

Submission for the Santiago Network

15.03.2022

This submission by MCII is prepared in response to the call for submission as part of 19/CMA.3 on views related to the Santiago Network (SNLD).¹ We see the operationalization of the SNLD as a chance to systematically strengthen national L&D leadership by learning from private sector practice. Thus, the submission starts with a greater vision on the enhanced role of national L&D focal points before detailing some of the specifics as requested by 19/CMA.3

Background: Mounting a Meaningful Response to the Climate Crisis

Loss and damage from climate impacts is a reality for hundreds of millions of people worldwide. After COP 26 in Glasgow, it is high time that the international community takes next steps towards supporting a response at a national and international level commensurate with the challenge. The full operationalization of the Santiago Network - in conjunction with other outputs around the Global Goal on Adaptation, a new climate finance goal, a meaningfully orchestrated and comprehensive Global Stocktake, and a substantive Glasgow Dialogue on Loss and Damage Finance - will constitute the foundation for successful COP 27 at the end of the year in Egypt.

While Parties made progress in defining the scope and functions of the Santiago Network during COP 26, the mandate is still general and broad. In discussions with MCII members and stakeholders, the realization rose that a successful Santiago Network will need to be purpose-driven and embedded within a broader vision towards transforming national and international systems to be equipped against the challenges of loss and damage, especially in providing protection to vulnerable populations.

Textbox: IPCC WG 2 Summary for Policymakers - Evidence for L&D Coordination Needs

The recent IPCC WG2 report shows clearly that losses and damages (L&D) are already a reality for many people, and will affect even more in the future. With the fast acceleration of climate impacts, we have now entered an 'age of consequences'. These are most severe for the most vulnerable people, which are most affected by L&D. Limited Adaptation Finance is a major obstacle at the national and international level and increases the risks of L&D - at the same time, there is no adequate financial, institutional or governance arrangement to deal with L&D.

Clear acceleration of the climate impacts – entering “the age of consequences”:

Climate change is already causing losses and damages and the most vulnerable are most affected

SPM.B.1 Human-induced climate change, including more frequent and intense extreme events, **has caused widespread adverse impacts and related losses and damages to nature and people**, beyond natural climate variability. Some development and adaptation efforts have reduced vulnerability. **Across sectors and regions, the most vulnerable people and systems are observed to be disproportionately affected.** The rise in weather and climate extremes has led to some irreversible impacts as natural and human systems are pushed beyond their ability to adapt (high confidence).

¹ MCII considers this an evolving topic and will add additional perspectives at a later stage as the deliberations under the UNFCCC become clearer.

Limited adaptation finance at national and international level

SPM.C.1.2 [...] Observed adaptation is unequally distributed across regions (high confidence), and **gaps are partially driven by widening disparities between the estimated costs of adaptation and documented finance allocated to adaptation** (high confidence). The largest adaptation gaps exist among lower income population groups (high confidence). [...]

SPM.C.3.2 Financial constraints are important determinants of soft limits to adaptation across sectors and all regions (high confidence). Although global tracked climate finance has shown an upward trend since AR5, **current global financial flows for adaptation, including from public and private finance sources, are insufficient for and constrain implementation of adaptation options especially in developing countries** (high confidence).

Lack of financial, governance and institutional arrangements to address L&D

SPM.C.3.5 [...] **Losses and damages are unequally distributed across systems, regions and sectors and are not comprehensively addressed by current financial, governance and institutional arrangements, particularly in vulnerable developing countries.** With increasing global warming, losses and damages increase and become increasingly difficult to avoid, while strongly concentrated among the poorest vulnerable populations. (high confidence)

Towards a Robust Management of Climate Risks at National Levels

The IPCC report confirms that there is a lack of adequate financial, governance and institutional arrangements to address loss and damage. At the national level, this shows in a functional fragmentation and diffusion of responsibilities. The subject requires engaging a spectrum of entities and decision domains covering climate risk analysis, climate and disaster risk finance and insurance products, linkages with response communities and risk reduction. Implicit and explicit climate liabilities (e.g. in the form of public infrastructure at risk, or vulnerable populations relying on governmental support in the event of disasters or impact) are not accounted for. They remain unconnected to respective risk management, impact contingency planning and are not backed up by appropriate financial instruments. Therefore, comprehensive oversight of climate risks is nearly impossible, and important information and momentum is lost along the way. Stakeholders interested in collaborating, e.g. from the insurance industry, cannot easily identify the person in charge and get discouraged.

As part of the UNFCCC process, countries are encouraged to nominate L&D focal points. Currently these focal points fulfill an outward-oriented connection function to the UNFCCC and streamline information flows towards the WIM. However, scaling a national response commensurate with the challenge will require an inward oriented strengthening of focal function. Capacitating such structures (e.g. in the form of strengthened focal points) can be one overarching function of the Santiago Network, which is also mandated by COP 26.² Meaningful structures and governance are also a prerequisite for the absorption of external climate funding if loss and damage marked climate finance becomes available.

² 2022 - 19/CMA3: Functions of the Santiago Network., 9. [...] (b) Catalyzing demand-driven technical assistance including of relevant organizations, and (e) Facilitating the development, provision and dissemination of, and access to, knowledge and information (for more information see textbox on page 7)

Learning from Private Sector Practice: Chief Risk Officer for Climate Risks and Impact Management

In implementing a new generation of risk and impact management at the country level, MCII in internal consultation and through engaging stakeholders, sees valuable lessons in the private sector that can inform public policy. After a number of high-profile company failures and the associated large losses in the 1990s, the corporate governance had to transform to reconsider risks material to business success in a more substantive way. A shift towards shareholder value models in strategic planning also enhanced risk management, since risks play a significant role in these approaches. As a result, companies created new risk leadership in appointing Chief Risk Officers as part of the board leadership and they implemented Enterprise Risk Management. This submission calls to learn from the private sector, and establish a Chief Risk Officer dealing with climate impacts at the national level, which will be a leader in (climate) risk management (further explanation in the text box below).

Text Box: Chief Risk Officer in the Private Sector

Definition: The CRO is responsible for risk policy, capital management, risk analytics and reporting. Also heads the risk management at the business units. - James Lam (first CRO)

The first CRO took up his work in 1993 and the role has become more widespread ever since, to a point that a management board without this position is difficult to imagine. The CRO sits in the management board alongside other chief department heads (CFO, CHRO, CIO, COO, CMO etc.) and advises the CEO. The CRO heads the implementation of a companywide Enterprise Risk Management (ERM) approach. Traditionally, risk was managed by each unit of a company, but this former approach impeded an independent oversight of all risks and their potential interaction and aggravation. New and emerging risks could also not fully be grasped.

The role of the CRO is to establish an information sharing culture within the company, and enable a bottom-up information flow, which he collects and assesses at the top. Based on this information, the board can discuss the risk appetite of the company and take contingent action for risks that are tolerated and risk reduction action on those that exceed the risk appetite. This holistic approach will lead to different outcomes than basing the action on the risk profile of singular units. The role of a CRO can be summarized as follows:

- **Establish Enterprise Risk Management** - since this is an ongoing process and often a novelty, it needs convincing and follow up to ensure it becomes a custom in the company
- **Risk and Impact Leader** - understands the multiple risks (e.g. credit risks, market risks, operational risk, reputational risk, economic capital, and risk transfer) that the company and its units face
- **Risk Reporter** - reports on those risk to the heads of other sections
- **Risk Communicator** - communicates risk in a comprehensive way to the understanding of different stakeholders
- **Allocating Economic Capital** - influences strategic and investment decisions based on his expert understanding of risk - this means exchange and solving of conflict with the CFO.

Chief Risk Officer in the Public Sector: Experiences from Cities

Risk management as a formal part of the decision-making processes within companies is traceable to the late 1940s and early 1950s. There were two earlier strands of risk management practice that have more recently been integrated under the broader concept of enterprise risk management. One of these strands relates to the management of insurance risks and financial risks.

City of Chicago: In 2019, the City of Chicago appointed its first ever Chief Risk Officer for the office of risk management to have a rigorous and robust risk management office to identify and mitigate potential threats to the economic viability of the city. The new Office of Risk Management will coordinate a citywide risk-reduction strategy, implementing initiatives to counter, lessen or remove risk from city policies, programs and operations.

City of Vancouver: In 2016, the City of Vancouver appointed the Chief Risk Officer to implement a comprehensive program of risk management overseeing hundreds of risks.

This submission suggests the adoption of the core ideas of this private sector approach into the public sector, with the necessary adjustments. Ideally, the CRO for Climate Risks and Impact Management is embedded in a broader management of public liabilities (which includes non-climate risks). This overarching risk management approach would mimic the enterprise risk management that spans across all areas of the government. In the context of the WIM and the Santiago Network, the submission will focus only on the CRO for Climate Risks and Impact Management. This person (and associated entity) would play the key climate risk management function within a government.

The CRO would ideally be situated within a ministry that can influence spending decisions (e.g. Ministry of Finance) which is mirroring the institutional closeness to the CEO and the ongoing exchange between the CRO and the Chief Financial Officer (CFO). According to the individual country setup, the CRO could either upgrade the position of the Loss and Damage focal points by substantially widening their mandates towards national risk leadership. If not possible, the CRO could complement the L&D focal points while remaining in close contact. Considering the benefits of a lean institutional setup, having the CRO and the L&D focal point in one single entity is desirable.

The CRO will establish a risk information culture and enable bottom up sharing of information, such as climate risk and vulnerability assessments of different sectors. Since the CRO will gain an overview over the existing studies, they can strategically fill the identified gaps by commissioning further analysis. As a second step, the information will be brought within the wider government to discuss risks that need to be accepted but need contingent management plans and finance. This links e.g. to sectors of disaster management, humanitarian assistance, early warning systems and CDRFI. On the other hand, some risks are not acceptable now or in the future and need to be avoided or reduced, which links to adaptation and resilience building. Another task of the CRO is to ensure a strong legislative foundation for holistic risk management, for instance by encouraging climate risk insurance as part of insurance regulation and supervision. Importantly, the CRO is not only responsible for risk planning and execution, but also for developing and implementing solutions to address material loss and damage impacts as they unfold.

The tasks of the CRO for Climate Risks and Impact Management can thus be summarized as follows:

- **Risk Policy Creation** – Manages development growth vis-à-vis risk exposures; creates Climate Disaster Finance Strategies and frameworks; ensures mainstreaming of relevant regulations.
- **Impact Leadership**: Developing and implementing solutions to address materialized L&D
- **Risk Analytics** – Promotes awareness about public contingent liabilities from climate risks, especially social liabilities towards protecting vulnerable populations.
- **Reporting and Communication to National and International Audiences** – this includes managing the overlap with Sendai Reporting.
- **Risk Finance Management** – Managed at national level - different streams of disaster funding, insurance and lending (commercial & concessional), act as points of contact for disaster finance providers, and engage in macro-economic frameworks and public capital management. The CRO would also coordinate respective L&D finance, if such a form of climate finance is established e.g. through an L&D Financing Facility.

Operationalizing the Santiago Network: Supporting the CRO through the SNLD

In order to establish itself and reach the full potential of this ambitious position, the national CRO will need capacitation and thematic support through the Santiago Network. The SNLD shall set up a pool of strategic tools and methods; and engage in targeted capacity building. This includes building up an expert roster, which will include a large range of actors, both on the national and international level. In-country, and managed by the CRO directly, the entity can collaborate with the private sector, CSOs, academia, local and regional governments and other actors. On the international level, the Santiago Network shall establish a helpdesk and a clearing house to connect experts and providers of technical assistance to those requiring assistance.

Some of the needs identified in a first scoping are directly related to its functions. Tools and technical assistance may be provided in the areas of:

- Risk assessment/management
- Tools to assess contingent climate liabilities
- Risk finance (including public insurance)
- Macro-economic stability
- Others (non-conclusive)

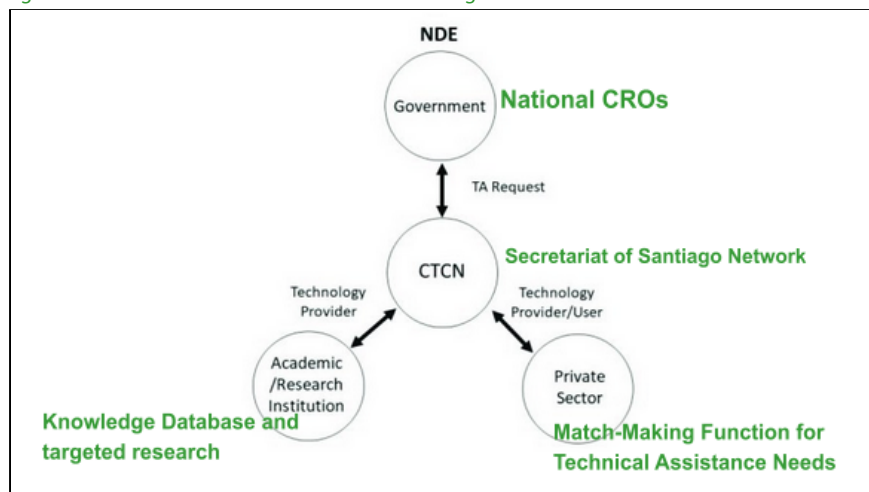
One additional element includes “how” risk and impact leadership is exercised at the national level. Such leadership needs to be inclusive and consider frontline community views. One technical assistance need might, therefore, be relevant tools and methods for community engagement and consultations.

CTCN - a Role Model for SNLD Operationalization

Overall, the SNLD would mirror some of the attributes, and work from the experiences of the Climate Technology Centre and Network (CTC-N), in that a central node (the secretariat) connects in-country demand with external technical assistance providers and resources. One difference is that currently CTC-N structure ties in to the Green Climate Fund and the Adaptation Fund, for example, in terms of readiness access and concrete proposal development. Based on GCF Board decisions such links to the

SNLD could also be established, if the SNLD structures yield bankable projects and improved project proposals.

Figure 1: Similarities between CTC-N and Santiago Network



Role of the WIM

The Warsaw International Mechanism, until now, consists of the ExCom and its working groups and task forces. These elements constitute the policy arm of the WIM, while the SNLD and the network of CROs present the technical or implementation arm of the WIM. Both policy and implementation arm are under the overarching governance of the UNFCCC COPs through the EXCOM of the WIM.

- **Connecting to Thematic Expert Groups:** To the highest extent possible, the thematic expert groups currently initiated under the EXCOM of the WIM should provide high-level input into broader technical assistance outputs that the Santiago Network provides.
- **Oversight and Governance:** The SNLD should be under the authority of the COP, with a more nuanced work plan and activity approval done through the EXCOM.
- **Champions & Ambassadors:** Individual members can serve as thematic champions and ambassadors for certain SNLD activities and workstreams.

Function of the Secretariat

The Secretariat enables a smooth functioning of the SNLD. The secretariat connects to the CROs and enables connection and exchange among them. It hosts the services required for capacitating the CROs, such as the international expert roster and the clearing house for tools and solutions. The secretariat will also engage and connect with other actors inside and outside of the UNFCCC and disseminate information on L&D.

If a suitable candidate can be identified within the UN system, this agency can host the secretariat (e.g. UNDRR, UNEP, UNOPS). If this is not the case, the secretariat function can also be outsourced to a service provider (e.g. from the private sector). An open bidding process based on ToRs would determine the best suited candidate. The tendering should be aligned with the 5 year WIM review, and could be redone at each renewal.

Textbox CMA Decisions - Evolution and Mandate of the Santiago Network

2019 - 2/CMA2

Establishes, as part of the Warsaw International Mechanism, the Santiago network for averting, minimizing and addressing loss and damage associated with the adverse effects of climate change, to catalyze the technical assistance of relevant organizations, bodies, networks and experts, for the implementation of relevant approaches at the local, national and regional level, in developing countries that are particularly vulnerable to the adverse effects of climate change

2020 – UNFCCC launches Santiago Network Portal

2022 - 19/CMA3: Functions of the Santiago Network

IM:9. Decides that the Santiago network is to have the following functions:

(a) Contributing to the effective implementation of the functions of the Warsaw International Mechanism, in line with the provisions in paragraph 7 of decision 2/CP.19 and Article 8 of the Paris Agreement, by catalyzing the technical assistance of organizations, bodies, networks and experts;

(b) Catalyzing demand-driven technical assistance including of relevant organizations, bodies, networks and experts, for the implementation of relevant approaches to averting, minimizing and addressing loss and damage in developing countries that are particularly vulnerable to the adverse effects of climate change by assisting in:

(i) Identifying, prioritizing and communicating technical assistance needs and priorities;

(ii) Identifying types of relevant technical assistance;

(iii) Actively connecting those seeking technical assistance with best suited organizations, bodies, networks and experts;

(iv) Accessing technical assistance available including from such organizations, bodies, networks and experts;

(c) Facilitating the consideration of a wide range of topics relevant to averting, minimizing and addressing loss and damage approaches, including but not limited to current and future impacts, priorities, and actions related to averting, minimizing, and addressing loss and damage pursuant to decisions 3/CP.18, and 2/CP.19, the areas referred to in Article 8, paragraph 4, of the Paris Agreement and the strategic workstreams of the five-year rolling work plan of the Executive Committee;

(d) Facilitating and catalyzing collaboration, coordination, coherence and synergies to accelerate action by organizations, bodies, networks and experts, across communities of practices, and for them to deliver effective and efficient technical assistance to developing countries;

(e) Facilitating the development, provision and dissemination of, and access to, knowledge and information on averting, minimizing and addressing loss and damage, including comprehensive risk management approaches, at the regional, national and local level;

(f) Facilitating, through catalyzing technical assistance, of organizations, bodies, networks and experts, access to action and support (finance, technology and capacity building) under and outside the Convention and the Paris Agreement, relevant to averting, minimizing and addressing loss and damage associated with the adverse effects of climate change, including urgent and timely responses to the impacts of climate change.