured losses were valued at only VT 1.9 billion (US\$20 million). The same report suggests that "In the next 50 years, Vanuatu has a 50 percent chance of experiencing a loss exceeding VT 31.6 billion (US\$330 million) from a single event, and has a 10 percent chance of experiencing a loss exceeding VT 51.8 billion (US\$540 million)."

Category 5 cyclone Pam, which devastated the nation in 2015, caused an estimated US\$449.4 million of damages. The Post Disaster Needs Assessment PDNA, which estimated economic losses and damages to Vanuatu after PAM, suggests that VT 29.3 billion (US\$270.9 million) is attributable to damage, and VT 19.3 billion (US\$178.5 million) is attributable to loss. This is equivalent to an unfathomable 64.1% of the gross domestic product (GDP) in Vanuatu, giving an indication of the scale of impact. Because of data limitations, however, it is likely that these figures underestimate the total impact.

The sectors that sustained the highest level of damage were the housing sector, which accounts for 32% of the total damage costs, followed by the tourism sector (accounting for 20% of all damage), the education sector (accounting for 13% of all damage), and the transport sector (accounting for 10% of total damage). In contrast, the largest level of economic loss is expected in the agriculture and tourism sectors, which are estimated at 33% and 26% of the total losses respectively. In addition, the environmental sector suffered significant losses to ecosystem services, although these losses are not accounted within the impacts to GDP. The subsequent El Nino drought in 2016 continued wreak havoc on the agricultural backbone of the economy, threatening the food security of thousands of rural households.

In 2017, climate disasters affected even the most developed nations (e.g. Harvey Texas / Maria Puerto Rico) exemplifying that loss and damage is already affecting everyone and the poorest (where ever they live) are the most affected.

### Moving Forward

There is no other way forward globally than to limit warming to the 1.5 degrees that was promised at Paris. Equally, developed countries must meet their promise of providing significant adaptation finance. Both will reduce loss and damage. However, given the lack of mitigation effort to date, and unconscionable shortfall in adaptation finance, there is no way to avoid loss and damage altogether.

In this context, Parties to the UNFCCC and all non-government stakeholders must now put in place a firm mechanism to provide loss and damage finance as a stand-alone issue.

Finance for loss and damage was promised in 2013, when the Warsaw International Mechanism for Loss and Damage (WIM) was established (Decision 2/CP.19), and it was reiterated in the Paris Agreement (Article 8).

Vanuatu, in the face of unacceptable pushback at COP23 from the US, Australia, Canada, EU and other Parties, made it clear that for the WIM to be operationalized as agreed in 2/CP.19, a ‘finance arm’ must be established that will push forward loss and damage finance that is critical for our nation. The Review of the WIM in 2019 must put in place this finance arm with a mandate to urgently generate finance for developing countries, in particular for the most vulnerable, from predictable, adequate and sustainable sources at an appropriate scale by 2020 and growing thereafter. This must be new and additional to the finance provided for adaptation, and should include innovative sources of finance.

The Ex Com of the WIM has not made the progress Vanuatu expected after its establishment, especially in the 3<sup>rd</sup> mandate of enhanced action and support. Vanuatu has observed that this is due largely to pushback and blocking action by the developed country members on the ExCom. To remedy this historical inaction, the ExCom must urgently and immediately dedicate as much effort to the area of finance for loss and damage (enhancing action and support) as to the rest of their work-plan over 2018/19 and urgently explore possibilities either unilaterally or for joint work with other bodies of the Convention such as the SCF. Any further delay in this regard showcases the real intention of developed countries to hold back progress loss and damage

The urgent issues to consider at the Suva Dialogue on Loss and Damage and at the 7<sup>th</sup> meeting of the WIM ExCom are outlined in this submission and include clarity on definitions, scale of finance needs in developing countries like Vanuatu, sustainable sources of finance and UNFCCC institutional considerations of loss and damage finance.

Loss and Damage finance is much more than insurance mechanisms, and although Vanuatu has benefitted from the PACRAFI Pacific Catastrophe Risk Assessment and Financing Initiative, we view this as a use of finance and not the sustainable source of finance that we have been calling for since 1991.

## 2. Financing actions to address loss and damage

Loss and damage associated with the adverse impacts of climate change, the core of the WIM’s mandate, is different from adaptation or disaster preparedness. Climate change induced Loss and Damage is already happening despite and beyond our most robust adaptation efforts. The Paris Agreement’s separate article on loss and damage highlights its uniqueness to adaptation and mitigation.

However, to operationalize this uniqueness, it will be essential to develop a more specific working definition of “loss and damage finance” that can flexibly but appropriately account for range of modalities and approaches being discussed. It may be useful to start by developing a non-exclusive and exemplary list of eligible loss and damage activities to be considered for finance.

In Vanuatu we have experienced a range of economic and non-economic losses and damages, and could suggest finance for activities such as:

- Sea level rise induced relocation costs for coastal communities (domestic and cross-border where necessary).
- Reconstruction costs after extreme events to help ‘build back better’
- Social and Gender protection measures / livelihood safety net programs for the most vulnerable
- Livelihood transformation programs (e.g. from fishing to agriculture systems, or production to service industry).

- Pro-poor microinsurance, crop insurance and/or Insurance premium subsidies at various levels
- National /local level emergency finance reserves or contingency funds
- Loss and damage contingency planning/ comprehensive risk management particularly at the local level
- Loss and Damage Capacity / institution building at all levels
- Technology cooperation and technology transfer (e.g. loss and damage assessment tools)

Once developed, the list could be turned into guidelines by the AF, GCF, and UNFCCC SCF providing some advice to applicants on what can be considered for loss and damage financial support.

### 3. Scale and sources of finance required

Vanuatu has as yet, due to constraints in finance and capacity, been unable to undertake an adequate financial estimate of future loss and damage. Research to quantify loss and damage costs (including non-economic and social loss and damage) will be essential. Vanuatu's experience with devastating climate extremes in recent years highlights the massive costs of loss and damage, particularly to the local farmers, fishermen and small businesses not yet supported directly by any loss and damage finance.

With better estimates, Parties must establish a global minimum target by 2020 and gradually increasing for finance to be provided to support loss and damage activities. This target must be separate from finance for adaptation, development or humanitarian and disaster response. Peer-reviewed scientific analyses of emissions trajectories must be used to adjust expected loss and damage finance needs over time.

Vanuatu has observed from experience that financial resources for adaptation, mitigation, development and humanitarian are insufficient to cope with loss and damage. Thus new and additional sources of finance are required that are predictable and efficiently accesses. New and additional loss and damage finance should largely be based on the polluter pays principles, a form of Common but Differentiated Responsibility and Respective Capability, as well as precautionary approaches, predictability, additionally, and above all, country ownership.

Vanuatu notes the compilation of ideas on new and additional financial instruments for loss and damage by the WIM Information paper on "best practices, challenges and lessons learned from existing financial instruments"<sup>2</sup>. These methods include taxes on fossil fuel production, carbon taxes for international travel, Financial Transaction Tax (FTT) and others.

### 4. Loss and Damage Access Modalities

In addition to new and additional sources of loss and damage finance, the WIM and SCF must also consider access modalities, particularly the direct access paradigm now being operationalized by other mechanisms under the UNFCCC.

Loss and damage finance should be anchored in the overarching framework of the UNFCCC financial mechanism. The Standing Committee on Finance (SCF) and the WIM should proposal an adequate and effective institutional structure.

Existing climate funds could be used to provide loss and damage finance, but it is likely that other specialized instruments will be necessary for some loss and damage investments. In all cases, complementarity should be prioritized to reduce the complexity Vanuatu already faces in coordinating climate finance. Direct access grant modalities are the preferred modality for Vanuatu. Regardless of the mechanism, it is essential that a new finance

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<sup>2</sup> 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  
[http://unfccc.int/files/adaptation/groups\\_committees/loss\\_and\\_damage\\_executive\\_committee/application/pdf/aa7\\_d\\_information\\_paper.pdf](http://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/aa7_d_information_paper.pdf)

arm of the WIM must have oversight over the multilateral funding for loss and damage. All Parties and the finance arm of the WIM must ensure climate finance accounting, reporting and transparency rules being discussed in SBSTA negotiations must also apply to loss and damage finance.

## 5. Suva Expert Dialogue on Loss & Damage

While Vanuatu's position at COP23 was to establish separate and standing L&D standing agenda item in the subsidiary bodies, the pushback received from developed countries like the US, Australia, Canada, EU and others proved insurmountable. However, Vanuatu sees a positive opportunity to move the issue of loss and damage finance forward at the agreed Suva Expert Dialogue on Loss and Damage.

At this meeting, Vanuatu feels that there must be a strong presence and participation of small island and developing country Parties. Vanuatu also calls for the open and balanced participation of civil society, private sector and academic stakeholders. There must be a strong forward momentum at the Dialogue, with discussions focused on practical future action. We expect that our recommendations in this submission will be considered in a structured way. All viable options should be on the table, not to be 'negotiated' or 'rejected' by developed nations who typically delay and subvert meaningful progress during official sessions. Financial assistance for developing country Parties to attend this dialogue should be immediately mobilized and offered.