



Market-based Mechanisms for Adaptation Action



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General setting



1. From 3 to 53 references in text
2. AOSIS proposal
3. MCII submission

Hyogo framework on disaster reduction – International Strategy for Disaster Reduction



Economic impacts of climate hazards

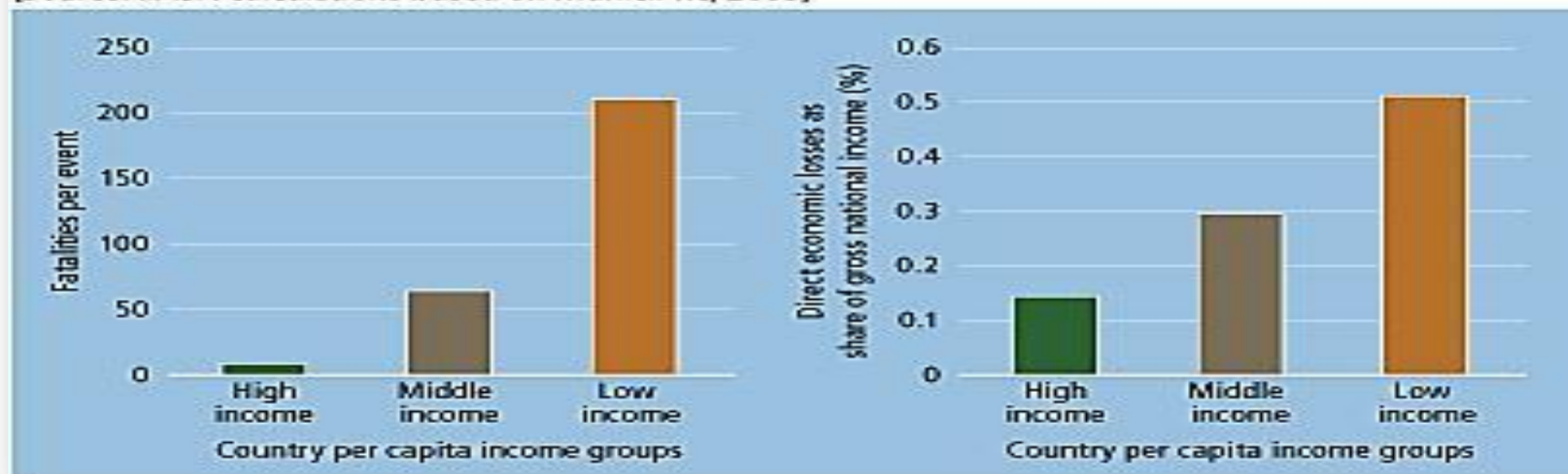
100 billion / year in the last decade

95% of death from natural disasters occur in developing countries

Without accounting for long term impacts

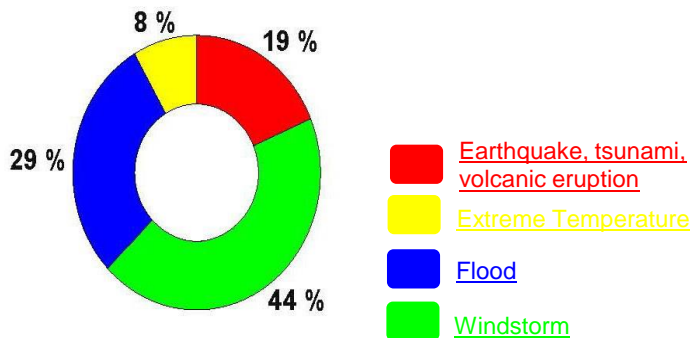
Figure 1

A disproportionate share of the human and economic burdens from natural disasters (1980–2004) falls on low-income and lower middle-income countries. (Source: IIASA calculations based on Munich Re, 2005)

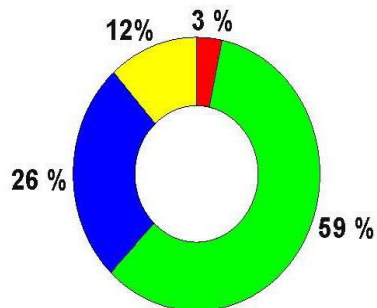


Natural Disasters by Event Type 2007

Overall losses* US\$ 83bn

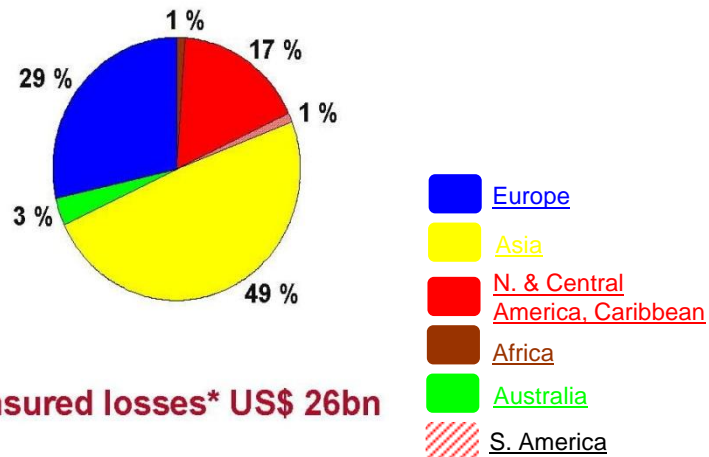


Insured losses* US\$ 26bn

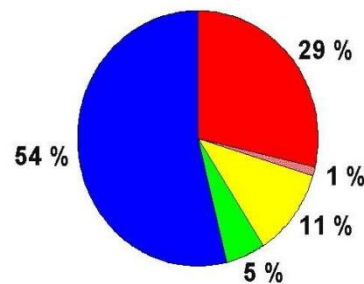


Natural Disasters by Continent 2007

Overall losses* US\$ 83bn



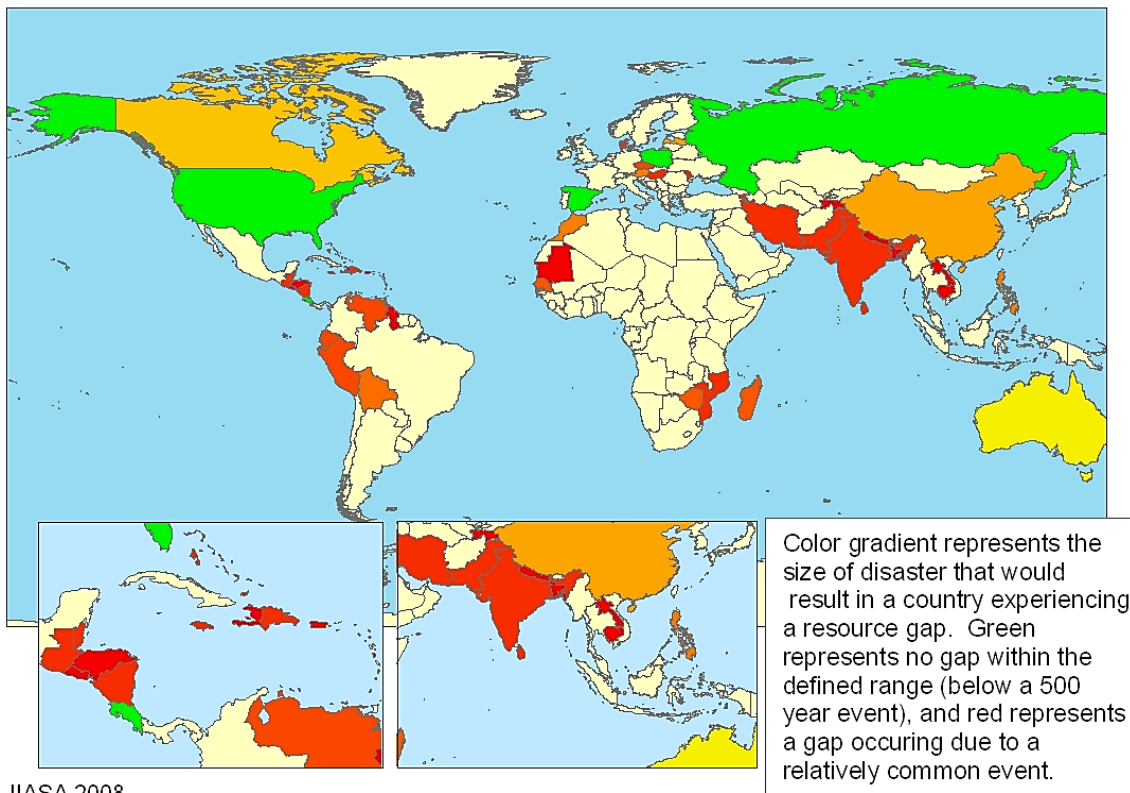
Insured losses* US\$ 26bn



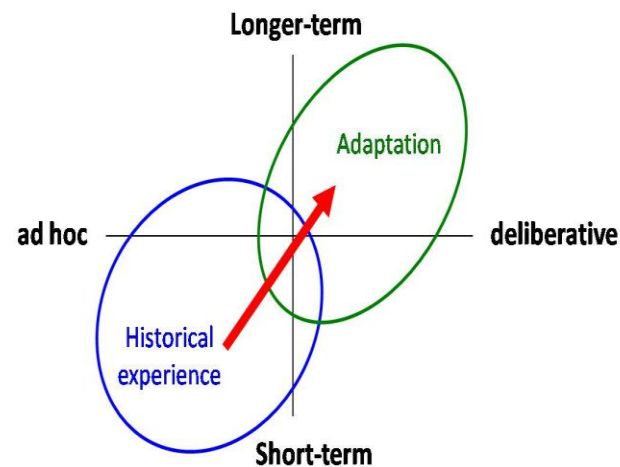
The situation today

5% bilateral and multilateral donor funds for pro-active disaster risk management

Resource Gap Estimation



IIASA 2008



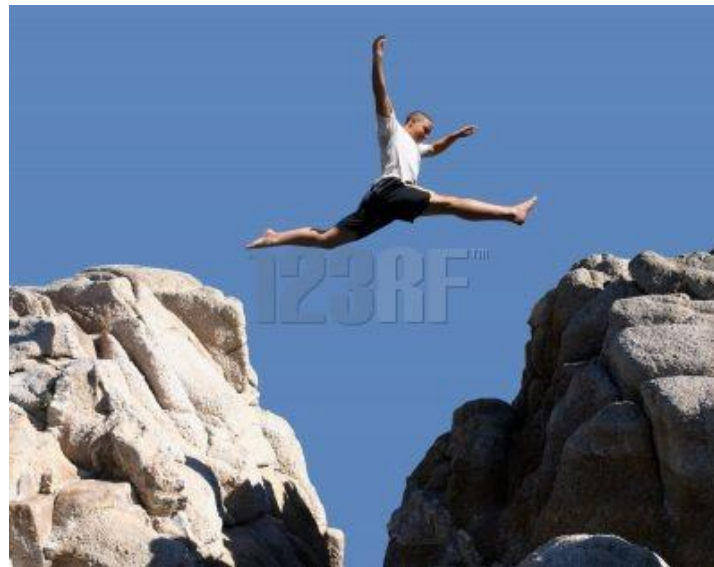
Estimated costs of adapting to climate change

Assessment by	Annual cost \$ bn	In
UNDP (2007)	86	2015
UNFCCC (2007)	28-67	2030
World Bank (2006)	9-41	2008
Oxfam (2007)	>50	2008
Stern Review (2006)	4-37	2008

- 20-40% of ODA and concessional finance are subject to CC risks;
- Cost of addressing this risk would be \$1-8billion/year

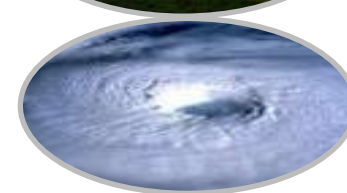
THE BIG QUESTIONS

- 1 – Is climate risk management sufficient to lead to adaptation?
- 2 – Will the market/private sector pay for adaptation?
- 3 – What is needed to secure market-based mechanisms for adaptation?



What is needed?

- ✓ Strong, stable, coherent and credible national policies - a pre-requisite
- ✓ Data ownership issues
- ✓ What risk-return characteristics are needed; is adaptation action bankable from a private sector perspective?
- ✓ Should public finance support the creation of enabling environments for investments or prioritize actions with immediate impacts?



Will the issue of burden sharing and compensation prevent international market-based mechanisms? Will national initiatives flourish instead?

Insurances as an example

Polluters pays principle – what actions can and should be insured? What sources of financing?

Does insurance displace existing social mechanisms?

What's in it for the industry? Who pays?

Index insurance – will it really reduce premium costs?

Dealing with basis risk – what role for remote sensing and spatially referenced information?

Will technology leapfrogging help reduce transaction costs?

Index insurance in focus

- Innovation in contract design
- How easy is it to identify and correlate indices?
- Does it really reduce transaction costs or only transfer them?
- Reduces potential for perverse incentives and strengthens expansion of credit?
- Contributes to better understanding of climate parameters?



What contributions of market based mechanisms?

Financial incentives to strengthen climate monitoring networks?

Risk costing encourages investments in risk reduction?

Provides additional flexibility for decision makers?

Transfer financial burden to end users and the market?

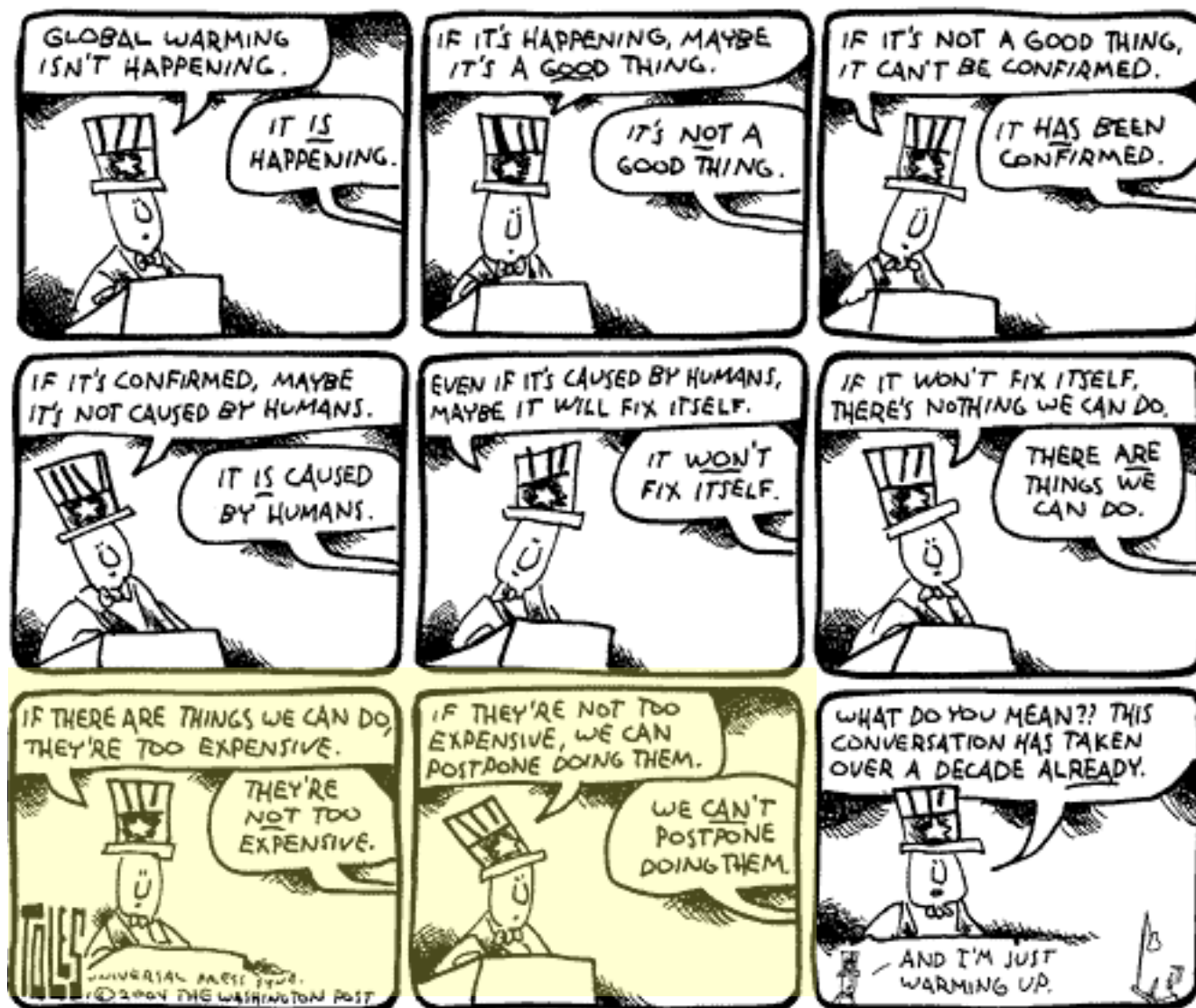
Allows a stronger predictability of financing?



- Combining **credit and insurance**?
- Let the market play?
Private sector will anyway **hedge** their risks?
- What **barriers**? Cultural, subsidies, technical
- Should the **public sector and ODA** invest in reducing the political risk?
- **Subsidies v/s market rules**?

What's the way forward?





1.2.04

Source: <http://globalwarming1.net>

Thank you!