EXPLAINER

Key Lessons for Addressing Unavoidable Impacts of Climate Change

Financial instruments that can better address slow-onset events, such as sea-level rise and droughts, need to be further developed as the potential costs are still largely unknown. Photo credit: ADB.

Countries need to build capacity and develop financial solutions for different climate risks, including those that can better address slow-onset events.

Published: 10 April 2018

Introduction

It is becoming increasingly clear that, no matter how successful we are in reducing greenhouse gas emissions, emissions from the past have committed us to a certain degree of climate warming and therefore there are unavoidable climate change impacts.

The Warsaw International Mechanism for Loss and Damage Associated with Climate Change Impacts was created to help climate vulnerable countries address adverse effects that cannot be prevented by mitigation and adaptation efforts.

The World Bank puts the global price tag of adapting to climate change at $70 billion to $100 billion annually by 2050. There are funding mechanisms in place, although insufficient, for adaptation and mitigation, but there is none for loss and damage associated with climate change impacts. Yet, some countries have developed financial instruments and have been successful in the use of these tools, but they may not work for all countries because of different capacities and national circumstances.

Capacity Building Is Critical

Part of the answer lies in capacity building. To design effective financial instruments, countries need to have a good understanding of the risks involved. They need to know what they are up against. It means they have to have access to weather data, the capacity to collect and process data so they can build risk models, and have the knowhow to choose the best financial instruments that fit their needs. In addition, some financial instruments, such as catastrophe bonds, require financial knowhow to operationalize.

Many developing countries just do not have such capacity. This is acknowledged by participants at the 2016 Forum of the UNFCCC's Standing Committee on Finance

Governments around the world agreed, through Article 11 of the Paris climate agreement, to enhance the capacity and ability of developing countries and those most vulnerable to climate change impacts to take effective action. This involves adaptation and mitigation actions; technology development, dissemination, and deployment; access to climate finance; education, training, and public awareness; and the transparent, timely, and accurate communication of information. Countries also agreed to cooperate in enhancing the capacity of developing countries to implement the climate agreement and for developed country members to enhance support for capacity-building actions in developing country members.

No Single Solution

There is no "one-size-fits-all" approach when it comes to financial instruments for addressing loss and damage associated with climate change impacts. Different climate hazards require different approaches.

Governments are better served by developing a package of financial instruments and solutions to address different climate risks. Risk transfer tools, such as insurance, may be complemented by risk retention tools (e.g. contingency finance) as some African countries have done under a regional facility called African Risk Capacity. Risk transfer schemes are more suited to address climate events with high impacts, but do not occur frequently, while risk retention tools are more appropriate for relatively low-impact but more frequent climate events.

Addressing Slow-Onset Events

Most of the financial instruments are more suitable for rapid-onset or extreme events, such as tropical cyclones, hurricanes, tornadoes, and thunderstorms. Governments need to develop financial instruments that can better address slow-onset events (e.g. droughts, sea-level rise, permafrost melt, and acidification).

The approaches to address slow-onset events need to be further developed, as the potential costs are still largely unknown. Existing approaches have so far involved a mix of risk reduction and climate change adaption measures. However, the magnitude of the challenge calls for a combination of institutional and governance approaches as well as management and financial tools.

Recognizing the considerable financial gap in climate financing worldwide, multilateral development banks have been stepping up financing for climate action. In 2016, the world's six largest multilateral development banks raised their climate financing in developing countries and emerging economies to $27.4 billion from $25 billion in 2015. Combined with funding from other investors, climate finance reached $65.3 billion in 2016.

This article is part of a series of explainers developed based on discussions and contributions at the 2016 Forum of the Standing Committee on Finance of the United Nations Framework Convention on Climate Change, which focused on financial instruments that address the risks of loss and damage associated with the adverse effects of climate change. The forum was held at the Asian Development Bank in Manila on 5–6 September 2016.

Resources

Asian Development Bank. 2017. *Climate Change Operational Framework 2017-2030—Enhanced Actions for Low Greenhouse Gas Emissions and Climate-Resilient Development.* Manila.

European Bank for Reconstruction and Development, et al. 2016. *Joint Report on Multilateral Development Banks' Climate Finance*. 2016.

UNFCCC. *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.* Bonn.

UNFCCC. 2016. *Report of the Standing Committee on Finance to the Conference of the Parties*. Bonn.

UNFCCC. 2015. *Adoption of the Paris Agreement.* Paris.

World Bank. 2010. *Economics of Adaptation to Climate Change Synthesis Report.* Washington D.C.

World Bank. 2016. *Climate Change Action Plan 2016–2020.* Washington, D.C.

Related Links

Explainer: *Understanding the Risks of Loss and Damage from Climate Change*

Explainer: *Understanding Different Approaches to Managing Climate Change Risks*

Explainer: *Ways to Pay for Climate-Related Loss and Damage*

Explainer: *Developing New Financing Tools for the Climate Vulnerable*

Explainer: *Catastrophe Bonds Explained*

Explainer: *What Countries Are Doing to Protect against Climate-Related Loss and Damage*

Explainer: *Mobilizing Contingency Funds for Climate-Related Disasters*

Xianfu Lu
Former Senior Climate Change Specialist, Sustainable Development and Climate Change Department, Asian Development Bank

Xianfu Lu was ADB’s focal point for climate change adaptation until April 2019. Prior to joining ADB, she worked at UNDP’s Global Environmental Facility Unit and at the Secretariat of the UN Framework Convention on Climate Change. Trained as an applied meteorologist, she spent the first 10 years of her career researching climate scenarios and their use in climate change impacts and vulnerability assessments in different parts of the world.

Rexel Abrigo
Former Climate Change Officer, Sustainable Development and Climate Change Department, Asian Development Bank

Rexel Abrigo supported key adaptation-related activities, including the implementation of ADB’s climate risk management framework. He was also part of the team that mainstreamed climate change adaptation in the project development process for South Asia, and implemented several capacity building activities there. He has a Master of Science degree on Environmental Science and Management.