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AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION UNDER THE CONVENTION
Fourth session
Poznan, 1–10 December 2008

Agenda item 3 (a) and (c–e)
Enabling the full, effective and sustained implementation of the Convention through long-term cooperative action now, up to and beyond 2012, by addressing, inter alia:
A shared vision for long-term cooperative action
Enhanced action on adaptation
Enhanced action on technology development and transfer to support action on mitigation and adaptation
Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation

Report on the workshop on risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance

Summary by the chair of the workshop

I. Introduction

1. The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) agreed on its work programme for 2008 at its first session. The AWG-LCA also agreed that its work should be facilitated by workshops and other activities to clarify and deepen understanding of the elements contained in decision 1/CP.13 (the Bali Action Plan). The AWG-LCA, at the same session, requested the secretariat, under the guidance of the Chair and in consultation with Parties, to organize a workshop at its fourth session on risk management and risk reduction strategies.[1]

2. The workshop was held in Poznan, Poland, on 4 December 2008, during the fourth session of the AWG-LCA, and was chaired by Mr. Leon Charles (Grenada) on behalf of the Chair of the AWG-LCA. This note summarizes the presentations, exchange of views and discussions by Parties at the workshop. Three technical papers and an information note were prepared by the secretariat as inputs to the discussions in the workshop.[2]

3. Given the technical nature of the issues to be discussed, representatives of the secretariat of the United Nations International Strategy for Disaster Reduction (ISDR), the Informal Task Force on Climate Change of the Inter-Agency Standing Committee (IASC) and the Munich Climate Insurance Initiative (MCII) were invited to give overview presentations. Regional and national perspectives, lessons learned and further needs were presented by representatives of the Alliance of Small Island States (AOSIS), China, the European Union (EU), the least developed countries, Peru, the Philippines and Switzerland. A representative of the secretariat presented a summary of the technical papers and information note referred to in paragraph 2 above.

[1] FCCC/AWGLCA/2008/3, paragraph 26.
[2] FCCC/TP/2008/3, FCCC/TP/2008/4, FCCC/TP/2008/9 and FCCC/AWGLCA/2008/INF.2.

4. Delegates from the Bahamas, Bangladesh, Barbados, Canada, Cook Islands, Egypt, Honduras, Indonesia, Japan, Malawi, Nicaragua, Norway, Panama, Samoa, Sri Lanka, Togo, Tuvalu and the United States of America raised questions and made interventions. A representative of the Intergovernmental Panel on Climate Change (IPCC) informed delegates that a scoping meeting of the IPCC will be held in March 2009 in Norway to identify the objectives and content of a possible special report on risk management and strategies to adapt to risk from climate change related extreme events.

II. Summary of discussions

5. Discussions centred on: disaster risk reduction (DRR) as an integral part of a future climate change adaptation strategy; opportunities and challenges for linking DRR with climate change adaptation; the diverse mechanisms for risk sharing and risk transfer, including insurance; and barriers to, and further needs for, the development and scaling up of risk sharing and transfer mechanisms in the most vulnerable developing countries.

6. Parties reaffirmed that enhancing the resilience of vulnerable communities to climate change impacts through adaptation is an essential response to climate change, given the potential for socio-economic development to be impeded by considerable impacts of climate-related extreme events, particularly in vulnerable developing countries. Citing the disaster-prone nature of the geography of their countries, and the increasing loss of assets, livelihoods and human life from climate-related natural disasters in recent decades, Parties reiterated the urgent need to enhance action on adaptation as part of the global response to climate change and its impacts.

7. Parties noted that the capacity and lessons learned from DRR institutions, policies and practices can be used to support adaptation. As jointly noted by ISDR and IASC and reiterated by Parties, given well-developed institutional frameworks, technical tools and practical experiences to manage weather and climate risks, DRR policies and practices can serve as an important basis for climate change adaptation. Indeed, national DRR strategies have been developed and implemented in some Parties (e.g. as presented by China, Peru, the Philippines and Switzerland). In particular, some of the important areas of action could be drawn from extensive national and international experience in implementing the Hyogo Framework for Action, which is aimed at building resilience to disasters. These areas include: national planning for adaptation; sector-specific risk reduction plans; risk assessments; early warning systems and emergency preparedness; risk-based economics and financing; and knowledge and tools development. Efforts are needed to enhance the integration of the work undertaken by the DRR and adaptation communities, as well as the integration of DRR and adaptation into national and sectoral plans and policies. This has been addressed, in some countries, by formally assigning DRR and adaptation to one ministry.

8. Parties consider that financial mechanisms, including insurance, have an important role within any future climate change adaptation agreement. A suite of financial mechanisms, including insurance, has emerged to allow developing countries to manage the substantial losses expected from climate-related disasters and extreme events, in line with their concurrent efforts to reduce poverty and adapt to climate change. In fact, different insurance tools have been piloted in developing countries: microinsurance in Bangladesh, Ethiopia, India, Malawi and Mongolia; national-level insurance schemes, such as Mexico's Fund for Natural Disasters (FONDEN); and regional insurance pools, such as the Caribbean Catastrophe Reinsurance Facility. It was noted that the feasibility and viability of different risk sharing and risk transferring options will depend on national and/or local circumstances and the nature of climate risks.

9. During the workshop, the representatives of AOSIS and MCII presented two possible frameworks for risk sharing and risk transfer.

10. AOSIS proposed a Multi-Window Mechanism to address loss and damage from climate change impacts. The mechanism consists of three components: insurance, rehabilitation or compensation, and risk management. The insurance component aims to address losses and damages from rapid onset climate-related extreme weather events such as hurricanes; the rehabilitation or compensatory component is directed towards loss and damage (e.g. land loss and coral bleaching) from progressive and cumulative adverse impacts such as sea level rise; and the risk management component promotes preventive action using risk assessment and risk management tools and strategies at all levels. These three components are supported by a technical advisory facility and a financial vehicle or facility; these were also elaborated for each of the three components, with inputs from, and links to, existing technical bodies and financial instruments within and beyond the UNFCCC process. It was proposed that a Multi-Window Mechanism Board be created under the Convention.

11. The Risk Management Framework described by MCII has two complementary pillars: prevention and insurance. Together, these two pillars address low, medium and high risk. MCII stressed the need, recognized by Parties, for funding for these two pillars, and suggested that the Conference of the Parties could identify a suitable operating entity and specify the operation of the two pillars. Parties made several interventions after the presentation, concerning the technical details of the premium estimates, funding mechanism and governance structure of the Risk Management Framework. MCII clarified that the estimated cost of establishing the framework does not include the cost of data sets, institutions and other elements that would be required to create the appropriate enabling conditions. The MCII proposal does not specify the governance structure or the framework for a related funding mechanism; this could be decided on by the Parties.

12. The EU presented its proposed Framework for Action on Adaptation. This promotes the integration of adaptation actions into national and sectoral planning processes; generation of knowledge, information and capacity for the implementation of adaptation actions; adoption of risk management approaches; enhancement of adaptation technologies; provision of adequate and predictable financial flows to assist particularly vulnerable developing countries; mobilization and cooperation of relevant organizations; and monitoring and evaluation of adaptation action.

13. Although there was broad agreement to support risk sharing and risk transfer mechanisms, Parties highlighted challenges that hinder the development and scaling up of financial instruments in developing countries. As Malawi indicated, and as was supported by several other Parties, the smooth operation of most insurance schemes against losses arising from climate-related disasters and extreme events requires good historical, as well as real-time, weather observations. Owing to the lack of investment in infrastructure and technical capacity, high-quality weather data are often unavailable or difficult to access in many developing countries. In addition, financial instruments, including insurance, are still novel in many developing countries, and the technical capacity required to assess risks and fully understand the financial implications of these instruments is limited. Hence, considerable efforts are needed to improve the availability of access to and quality of relevant data and observations, to develop a wide range of methods and tools for risk assessment and management, and to enhance technical capacity for risk assessment and better understanding of the wide range of financial instruments. Further, vulnerable countries and communities often have very limited access to financial resources and need external assistance to be able to participate in insurance schemes.

III. Possible areas of focus

14. The workshop facilitated a constructive exchange of ideas, experiences and views on risk reduction strategies and the role of financial mechanisms for risk sharing and risk transfer. Successful examples of using financial instruments to manage current climate risks, and of how such instruments can be adapted and bundled to manage the additional risks of climate change, were presented.

15. Several areas of interest and convergence emerged during the discussions, which could be further considered by Parties. These include the following:

(a) The development of enabling environments for implementing risk management and risk reduction strategies will be essential. This can be achieved through public–private partnerships; supportive regulatory frameworks; action to integrate climate risk reduction into national development planning and policies; policy frameworks for research, development and investment; and sharing of experience and information, including at the regional level;

(b) Various financial mechanisms for risk sharing and risk transfer have the potential to stimulate preventive action, as well as to provide support for disaster relief and recovery. Options range from microinsurance for the most vulnerable communities to regional instruments that span several countries. However, financial instruments such as insurance are context-specific and their application needs to be based on careful consideration;

(c) Developing, adopting and scaling up these financial mechanisms in developing countries is hampered by considerable gaps in data and technical capacity and a lack of financial resources. Support from the international community is required to address these barriers;

(d) Joint schemes and international and regional coordination and cooperation should also be promoted, with a view to accelerating the uptake of financial mechanisms for risk sharing and risk transfer by vulnerable communities and countries.

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