Loss & Damage

Similar stories, different narrators

Talk together: G20 and UNFCCC process related to loss and damage

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1. Introduction: disaster risk management, loss and damage

Natural catastrophes, many of which are directly or indirectly expedited by climate change, take a heavy toll on people and economies. In 2011 a record high in economic damage was reached, with an estimated loss of more than US$350 billion.[1]

The human toll is uniformly dire: the drought-induced famine in the Horn of Africa claimed tens of thousands of victims, with lasting impacts on millions of people well into 2012. While lower-income countries bear the brunt of the human impact of disasters, middle-income countries experience the greatest economic impact relative to their capacities. Catastrophes have become de facto government liabilities, legally and morally, with detrimental effects on national budgets. They have also become the focus of the international community, which increasingly spends money for humanitarian rather than development purposes.

Whereas the financial and economic crisis of developed countries dominated the headlines (and tied up most of the political attention and capital) in 2012, there is no doubt that risks of natural disasters increasingly worsen the chances of achieving sustainable development objectives in many countries and are a threat to their long-term fiscal stability. As a point in case, the credit rating of many countries is already affected by their exposure and vulnerability to climate and hydrological shocks.[2]

The recent SREX report (2012) highlights the factors that have led to the rising number of natural disasters, and points out the deficits in addressing underlying risk drivers and increased human activities in high-risk areas.[3] The SREX report also shows that climate change will have significant impacts on the severity and magnitude of climate extremes in the future; it is already doing so, though the impacts differ among regions. What is certain, however, is that as climate change becomes more dramatic, its effect on a range of climate extremes will become a determining driver of loss and damage.

The two policy processes

Two policy processes are relevant to the issue of loss and damage. The first is the G20 under the Mexican presidency in 2012. This deals with the question of disaster risk management and, more specifically, with financial risk management solutions to the repercussions of natural catastrophes – in particular, in high-risk economies. The second is the UNFCCC work programme on loss and damage caused by adverse climate change impacts. The programme was launched at the end of 2010 and should result in recommendations for the 2012 climate summit in Doha.

This paper explores the synergies, overlaps and potential areas of co-operation between these two policy processes.

2. G20 process: disaster risk management

Mexico, chair of the G20 in 2012, made disaster risk management a specific emphasis of its chairmanship. Interestingly, this was taken up under the finance track (rather than under the developing country working group of the Sherpa track). Of course, the financial and economic crisis received most of the attention of finance ministers' work. Nevertheless, it can be claimed as a success, especially by the Mexican presidency, that disaster risk reduction featured on the agenda among such topics as economic stabilisation, crisis management and reform of the international financial architecture.

Placing disaster risk management work under the G20 finance track naturally increased the emphasis on financial resilience as part of the risk management against natural catastrophes. Two concrete deliverables came out of this process:

1 The World Bank, through its Global Facility for Disaster Reduction and Recovery (GFDRR), and the government of Mexico published a report entitled Improving the assessment of disaster risks to

[1] http://reliefweb.int/report/world/annual-disaster-statistical-review-2011-numbers-and-trends

[2] For example, Jamaica's credit rating is considerable lower than its per capita GDP would suggest. The reason is high vulnerability and exposure to external shocks, including natural disasters.

[3] Available at http://www.ipcc-wg2.gov/SREX/

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strengthen financial resilience.4 In that document, 15 countries (mostly G20 member countries but also guest countries such as Chile and Colombia) as well as the World Bank and the OECD shared lessons learned on the theme of disaster risk reduction. In most cases, articles highlighted national practice, while some members also reported on experience gained through development co-operation. Key lessons that came out of the publication include:

- There are benefits to engaging in proactive policies and preparedness by saving money for recovery reconstruction.
- Better information is needed on adverse natural events and associated economic, fiscal and social impacts.
- It is essential to bolster financial resilience against disaster. Disaster prevention is an indispensible step, but a full insulation against all losses is not possible. Hence, countries need to consider disaster risk in fiscal policy to manage losses that cannot be prevented. Disaster risk financing strategies include a combination of self-retention (such as dedicated reserve funds) and risk-transfer instruments such as insurance, in order to reduce budget volatility.
- There is an array of new tools that can be employed to understand and value risks and their potential effects on assets. These tools need to be utilised to help policy-makers and the general public make better-informed decisions.
- Countries should stimulate and leverage the technical and financial capacity of the reinsurance and capital markets through public private partnerships.
- Risk management needs to be mainstreamed in development strategies. Countries should first try to contain new risks resulting from uncontrolled development processes and then address existing risks in a manner that makes best use of limited resources.
- There is no one-size-fits all, but there are models for success. Developing countries in particular need different solutions than more advanced economies. Knowledge-sharing and documentation can help to fit approaches to different national and local contexts.

2 The OECD, with its High Level Advisory Board on Financial Management of Catastrophes, developed a methodological framework for national strategies on financial risk management. This was presented at the G20 Finance Ministers Meeting in Mexico City on 4-5 November 2012. The framework is intended to be used as a concrete assistance to high risk countries to improve their financial and technical management of catastrophic risks.

At this point, it is not clear how the issue of disaster risk management will be dealt with under upcoming G20 presidencies. Mexico has been a champion on the issue, partly because it has a high exposure to natural risks and has developed risk-financing tools that are regarded as best practice.[5] Russia will hold the G20 chairmanship in 2013, and early indications are that disaster risk management remain on the agenda.

Other issues have been dealt with by the G20 in presidency in 2012 that are relevant for the loss and damage debate. These include, for example, G20 work on food security and commodity price volatility, and also the work on green growth.[6]

3. UNFCCC process: loss and damage

At the Cancún climate summit in 2010, countries agreed for the first time on a goal to limit global temperature rise to under 2°C above pre-industrial levels. In contrast, however, the pledges countries made to reduce emissions would still lead to temperature rises in excess of 3°C or even 4°C, putting immense pressure on people and communities most at risk from adverse climate change impacts. While adaptation to climate change impacts has increasingly gained attention in many developing countries (and internationally), such emission scenarios make it seem more likely that adaptation policies and measures will fail.

Vulnerable countries, especially Small Island Developing States, have fought hard to get the

[4] Available at https://www.gfdrr.org/gfdrr/G20DRM

[5] FONDEN, Mexico's Fund for Natural Disasters, consists of a contingency window to provide post-disaster assistance in the eventuality of an event, of a special fund to allocate money for preparatory activities. FONDEN leverages the catastrophe-bond markets to increase its capacity in case of a payout.

[6] On the link between green economy and loss and damage, see *Green economies in a climate-unstable world?*, available at http://germanwatch.org/en/5043

international community to focus on loss and damage from climate change impacts. As a result, in Cancún and subsequently at the Durban climate summit, a work programme to address loss and damage was launched.

The UNFCCC Work Programme on loss and damage is organised around three thematic areas:

- approaches to assess the risk of loss and damage
- approaches to address loss and damage (implementation options)
- the role of the international community, and the UNFCCC in particular, in 'enhancing the implementation of approaches'.

The first two areas of the work programme have been dealt with through a series of expert meetings in spring and summer 2012 and accompanying technical papers produced by the UNFCCC secretariat. The third area is addressed through a call for submissions from countries, international organisations and civil society. It is expected this will result in a decision at the Doha COP in December 2012 that will plot the way in which the UNFCCC will deal with loss and damage in coming years.

Taking stock

Government officials at the Subsidiary Body for Implementation (SBI) session in May 2012 took away several messages, including:

- The assessment of climate-related risk is complex, involving the consideration of hazards, exposure and vulnerability, and takes into account underlying risk drivers.
- A range of approaches, methods and tools is available to assess the risk of loss and damage associated with the adverse effects of climate change. The selection of appropriate approaches, methods and tools depends upon regional, national and local capacity, contexts and circumstances and involves the engagement of all relevant stakeholders.
- Gaps in the assessment of the risk of loss and damage for vulnerable communities and populations, including women and children, can be addressed by involving these communities and populations in risk assessment processes.
- The use of local and indigenous knowledge and observations helps to fill gaps in information about historical exposure and vulnerability.
- Assessment of the risk of loss and damage is often constrained by the limited availability of data and knowledge, including, but not limited to, that on weather, climate, socioeconomic conditions and ecosystems. Risk management action can still be taken in the absence of complete sets of data and knowledge, taking into account national circumstances.
- Access to, sharing and the use of information and data, such as hydrometeorological data and metadata, on a voluntary basis is important to facilitate the assessment and management of climate-related risk.
- Enhanced technical and institutional capacities supported by technical and financial assistance and other resources will help developing countries to continue to determine, prioritise and address their needs in assessing the risk of loss and damage associated with the adverse effects of climate change.
- Involvement of, and dialogue with, decision makers at all levels can strengthen the design, dissemination and delivery of information on climate risk.
- Numerical data are sometimes not sufficient in conveying a comprehensive range of the risks of loss and damage associated with the adverse effects of climate change since available estimates on losses typically lack numbers on non-economic losses.[7]

The question of how to address loss and damage was considered at a series of regional expert meetings in 2012. For the African continent, this took place in Addis Ababa in June, followed by an expert meeting for the Americas in Mexico City in July, and another in Bangkok in August to discuss the implications for the Asian region. Lastly, small island states received focus at an additional expert meeting in Bridgetown (Barbados) in October.[8]

At these meetings, experts and government officials presented experience and approaches to risk reduction, risk retention (the purposeful absorbing of

[7] Excerpt from FCCC/SBI/2012/15
[8] For further information see http://unfccc.int/adaptation/cancun_adaptation_framework/loss_and_damage/items/6056.php

losses), risk transfer, and approaches to handling slow-onset risks such as sea-level rise and desertification. Best practice shared included the African Risk Capacity, a pan-African risk pool against drought risks, and the FONDEN experience in Mexico. Several issues were highlighted in workshops:

- Loss and damage is often a manifestation of extreme events, but some slow-onset processes are also leading to losses – often due to interaction with extreme climate events.
- Loss and damage will be influenced by accelerated climate change. In this context, the fulfilment of the ultimate objective of the UNFCCC to prevent dangerous climate change (Article 2) is very relevant.

Moreover, it became clear that the UNFCCC process will most likely need to become involved when national capacities are overwhelmed as a result of losses related to climate change. There are overlaps with the adaptation agenda defined in the Cancún decision, but there are also distinct elements in the loss and damage discussions, especially when national adaptation options are exceeded and erosive self-retaining of risks becomes the default option. Lastly, it became also clear that there might be a need for the UNFCCC to take on a co-ordinating role.

It is not yet clear where this issue will be taken in the future. Doha presents a window of opportunity, and loss and damage is expected to be a major deliverable. However, the discussions consist of both technical and political elements. For instance, the Alliance of Small Island States has made strong calls for a mechanism that would also have compensatory functions. Many developed countries have so far soundly rejected this.

Nonetheless, there are elements that could be immediately implemented. The use of risk-transfer solutions under a loss and damage mechanism is one of these options: Parties first need to decide on the mechanism, then define relationships with, for example, the financial mechanism of the UNFCCC.

In any case, it seems that loss and damage will be one of the issues in the 2015 negotiations on a new legal instrument to tackle climate change.

4. Conclusions and recommendations

Similar story, different emphasis

The technical work under the G20 and the UNFCCC loss and damage work programme are remarkably similar – and have led to similar conclusions and highlighted similar examples of best practice. One essential step identified in both policy processes is assessing potential loss and damage, to inform decision-making and identify appropriate ways of addressing loss and damage. Similarly, the same work has been discussed elsewhere: the Latin America expert meeting featured lessons learned from the FONDEN experience of Mexico, and the expert meeting in Bridgetown referred to work reported in the joint World Bank and government of Mexico Communiqué.

There are, however, differences. The G20 has largely been driven by the disaster risk management community – much of the technical expertise was taken from the World Bank's GFDRR. As a result, climate change did not feature prominently in the conclusions. Although the report looked at emerging risks as determinants of loss and damage, it explained largely with reference to development activities. The loss and damage discourse, however, explicitly looked at climate-specific, slow-onset processes such as sea-level rise, glacier melting and biodiversity loss, and linked it also to the lack of mitigation (which could very soon become a major driver of loss and damage).

Working towards a common goal: G20 and the UNFCCC negotiations

The working relationship or division of roles between the G20 and the UNFCCC has stirred much debate, especially in 2010 after a disappointing climate conference in Copenhagen. This substantial body of debate is not the focus of this paper but there are a few lessons that can be drawn nevertheless.

- The first is that there has been no exchange between the G20 process and the loss and damage work programme. At minimum, the two processes should inform each other about their existence. Also, very technical work that was involved in each process could easily have been shared. Better exchange of information is needed not only on the processes themselves (which, to date, have not defined a systematic way of exchange), but also on the technical organisation that contributed to both processes.

- It should be possible, through the newly created Adaptation Committee under the UNFCCC, that a more systematic exchange can be facilitated with external processes such as the relevant G20 work.

- Also, either the G20 presidency or the involved technical organisations should inform the UNFCCC negotiation of their respective work, deliverables and milestones. This could, for example, take place in the form of side events at both the COP and the annual SBI sessions.

Barriers to integration and implementation

Both policy process are crippled by their own limitations, which create obstacles towards implementation and, eventually, impact.

G20: the question of legitimacy

The G20 process has put an issue on the agenda of the finance minister in a time of economic crisis. This should be applauded. However, the G20 is a closed club of countries, with no representation from particularly vulnerable countries like the Least Developed Countries or Small Island States. While some G20 countries have an inherent self-interest in promoting better financial risk management in their own countries, most of the high-risk countries are outside of the G20. This obviously raises the question of legitimacy, ownership, and implementation pathways. It should be noted that some of the technical organisations engaging with the G20 process have their own decision-making processes, which are broader and more representative. For example, the World Bank Consultative Group of the GFDRR has representatives from high-risk countries. Nevertheless, in providing technical guidance, such as the methodological framework for national strategies on financial risk management, it is important to include affected countries in developing such strategies.

UNFCCC: lacking effectiveness

The UNFCCC process is supported by political commitment, especially from vulnerable countries. But despite its legitimacy and representation, its effectiveness is hampered by a process largely driven by ministries and actors with little expertise in financial risk management. Moreover, UNFCCC discussions are political negotiations often overshadowed by a lack of tangible progress on mitigation and adaptation. The concept of risk retention, for instance, was not well understood during the loss and damage work programme in 2012. As long as there are no purposeful implementation processes and guidance for loss and damage implementation, it remains to be seen whether the approaches discussed will lead to progress on the ground in the very near term.

Combine the stories to effectively address loss and damage

It is encouraging to see that two important processes are working towards addressing loss and damage, which is often an effect of extreme climate events hitting increasingly vulnerable communities and activities in hazard-prone areas. Societies are often not well adapted to today's climate and the closing of the resulting 'adaptation deficit' is a logical step. The G20 process must be applauded for providing leadership on a specific part of addressing this adaptation deficit and for galvanising action by international organisations and donor countries alike.

In the long run, however, unmitigated climate change will become a profound factor in driving climate-induced loss and damage. Impacts felt today in small island states and natural resource-dependent, least developed countries might be seen as a harbinger of a future where climate change puts fundamental constraints on development choices in countries that do not consider themselves as exposed to climatic risks.

Loss and damage (current and future) is the very reason why countries must mitigate greenhouse gases (apart from non-climate reasons such as energy independence through renewable energies, etc), and promote adaptation policies. Technical approaches will fall short once climate change impacts reach dangerous levels. Existing mitigation pledges put the earth's climate exactly on this trajectory.[9] Adaptation does not have the momentum needed to cushion impacts comprehensively. The G20 in 2012 did not move much on climate change –working on it only in the margins. It is hoped that the prospects of loss and damage will resurrect much-needed leadership on

[9] http://www.climateactiontracker.org/

climate change. An important contribution in this context could be to urge action on emissions from international aviation and maritime transport, which has been on the G20 agenda, not only to curb climate change but also to raise finance for climate action.

Loss and damage caused by unmitigated climate change fundamentally questions various policy goals – from sustainable development to security. This means that, sooner or later, loss and damage will have a significant place in various national and international policy forums. The UNFCCC, as the world governing body to address climate change, will have to provide the leadership to facilitate processes related to loss and damage. A better working arrangement with G20 in this regard must be possible.

The Loss and Damage in Vulnerable Countries Initiative

Accepting the reality of unmitigated climate change, the UNFCCC negotiations have raised the profile of the issue of loss & damage to adverse climate impacts. At COP-16, Parties created a Work Programme on Loss and Damage under the Subsidiary Body on Implementation (SBI). The goal of this work programme is to increase awareness among delegates, assess the exposure of countries to loss and damage, explore a range of activities that may be appropriate to address loss and damage in vulnerable countries, and identify ways that the UNFCCC process might play in helping countries avoid and reduce loss and damage associated with climate change. COP-18, in December 2012, will mark the next milestone in furthering the international response to this issue.

The "Loss and Damage in Vulnerable Countries Initiative" supports the Government of Bangladesh and the Least Developed Countries to call for action of the international community.

The Initiative is supplied by a consortium of organisations including:

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For further information: **www.loss-and-damage.net**

Germanwatch

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