



## **Submission on “type and nature of actions to address loss and damage for which finance may be required” by the Republic of the Maldives on behalf of the Alliance of Small Island States**

**26 February 2018**

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The Maldives, on behalf of the Alliance of Small Island States (AOSIS), welcomes the opportunity to provide views and inputs on the type and nature of actions to address loss and damage for which finance may be required, as called for by the Executive Committee (ExCom) of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM), in the context of activity 1(a) of strategic workstream (e) of its five-year rolling workplan.

This submission is organized in the following manner: 1) it sets out the **critical categories of action for SIDS to be able to address loss and damage** associated with the adverse impacts of climate change, i.e., **comprehensive risk management** (including assessment, reduction, transfer and retention); **approaches to address slow onset events**; and **approaches to recovery, rehabilitation and addressing permanent loss**; 2) then it lays out a **long-term vision for the capacity of SIDS to address loss and damage** and sets out near term **actions that can be taken to achieve this long-term vision**; and 3) the final substantive section lays out the **existing landscape of financial instruments available** to address the risks of loss and damage and provides a set of examples of **emerging ideas and plans for addressing slow onset events**.

In the period leading up to the 2019 review of the WIM, AOSIS stands ready to engage on these and other issues critical to the survival of its members.

### **I. Background**

*"Hurricanes Irma and Maria brought the true impact of climate change on small islands into sharp focus. If the scenes of utter devastation out of the Caribbean are not evidence enough of the reality of loss and damage and the urgent need to act, I don't know what is."*

Thoriq Ibrahim, Minister of Environment and Energy of the Maldives and Chair of AOSIS.

Despite the recognized vulnerability of Small Island Developing States (SIDS) to climate change and the acknowledgment by the intergovernmental Panel on Climate Change (IPCC) that small island States are already experiencing its impacts. SIDS are only beginning to fully understand the quantum of the risks they face, the timeframe within which these impacts are likely to be experienced and the potential economic and social costs of these impacts. The needs of SIDS in response also continue to develop, including with respect to the types of tools available to manage, transfer and share a portion of this risk, or to access approaches and resources with which to

minimize and address the loss and damage that is an inevitable consequence of human-induced climate change.

These ongoing needs are what prompted AOSIS, over twenty-five years ago, to call for the establishment of an international mechanism to address loss and damage. The recent devastation in SIDS wrought by tropical cyclones in the Pacific and hurricanes in the Caribbean provide alarming proof of the urgency required in responding to these long-standing needs. These fundamental needs can be categorised into the following three action areas, each of which requires a level of financial support that is currently well beyond the capacity of SIDS, either individually or collectively:

- Comprehensive risk management (including assessment, reduction, transfer and retention);
- Approaches to address slow onset events; and
- Approaches to recovery, rehabilitation and addressing permanent loss.

These three categories of action align themselves with the issues outlined in [decision 3/CP.18](#), paragraphs 6 and 7, as well as the non-exhaustive list of areas of cooperation and facilitation in [Article 8.4](#) of the Paris Agreement, and cover essential elements of a plan of action that must be in place in SIDS for them to have a chance of coping with loss and damage resulting from the impacts of climate change that breach the limits of adaptation.

SIDS will require financial and technical support over the long term to implement actions in each of the categories listed above. (See section IV, below, for a discussion of existing and emerging financial instruments available to address loss and damage from the adverse impacts of climate change.)

## **II. Addressing needs with action – long-term vision**

To identify the specific actions that SIDS must have the capacity to implement in order to address loss and damage from man-made climate change, AOSIS has developed the following long-term vision<sup>1</sup> mapped out across the three categories of action listed above, i.e. comprehensive risk management; approaches to address slow onset events; and approaches to recovery, rehabilitation and permanent loss. **The successful financing of actions to address loss and damage must be able to deliver against this long-term vision.**

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<sup>1</sup> See AOSIS inputs for the ExCom's initial two-year workplan (July 2014), available [http://unfccc.int/files/adaptation/cancun\\_adaptation\\_framework/loss\\_and\\_damage/application/pdf/aosis\\_input.pdf](http://unfccc.int/files/adaptation/cancun_adaptation_framework/loss_and_damage/application/pdf/aosis_input.pdf).

## **Long-term vision for addressing loss and damage in SIDS**

### **1. *Strengthened national capacities to reduce impacts of loss and damage through comprehensive risk management approaches (including assessment, reduction, transfer and retention).***

#### **Risk assessment:**

- a) Standardized risk assessment guidelines developed and made accessible to assist countries in identifying risks related to climate change impacts in key sectors.
- b) Gaps in national capacity to conduct risk assessments and conduct risk auditing identified and filled.
- c) Regularised (e.g. five-yearly) country needs assessments conducted to assess risk and identify approaches to manage the reduction of risk, the aim being to strengthen country capacities to implement comprehensive climate risk management approaches.

#### **Regional-level risk transfer / insurance mechanisms:**

- a) Risk management approaches, including insurance and other forms of risk transfer and risk sharing mechanisms appropriate to the region in question are identified.
- b) Services for existing risk transfer mechanisms expanded to include full range of climate change impacts.
- c) Development of new risk transfer products and processes appropriate for loss and damage to climate impacts initiated, and areas where impacts cannot be addressed are determined.

**Strategic result:** Strengthened comprehensive risk management processes related to climate change impacts in place where feasible, along with a determination of impacts that must be retained or that cannot be addressed by managing risk.

### **2. *Approaches to address impacts from slow onset events, including sea level rise, ocean acidification and temperature rise.***

- a) An inventory of agencies/institutes currently working on slow onset events and the scope of work that they are currently undertaking exists and is regularly updated.
- b) Scope of work currently being undertaken is understood and gaps that are not being addressed have been identified.
- c) Gaps in capacity (knowledge base and scientific tools) at regional agencies assessed to understand their potential for assisting countries to address impacts of slow onset events.
- d) Strategic plan for addressing the gaps in research and strengthening capacities at the regional and national levels to monitor and assess the development and impacts of slow onset events is in place.

**Strategic result:** Gaps addressed in national and regional knowledge on impacts from slow onset events, including sea level rise, ocean acidification and temperature rise with specific focus on potential impacts within regions.

### **3. *Approaches to recovery, rehabilitation and addressing permanent loss.***

- a) Impacts for which recovery/rehabilitation is possible and those approaches that address recovery/rehabilitation identified; and those impacts for which recovery and rehabilitation is not possible and which will result in permanent loss identified, along with approaches for dealing with it.
- b) Anticipated impacts of extreme weather events, slow onset events, timeframes for these impacts and political,

social, and economic implications of these impacts identified.

c) Strategic plans for supporting particularly vulnerable developing country Parties in the implementation of approaches to address extreme weather events and slow onset events, through finance, technology and capacity building, in place and being implemented.

Strategic result: Approaches to rehabilitation/recovery and addressing permanent loss from different impacts, including from extreme weather events and slow onset events identified and being implemented.

### **III. Achieving the SIDS long-term vision: type and nature of actions to address loss and damage for which finance may be required**

Based on the long-term vision set out above, below is a set of near-term actions for achieving this vision and for which SIDS will require financial and technical support.

#### ***Assessment of the risk of loss and damage associated with the adverse impacts of climate change***

All countries that are particularly vulnerable to climate change impacts must be able to perform an assessment of the risk to their assets from the impacts of climate change. The use of standardized guidelines, similar to the UNFCCC's technology needs assessment (TNAs), would assist in a number of ways, including with "standardizing" the financial support required to conduct the assessment, based on these guidelines. At a minimum, particularly vulnerable developing countries should have the following risk assessment-related information available to support the development of country-driven approaches to address loss and damage:

- An inventory of assets at risk (categorised sectorally and including both land and sea territories);
- Climate-related hazards giving rise to risk (e.g., cyclones, sea level rise, ocean acidification);
- Stakeholders impacted; and
- Scale and timeframe of the risk.

**A standardized set of risk assessment guidelines would assist particularly vulnerable developing countries in preparing and maintaining inventories of assets at risk of loss or damage due to the adverse effects of climate change and in evaluating the scale of risk to these assets.** The availability of standardized guidelines for risk assessments would also help countries to identify their data and capacity needs to conduct risk assessments and risk audits in key sectors, and would help countries to assess and address gaps in national capacity.

Standardized guidelines would also facilitate comparability, facilitate capacity building support, and facilitate the development of regional approaches and tools to manage and address loss and damage (e.g., risk transfer and risk sharing tools, such as insurance). Over time, countries could further refine these standardized guidelines to their own national circumstances, and lessons learned could be exchanged with other Parties through international processes.

## ***Regional risk transfer / insurance mechanisms***

Every country should be able to access and implement the appropriate risk management tools to address climate change-related risk in key sectors including tools for risk reduction, and risk transfer and risk sharing mechanisms such as insurance.

Particularly vulnerable developing countries should have the financial resources and technical capacity to develop the following country-driven approaches to address loss and damage in key sectors:

- Risk management tools, including risk transfer and risk sharing, that are suited to different sectors and contexts;
- Appropriate decision-making tools to analyse available options;
- Assessment of the data needed to support implementation of risk management options; and
- Financial and legal infrastructure required for implementation of these options.

There is extensive expertise available in the private sector, UN agencies and inter-governmental bodies on comprehensive risk management<sup>2</sup> approaches related to climate risk in different sectors and their suitability in different contexts, to **assist particularly vulnerable countries (SIDS, LDCs and others) to develop these approaches and tools**. In many cases it is a matter of finding the finance and matching this to the skills required / and or available.

## ***Addressing the impacts from slow onset events, including sea level rise, ocean acidification and temperature rise***

While there is good scientific information available on slow onset events, there are gaps in information in many regions as well as gaps in capacity within regional agencies to assess this information in order to support national level decision-making on risk management approaches. These gaps lead to a “deficit” at national level to plan for and implement approaches to address impacts from slow onset events. To fill the information gap and the subsequent implementation deficit, particularly vulnerable developing countries and their regional support agencies will require financial support to:

- Identify gaps that are not being addressed;
- Assess future needs on like risks at the regional level;
- Assess the capacity of regional agencies (knowledge base and scientific tools) to help address the potential impacts of slow onset events at both the regional and national levels; and
- Develop holistic regional and national level plans for addressing the impacts;
- Begin the process of implementing these plans, including by accessing the financial and technical resources to do so.

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<sup>2</sup> Including assessment, reduction, transfer and retention.

### ***Approaches for recovery, rehabilitation and addressing permanent loss***

To begin developing approaches for addressing situations where adaptation measures are not enough, particularly vulnerable developing countries will require financial and technical support to assist them with identifying:

- The types of impacts from which it is possible to recover / rehabilitate and the approaches that facilitate recovery and rehabilitation;
- The impacts from which recovery / rehabilitation is not possible, resulting in permanent loss; and
- Approaches for dealing with permanent loss.

This analysis should include a differentiation of those impacts anticipated by extreme weather events and those by slow onset events; the timing of these impacts; and the political, social, and economic implications of these impacts. This will enable particularly vulnerable developing countries to develop strategic plans for implementing approaches to address extreme weather events and slow onset events, and to calculate the finance, technology and capacity building resources required to implement these plans.

As part of the set of approaches to recovery, rehabilitation and addressing permanent loss, AOSIS has consistently highlighted the need for SIDS and other particularly vulnerable countries to have effective legal, financial, and institutional measures in place to protect people displaced by the impacts of climate change.

#### **IV. Financial instruments to address loss and damage from the adverse impacts of man-made climate change**

From its inception, the WIM ExCom has included a strand of work aimed at enhancing cooperation and the facilitation of action and support, including finance, to address loss and damage associated with the adverse effects of climate change. In fact, this call for the submission of views is a direct result of that work.

##### ***2016 SCF Forum***

An important moment in the body of the work of the ExCom was the Forum convened by the Standing Committee on Finance (SCF) in 2016 on “Financial Instruments that Address the Risks of Loss and Damage associated with the Adverse Effects of Climate Change”. The [summary report of the 2016 SCF Forum](#) provides a number of insights into the benefits, challenges and limitations of existing financial instruments that address the risks of loss and damages and proposes various typologies for characterising these risks.

The following existing categories of financial instruments were discussed in depth at the 2016 Forum:

- Risk transfer schemes

Schemes where an individual or organization pays a premium to transfer their risk to another party, usually in the form of an insurance contract.

- Social protection schemes

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.

- Catastrophe and resilience bonds

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.

- Contingency finance

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.

The following table in the report of the 2016 SCF Forum compares the challenges and opportunities of each of these financial instrument types:

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
<b>Cross-cutting challenges</b>		
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		

**The importance of selecting the right mix of approaches to address the risks of loss and damage is a key conclusion drawn from the SCF Forum. In addition, these approaches should be integrated.** Different loss and damage risks, e.g. rapid-onset versus slow-onset events and subsequent types of loss (economic versus non-economic), require different responses. The report goes on to explain “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, “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).”

In its final conclusions, the report on the 2016 SCF Forum notes that **further discussion is needed on the sustainability, affordability and accessibility of financial instruments, in particular for the most vulnerable.** It also 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.

### ***2008 UNFCCC Technical Paper: mechanisms for managing climate change risks***

The 2016 SCF Forum was not the first time financial instruments to address loss and damage has been considered under the UNFCCC. In 2008, the secretariat prepared a technical paper ([FCCC/TP/2008/9](#)), which addresses mechanisms that can be used to manage financial risks from direct impacts of climate change in developing countries. It explicitly considered the unique circumstances of the most vulnerable developing countries, especially least developed countries



(LDCs), SIDS and countries in Africa, and looked at the design of appropriate mechanisms to manage financial risk, bringing together inputs from technical experts in the fields of insurance, reinsurance, and hazard assessment. The technical paper recognizes that **to manage climate change hazards, a toolkit of approaches can be used, including risk reduction measures, resilience building, risk pooling and risk transfer.** Risk pooling requires the facilitation of access to insurance-type structures for the most vulnerable and risk transfer requires the establishment of new mechanisms, whereby the extra risks to the vulnerable caused by climate change are spread more widely.

TP/2008/9 also explores **non-insurance mechanisms, which include informal risk sharing; inter-temporal risk spreading; and collective loss sharing (solidarity).** It notes that these approaches can, in some cases, be cost-effective compared to insurance, and can: (a) provide direct financing for measures that reduce chronic climate impacts, such as responding to salt water intrusion, as well as measures that address sudden-onset events, such as building dykes or levees; (b) serve communities that do not have insurance institutions in place, or an insurance culture; (c) in some contexts offer a lower-cost alternative to insurance for providing post-disaster capital, especially for low-level risks; and (d) redistribute climate-impact burdens from the poor with national and international solidarity. In its final remarks, the 2008 technical paper noted that **both insurance and non-insurance financial mechanisms potentially have a major role to play in an expanded and strengthened response to climate change risks.**

### ***COP 23 side event on risk financing for slow onset events***

A top priority for SIDS is the development of approaches to address slow onset events, including sea level rise, ocean acidification and rising land and sea temperatures. A key fact highlighted during the 2016 SCF Forum is that a **significant gap exists in addressing slow-onset events, because current approaches are more suited to extreme weather events and other rapid-onset events.** As a response to this outcome, the WIM ExCom agreed to explore the issue in more detail and began this exploration by way of a [side event](#) at the November 2017 UN Climate Change Conference (COP 23). During the side event, presenters provided a number of emerging ideas around risk financing for slow onset events. Examples of these ideas included:

- A blended finance vehicle to address land degradation;
- Mechanisms for protecting the viability of ecosystems services, with an example of restoring cocoa plantations in Sao Tome and Principe;
- Nationally-funded trust funds, with examples from Bangladesh and Nepal;
- Multi-level, regional collaboration, both pre- and post-disaster;
- Consideration of need to address the multiple impacts of one slow onset impact, e.g. sea level rise leading to the salinization of freshwater lenses and wave overtopping in atoll islands during high tides;
- Agricultural insurance tools designed to save livelihoods and economies;
- Climate damage taxes paid into an international fund.

These and other **emerging ideas and plans will need to be explored further with the aim of developing robust and economically viable solutions that can be implemented in regionally and nationally SIDS given the requisite financial and technical support.**

## **V. Conclusion**

With the establishment of the WIM in 2013 and the subsequent provisions for loss and damage in the Paris Agreement, a firm foundation has been established to advance international cooperation to address loss and damage from the adverse effects of climate change. The fifth assessment report of the IPCC confirms that both warm-water coral reef and Arctic ecosystems are already experiencing irreversible regime shifts that could result in abrupt and irreversible changes at higher degrees of warming. These conclusions reinforce the need, not only for enhanced global action, but also urgent and robust action to address loss and damage, in particular, in the areas of action and support, including finance, technology and capacity building.

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