

Written statement for the public hearing of the Committee on Economic Cooperation and
Development of the German Bundestag

on the topic of

**Climate-related Loss and Damage -
Supporting communities' response in regions most affected by the climate crisis**

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The Munich Climate Insurance Initiative (MCII) was initiated as a charitable organisation by representatives of insurers, research institutes and NGOs in April 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the UN Framework Convention on Climate Change and the Kyoto Protocol. The initiative is hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS), in Bonn, where it is incorporated as its own academic section. As a leading think tank on climate change and insurance, MCII is focused on developing solutions for the risks posed by climate change for the poorest and most vulnerable people in developing countries.

The 6th Assessment IPCC WGII (2022) report clearly showed: The rising frequency and propensity of climate change impacts causes widespread economic and non-economic losses and damages to people and nature. Economic losses caused by climate extremes in developing countries are estimated at \$280 billion annually and are expected to rise to \$500 billion in 2030¹. Across sectors and regions, the most vulnerable people and systems are disproportionately

¹ <https://wedocs.unep.org/bitstream/handle/20.500.11822/34721/AGR2020.pdf>, p.24

affected. However, progress toward supporting vulnerable developing countries in comprehensively managing climate risks and impacts has been far from adequate.

There is a severe lack of adaptation, disaster risk finance and loss and damage funding which manifests in an enormous protection gap against the financial impacts of climate change of 98% in the Vulnerable 20 (V20) Group, a group of 58 developing and emerging economies most vulnerable to climate change². As the UN Secretary-General António Guterres said in his recent speech at the UN General Assembly, “it is high time to move beyond endless discussions. Vulnerable countries need meaningful action. Loss and damage are happening now, hurting people and economies now, and must be addressed now - starting at COP 27. This is a fundamental question of climate justice, international solidarity, and trust.”³

Climate-vulnerable countries need finance to act on loss and damage, and they need it as soon as possible. During the last year, two major initiatives have been announced in this field. During COP26 in Glasgow last year, the G77 and China brought forward a Loss and Damage Financing Facility (L&D FF) which was not adopted. Developing countries and CSOs had to instead settle for the Glasgow Dialogue to discuss the arrangements for the funding of activities to avert, minimize and address loss and damage associated with the adverse impacts of climate change. At the G7 summit in June 2022, leaders announced to work towards a Global Shield against Climate Risks, an initiative proposed by the G7 Presidency and further-developed together with the V20. During the last V20 Ministerial Dialogue, V20 Finance Ministers also called for an adequately resourced Global Shield that can contribute to averting, minimizing and addressing losses and damages. The Global Shield is expected to be adopted by the InsuResilience Global Partnership (IGP) High-Level Consultative Group (HLCG) this week and be formally launched at COP27.

One instrument, fund, or facility will not be able to address all losses and damages resulting from climate change. “Loss and damage refers to the actual and/or potential manifestation of climate impacts that negatively affect human and natural systems”⁴, and thus describes an

² https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/understanding_and_addressing_global_insurance_protection_gaps.pdf

³ <https://www.un.org/sg/en/content/sg/speeches/2022-09-20/secretary-generals-address-the-general-assembly>

⁴ United Nations Framework Convention on Climate Change Subsidiary Body for Implementation (UNFCCC SBI) (2012). A literature review on the topics in the context of thematic area 2 of the work programme on loss and damage: a range of approaches to address loss and damage associated with the adverse effects of climate change. Thirty-seventh session, Doha, 26 November to 1 December 2012, p. 3

extensive and complex issue including sudden-onset events and slow-onset processes, and which touches topics outside of the classic climate field, such as humanitarian intervention, migration, and reconstruction, as well as non-economic losses e.g. of land, culture, and biodiversity. Therefore, it is impossible to be handled exclusively under the UNFCCC. Instead, action in different fora and from different stakeholders, including through United Nations or other institution-based funds, regional and national funds for loss and damage, or bilateral arrangements that make use of existing or new institutions, is necessary and should not be mutually exclusive.

When considering the different options for initiatives to address loss and damage, several aspects need to be considered.

The first is time - vulnerable countries need action on loss and damage as soon as possible. The L&D FF does not exist yet and currently, no concrete concepts are being discussed. If it were to be mandated, the facility would be a logical addition under the Warsaw International Mechanism to avert, minimize and address loss and damage - owing to the fact that there is currently no funding specifically for the 'address' part of the mandate. The Santiago Network on Loss and Damage, hopefully, to be operationalized at COP27, will only focus on technical assistance and capacity building, but not finance action on loss and damage themselves. However, the past has shown that processes under the UNFCCC can take a very long time. The Green Climate Fund took five years between its adoption in 2010 to its first investment in 2015. Given the disputed nature of Loss and Damage Finance under the UNFCCC, sustained delays in even adopting such a facility are possible. Recently, the UN Secretary-General pointed out that new mechanisms to get resources to countries that need them should be enhanced and expanded. Also, international financial institutions need to step up and offer debt relief to developing countries.⁵ It might be time to think about other, innovative instruments to address the issue at hand.

The Global Shield builds upon existing structures, namely the IGP with its High-Level Consultative Group, the coordinating Program Alliance of donors and implementing organizations, a secretariat, and the InsuResilience Solutions Fund (ISF). It also draws on the Global Risk Financing Facility (GRIF) under the World Bank, to which Germany is the largest donor. Since these structures are already in place, expanding and enhancing them - while

⁵ <https://news.un.org/en/story/2022/09/1127381>

ensuring vulnerable countries are represented - is much faster than building a new facility from scratch. Significantly upscaling existing structures avoids the confusion of yet another fund in the growing and increasingly confusing disaster risk finance architecture. Better coordinating already active donors and implementing organizations is also beneficial as it reduces duplication of efforts and increases efficiency and value for money.

Some voices have called the Global Shield initiative a distraction from the L&D FF process. To defuse these criticisms and show that the Global Shield is a serious endeavour, the initiative needs to be bolstered by the respective funding commitments. The G7 are also to a large extent historically responsible for climate change, thus mobilizing new funding starting from this group of countries to support protection against loss and damage is a step in the right direction. It is further pivotal that all organizations and stakeholders in the initiative fully commit to the project and take the necessary managing changes. Germany, being the largest donor to the GRiF, should insist on the World Bank to agree to and implement changes necessary in the governance structure and direct access modalities, as well as to fully cooperate in coordination and information sharing to better serve the Global Shield. The World Bank is a service provider and should act like it.

The Global Shield is co-developed with the V20, who is already co-chairing the InsuResilience HLCG. Through the representation of vulnerable countries and the inclusion of a special window of the V20 Joint Multi Donor Fund in its financing structure, the Global Shield gains credibility and fosters ownership from developing countries. Nevertheless, the V20 is not a negotiating group under the UNFCCC or represents all developing or Annex-2 countries. As an outside fund, the Global Shield would not be accountable to or receive guidance from the COP/CMA and not be subject to the guiding principles, such as CBDR-RC, under the Convention and related obligations. In order to facilitate acceptance of the Global Shield, representatives of climate-vulnerable countries need to be present in the decision-making entities. Non-transparent allocation criteria for countries to access the funding under the initiative are also detrimental to generating approval.

In discussions on Loss and Damage under the UNFCCC, some countries criticize the sole focus on Climate and Disaster Risk Finance and Insurance (CDRFI) instruments as solutions for loss and damage. CDRFI includes e.g. pre-arranged risk finance such as bonds, climate insurance, and sovereign risk pools. While a necessity for comprehensive risk management and quick

action once disaster strikes, CDRFI is not the silver bullet to solve all the many problems related to loss and damage. Some processes, e.g. slow-onset processes, as well as non-economic loss and damage, cannot be insured. Additionally, for the poorest people and countries, premium payments are often out of reach. The Global Shield does focus on CDRFI, but its scope goes beyond. Financial assistance will be available to build in-country systems like adaptive social safety nets, capitalize risk carriers, and (co-)finance insurance premiums. Technical assistance to create an enabling policy environment and support for risk analytics is also included. The CVF-V20 Joint Multi-Donor Trust Fund, the third fund under the Global Shield (next to the reformed GRIF and ISF), will open a window to fund innovative solutions, e.g. for slow onset events. To address risk pool sustainability and accessibility of premiums, the G7 has endorsed the SMART Premium and Capital support principles of the IGP⁶ which shall help to make risk pools more sustainable.

No matter the funding arrangement, loss and damage finance and CDRFI instruments need to meet a number of criteria in order to address the needs of vulnerable populations. For CDRFI instruments to be effective, they need to be needs-based, gender-sensitive, human-rights based, and follow pro-poor principles⁷. Instruments and initiatives should also be locally-led, and donors and implementing agencies must be transparent and accountable. To benefit those that need it most, instruments must make sure that their benefits are also accessible to people in informal sectors, and without bank accounts or land titles. In order to reach these many goals, the (gender-balanced) representation and participation of the climate-vulnerable target groups in the design of instruments are key. In order to systematically increase resilience, CDRFI instruments cannot stand on their own. They need to be part of integrated, comprehensive strategies covering risk analysis, risk reduction, risk preparedness, financial risk management for residual risks as well as recovery and rehabilitation.

In order to achieve these integrated approaches, technology transfer and capacity building are key to protecting against loss and damage and need to accompany any funding arrangement. As only one of many technology and capacity gaps, data on hazards, vulnerability, and exposure as well as adjusted risk models are missing. Without this essential information, the real needs of the population cannot be known, the losses due to disasters not estimated, and suitable risk management instruments not being designed. More investment is needed, and

⁶ https://www.insuresilience.org/wp-content/uploads/2022/07/SMART-Premium-and-Capital-Support_Policy-Note.pdf

⁷ https://www.insuresilience.org/wp-content/uploads/2019/06/insuresilience_propoor_190529-2.pdf

initiatives like the Global Risk Management Alliance (GRMA) launched by the Insurance Development Forum (IDF) and the V20 are an important step in the right direction. With the promotion of open-source risk models, data and expertise, governments and people in the global south shall be increasingly able to answer these important questions.

Loss and damage finance needs to be adequate, predictable, and precautionary, meaning being fit for a 1.5 - 3°C world. Finance should also be new and additional. While in the long term disaster risk finance can reduce the need for ad-hoc humanitarian assistance, it should not reduce budgets for humanitarian aid until it is set up and working. Efforts to reduce efforts to mitigate or adapt to climate change should neither be reduced. As Mr. Guterres said, countries facing a perfect storm of climate change, inflation, soaring food and energy prices and lack of access to finance need debt reduction, not sinking deeper into the debt trap. Hence, loss and damage finance should be grant based to not add further debt. Funding for loss and damage can come from so far untapped sources, such as a windfall tax on fossil fuel companies. 'Polluters must pay' demanded the UN Secretary-General during his urgent speech at the General Assembly⁸.

Currently, finance for loss and damage is not being tracked, such as e.g. for mitigation and adaptation finance. Nevertheless, some countries have started to specifically pledge for this issue: Scotland committed £2 million ahead of COP26, the region of Wallonia €1 million, and Denmark pledged €13 million ahead of the 2022 UN General Assembly and secured praise for 'getting the ball rolling'⁹ on loss and damage finance. Yet Germany has a long history of sustained action in the field of climate risk insurance, one of the majorly discussed instruments for dealing with loss and damage. Germany has committed to providing around €800 million to support various risk finance and insurance solutions. This includes the IGP, risk pools such as the African Risk Capacity including through premium subsidies, and the various specialized funds for climate risk finance under the IGP. By not labelling these contributions as finance for loss and damage, Germany is missing out and risks falling behind countries with much smaller commitments but upfront communication.

⁸<https://www.theguardian.com/world/2022/sep/20/un-secretary-general-tax-fossil-fuel-companies-climate-crisis>

⁹<https://www.theguardian.com/environment/2022/sep/21/denmark-offers-loss-and-damage-for-climate-breakdown-as-protests-gather-pace>

Key Messages:

- 1) Climate-vulnerable countries need finance to act on loss and damage, and they need it as soon as possible. So far, assistance has been concentrated on technical advisory and capacity building;
- 2) The Global Shield offers viable solutions to loss and damage. On the benefit side, it is a concrete, actionable proposal that can bring funding to countries and people that need it in a short amount of time. It builds upon existing structures and aims to better coordinate initiatives and funding. However, it should not close the door to other loss and damage financing initiatives in the future;
- 3) CDRFI is not the silver bullet to solve all the many problems related to loss and damage. Some processes, e.g. slow-onset processes, as well as non-economic loss and damage, cannot be insured and/or need political strategies. CDRFI instruments need to be part of integrated risk management strategies;
- 4) More investment is needed in climate and risk analytics. With the promotion of open-source risk models, data and expertise, governments and people in the global south shall be able to answer more questions related to loss and damage;
- 5) Germany, with a history of sustained action in the field, should insist on the World Bank to agree to and implement changes necessary in the governance structure and direct access modalities, as well as to fully cooperate in coordination and information sharing to better serve the Global Shield. The same standard should be applied to Global Shield funds administered by other entities.



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