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MULTILATERALISM FOR CHRONIC RISKS

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UN75 Global Governance Innovation Perspectives

This series, inspired by the Working Group on Global Governance Innovation and Renewal meeting held on 15 December 2019 at the Doha Forum, seeks to highlight authors writing on topics that stimulate debate and influence: (1) the UN 75 Political Declaration, (2) the 21 September 2020 UN 75 Leaders Summit in New York and its follow-through, and (3) follow-up activities such as a proposed 2023 UN Conference on Multipolar Governance and Global Institutions, as recommended in the 2019 Doha Forum Report.* Views expressed here do not necessarily reflect those of The Stimson Center, its Board of Directors, or any of the partners who supported this project.

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*Doha Forum. “Reimagining Governance in a Multipolar World.” Report produced in partnership with The Stimson Center. 2019. Accessed June 3, 2020. https://dohaforum.org/docs/default-source/default-document-library/reimagining-governance_doha_forum-for-print.pdf



A subway rider wears a mask and gloves in an otherwise empty subway car during the Coronavirus (COVID-19) outbreak in New York City.
Credit: UN Photo/ Evan Schneider

Abstract

Multilateralism is not an end in itself. It is considered a more efficient and legitimate means towards enhanced human development. This premise is under threat when global cooperation has ebbed to new lows and human security and planetary boundaries are at risk. Nevertheless, we can still drive international cooperation on specific issues of common concern. The form and functions of the United Nations developed against the backdrop of two global conflicts. Now, the 75th anniversary of the United Nations gives us an opportunity to reorient multilateralism towards the most pressing challenges of our time. Today's most serious threats are no longer states or non-state terror groups. The gravest concerns are about tail-end risks, which have low probabilities of occurrence but can be catastrophic. With growing environmental and health stresses, such calamitous events are likely to happen more often and overlap with one another, potentially overwhelming the capacities of communities, governments, and international organizations. As new forms of international cooperation emerge, we must focus on chronic risks outcomes that all countries would want to avoid. We all have an interest in avoiding pandemics, climate change-induced extreme weather events, or a collapse in agricultural output. Renewed drive for collective action can come from the way we organize multilateral institutions to respond to shocks. Assessing the vulnerability and capacity of countries to deal with environmental stresses and shocks is crucial in this context. Hence, multilateralism for chronic risks should rest on two pillars: transparency and risk pooling. Towards that end, this brief recommends a Climate Risk Atlas for developing countries and a Global Risk Pooling Reserve Fund.

Pivoting global governance towards tackling chronic risks¹

Even before the COVID-19 pandemic hit, 2020 had already begun on uncertain terms. Australian forest fires were raging, burning through more than 180,000 square kilometers.² In February, maximum temperatures in Antarctica hit a record high of 18.3°C,³ signaling worsening climate change. Commodity prices were struggling. A slowing global economy had translated into lower demand—and depressed prices—for oil.

As the disease escalated, cities, countries and regions went into lockdown. Commodity prices have crashed, giving temporary relief to large importers exporting countries even more vulnerable than they were before. With borders closing and supply chains disrupted, strained flows of goods, services, and people are likely to worsen.

This is what a perfect storm of shocks looks like: a series of environmental, economic, and social crises have overwhelmed the capacity of states and communities to respond, adapt, and rejuvenate.⁴ The coronavirus did not trigger an economic crisis; instead, it tipped the scales when conditions were already vulnerable.

The world has turned on its head in many ways, particularly in terms of the applicable paradigms. Despite the end of the Cold War, our paradigms had not changed. Many foreign policy experts remain obsessed with “hard power”, making strategic calculations about military superiority and economic dominance. So-called “softer” issues, such as public health or environmental degradation were scoffed at as “low politics,” restricted to domestic policy.⁵ The biggest armies and the biggest economies could not protect us against a microscopic virus—a weak link undoing decades of progress.⁶

The 75th anniversary of the United Nations gives us an opportunity to reorient multilateralism towards the most pressing challenges rather than overhauling the entire global governance architecture. As new forms of international cooperation to emerge, this brief argues that we must focus on chronic risks that all countries would want to address. Multilateralism for chronic risks would rest on two pillars: transparency and risk pooling. Towards that end, this brief recommends a Climate Risk Atlas for developing countries and a Global Risk Pooling Reserve Fund.

Tipping points

Today’s biggest threats are no longer states nor non-state terrorist groups. The gravest concerns are about tail-end risks, i.e. risks with low probabilities of occurrence, but which can be catastrophic. The COVID-19 pandemic is one such risk, as are severe climate shocks. With growing environmental and health stresses, such calamitous events are likely to take place more often and overlap with one another, potentially overwhelming both international and individual state response capacities.

In 2008, the world faced parallel crises in global finance and in food supply. The former—a chronic problem—was thanks to financial mismanagement and not paying heed to risk indicators. The latter—an acute challenge—was due to rising fertilizer and energy costs, use of food grains to produce biofuels, and unfavorable weather conditions. Major rice exporters restricted exports. Food price shocks hit financially stressed countries in West Asia and North Africa, in part triggering the “Arab Spring.”⁷ We are again witnessing a combination of chronic and acute upheavals.

In climate science, scientists refer to “tipping points.” These are thresholds in Earth’s physical climate system and impacted ecosystems, which, when crossed, can trigger self-reinforcing feedback loops (e.g. the carbon cycle, planetary reflectivity, and global mean surface temperature) and set off tipping elements (e.g. melting of ice sheets and sea level rise). The World Meteorological Organization estimates that rise in surface temperature could be up to 1.65°C by 2030, in contrast to the aim to limit long-term temperature rise to 1.5°C under the Paris Agreement.⁸

Several additional stressors could compound persisting troubles for states, markets, and people. Water stress (which occurs when annual water supplies drop below 1,700 cubic meters per person per year) fuels tensions over transboundary water resources.⁹ Unseasonal rains or a poor monsoon would impact agricultural output, further depressing rural consumer spending. While low oil prices are a temporary boon for large importers like China and India, governments must decide whether to increase duties on petroleum products to shore up revenues or pass on lower prices

to boost demand. Meanwhile, extreme weather events have increased in frequency and intensity. During 1990-2018, of nearly 300 such extreme weather events in India, most occurred after 2005; flooding events have increased three-fold since 1980.¹⁰

Past shocks and the current pandemic underscore that tipping points need not be physical alone. It certainly matters what we do to the planet and what the planet does to us. What really matters most, however, is what people do to one other.

Governance gaps in environmental multilateralism

In such times of crisis, the value of multilateralism is questioned when countries impulsively turn inwards. Responses to the acute public health crisis also lend some insight into how the world might react to chronic challenges of non-linear climate risks.

Global environmental governance has witnessed a slew of international deals in recent years. These include, among others, the 2015 Paris Agreement on Climate Change, the 2016 Kigali Amendment to the Montreal Protocol to phase down hydrofluorocarbons (HFCs), the deal in 2016 on aviation emissions at the International Civil Aviation Organization, the 2018 amendments to the International Convention for the Prevention of Pollution from Ships (MARPOL), and the 2019 New Delhi Declaration under the UN Convention to Combat Desertification (UNCCD).

These moments of multilateral cooperation mask persisting gaps in global collective action to prevent continuing environmental damage and to build resilience against environmental risks. The risks of heat stress, water stress, losses in agricultural productivity, coastal degradation, and extreme weather events are greatest for the most vulnerable communities and the poorest countries. Years of economic development can be reversed by the perfect storm of environmental shocks.

Currently, multilateral environmental agreements (MEAs) lack effectiveness for several reasons: fragmented and diffused governance structures, MEAs without a clear hierarchical relationship between each other and with other key international legal instruments, missing coherence and coordination for functional division of tasks, and lack of transparency and accountability across institutions, both of which are essential to achieving institutional coherence in a world characterized by “regime complexity”.¹¹ Linking MEAs more clearly to the targets of the Sustainable Developments Goals (SDGs) as the overarching normative framework increases the chances of collaboration between MEAs and treaties outside the environmental domain while increasing chances of compliance and improved effectiveness of MEAs as well.¹²

Common aversions

In the aftermath of the pandemic, the core objectives of countries and companies will likely undergo major shifts. Hence, axioms of free trade, free movement of capital, or freedom of energy supplies will arguably be questioned against a cruder metric, i.e. “What’s in it for me?” The 1944 Bretton Woods conference arguably only succeeded because nations were economically dependent on the United States, whose individual state objectives aligned with global ones at the time: financial stability, freer trade, and global development. These conditions gave birth to post-war multilateralism. However, these conditions no longer seem to apply.

For the time being, the international community may have to settle for *de minimis* multilateralism: what is the minimum on which interests converge? In the post-pandemic era, multilateralism cannot be taken for granted. Many issues were already segregated by sector (energy, finance) or

geography (trade). There is now very limited scope for grand bargains. However, we can still drive international cooperation on specific issues of common concern.

We now have an opportunity to shift international conversations away from dilemmas of common interests and towards issues of common aversions. Common interests, such as trade, finance and technology, bring countries to the negotiating table. But states' concerns about relative gains and losses or about which states provide versus which ones engage in free-riding, often lead to inertia. A focus on common aversions—outcomes we all wish to avoid—changes the game to one of coordination as everyone must follow the same rules to avoid a car crash. We all have an interest in avoiding pandemics, extreme weather events, or a collapse in agricultural output. When international cooperation is ebbing, renewed drive for collective action can come from the way we organize multilateral institutions to act in the collective interest of responding to shocks, whether they be health-related, environmental, or financial. The G20 was forged in the financial crisis; it and other platforms must now act to prevent environmental crises of planetary scale and significance.

Climate Risk Atlas for developing countries

How should we assess vulnerability and capacity of countries to deal with environmental stresses and shocks? The first pillar is the principle of transparency. The COVID-19 pandemic underscores the need for information, crisis assessment, and transparency before, during, and after a shock. When such salient information is not available or not provided, the consequences are damaging and spill over into other geographies as well. For climate risks, the challenges are greater because the nature of the risks shift with time: the frequency and intensity of shocks rise with time, and the resilience of communities erodes with time (unless corrective measures are taken).

Bridging mitigation and adaptation, resilience is the ability of human and non-human systems to withstand and respond to climatic changes.¹³ Investments in resilient infrastructure, such as improved drainage and nature-based flood protection, are difficult because markets heavily discount preparing for the future. Resilience is contingent on land-use policies accounting for future risks rather than just current needs. Modularity in design can shorten the time horizon, allowing smaller investments today that reduce adaptation needs later.

Existing multilateral mechanisms do not cope well with non-linear climate risks. Loss and damage due to anthropogenic climate change are the flipside of resilience—and even harder to finance.¹⁴ From an equity perspective, moreover, risk and vulnerability are related but different. Most losses from natural disasters in developing countries remain uninsured. This disguises the damage, compared to if vulnerable communities had been covered. A range of risks could drive up insurance premiums globally, which would exclude the poor even further. Vulnerability is not just exposure to physical harm from climate stresses, but also the financial consequences of not having a safety net. However, vulnerability is not well measured.

A Climate Risk Atlas for Developing Countries should become a priority for multilateralism structured around chronic risks. Such an atlas would focus on critical vulnerabilities: coasts, urban heat stress, water stress, crop loss, and biodiversity collapse. In addition, an international *Climate Risk Index* should be developed (with annual updates and improvements in methods) that draws on the data first gathered under the Climate Risk Atlas. Currently, Germanwatch, an independent think-tank, produces such an index.¹⁵ The development of a risk atlas for poor countries could inform such an exercise by helping to formalize it under intergovernmental processes. The inputs to design such an atlas would come from the United Nations Framework Convention on Climate Change (UNFCCC), but also from the United Nations Convention on Biological Diversity (UNCBD), the United Nations Convention to Combat Desertification

(UNCCD), the United Nations (UNDP), and the United Nations Environment Programme (UNEP), among others, in order to ensure a functional division of labor that facilitates institutional coordination. Insurance companies must be involved in the process because investments in urban and coastal infrastructure would come to naught if insurance providers did not adequately prepare for more frequent extreme weather events.

This international exercise would feed into national and provincial processes to develop climate risk indices. These would enable provinces and national governments to update their action plans on climate change with a deeper understanding of climate risks. These would then be linked to disaster risk reduction plans under national and provincial disaster management authorities and, at an international level, with the Sendai Framework for Disaster Risk Reduction and the recently announced Coalition for Disaster Resilient Infrastructure.¹⁶

Global Risk Pooling Reserve Fund

Even with a better information base on chronic climate risks, the financial response will not be easy. Loss and damage is a very contentious topic in climate negotiations. Rich countries (historically the biggest polluters) do not want to bear liability or give compensation for damages caused to climate-vulnerable regions. In 2013, countries agreed to the Warsaw International Mechanism of Loss and Damage, which focusses on research and dialogue on addressing the harms caused by anthropogenic climate change. However, there has been no consensus so far on how it should be funded.

A key challenge is attributing specific events to climate change and determining the limits to resilience beyond which loss and damage is unavoidable. Charitable contributions (individual donations or from philanthropic foundations) do not account for slow onset of damages over time. Low-lying island countries, forced to buy land elsewhere to shift populations, have no recourse to financial mechanisms to cover for long-ensuing costs.

Facing rising, non-linear climate risks, insurance firms are struggling to calculate risks based on historical data. Globally, weather-related insurance losses have increased to U.S. \$55 billion annually (five times higher than the 1980s) with estimates of uninsured losses being twice as much.¹⁷ In 2015, Bank of England Governor, Mark Carney, argued that “the catastrophic norms of the future can be seen in the tail risks of today”.¹⁸ A series of simultaneous shocks—cyclones, landslides, drought, and crop losses—could overwhelm insurance firms. The Financial Stability Board identifies nine insurance firms as too big to fail even as individual firms resist such categorization.¹⁹ Yet Standard and Poor’s finds that the industry might be underestimating losses from extreme weather by 50 percent.²⁰

Beyond the risks to physical assets and human life, financial liabilities will also mount as firms are pressured to keep fossil fuel reserves “in the ground” rather than monetize them. Stranded assets could be worth tens of trillions of dollars over two decades. Liabilities are also arising from class action lawsuits against fossil fuel industries—more than 1000 have been filed in 25 countries. Some major insurance companies are planning to phase-out coal-related risks while others are demanding more disclosure from firms about climate liabilities.

How should the international community and the financial and insurance system respond? In order to be more inclusive of the risks facing the most vulnerable countries, the principle of risk pooling becomes an imperative. Again, as the COVID-19 pandemic demonstrates, even the wealthiest countries can find their financial resources stretched and their institutional capacities exhausted for shocks of a certain magnitude. To be sure, the challenge is not that countries are incapable of responding, but that when the same crisis is compressed into a shorter time frame,

physical and financial resources are stretched to their breaking points. What is needed, then, is a mechanism for countries at different levels of vulnerability to pool their risks to climate shocks in pursuit of averting common disaster.

A **Global Risk Pooling Reserve Fund** would partially overcome the challenge by pooling risks across countries. In contrast to the partial or entirely missing insurance safety net for many vulnerable communities, a global reserve fund would have three premises. First, different countries face different kinds of climate risks. In some places there could be coastal storm surges; in others there would be heat stress and drought. Elsewhere, communities might be more exposed to agricultural losses or new infectious diseases. By pooling risks, the peaks of risk curves could be lowered for individual countries.

Secondly, the reserve fund would not require initial payments of public money. The nominal capitalization of the reserve fund could be based on a voluntary allocation of a share of a country's Special Drawing Rights (SDRs) in the International Monetary Fund. There are already calls for more SDRs to be issued to deal with the liquidity crunch that developing countries are facing thanks to the pandemic.²¹ The reserve fund would be drawn on only when disasters above a certain threshold strike. The risks and the thresholds could be based on the abovementioned Climate Risk Atlas and related indices that have been proposed above. This way, a new financial mechanism could be created even during the post-pandemic recovery period without further straining government budgets.

Thirdly, the reserve fund would assume an initial loss but would transfer the bulk of the subscribed risk to existing market insurance mechanisms. The reserve fund would be a way to bridge major insurance firm on one hand and developing countries (as well as stressed communities in developed countries) on the other. This way underserved regions of the world would be drawn into a risk-resilience framework associated with chronic climate risks. This pass-through of the risk could also be to multilateral development banks (including the World Bank Group, European Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, etc.), and national development finance institutions (such as the Agence Française de Développement, KfW, Netherlands Development Finance Company, CDC Group, and Overseas Private Investment Corporation).²² These institutions could further leverage the reduced climate risk profile of countries in their investment portfolios in order to reduce the cost of finance for sustainable infrastructure projects, such as clean energy, electric mobility, and sustainable agriculture.

Conclusion

The 1945 San Francisco conference that established the United Nations took place even while the Second World War was still being fought in some theatres. We cannot wait for all crises to end in order to find new purpose for global collective action. We cannot navigate this post-pandemic world, let alone shape it, unless we are willing to shed old paradigms. The world has changed and with it our interests. So should our norms. Multilateralism is not an end in itself, but a potentially more efficient and legitimate means towards enhanced human development and security. “Planetary boundaries” are at risk of being transgressed, raising the specter of “unacceptable global environmental change.”²³ We must reorient multilateralism towards chronic risks to avoid the tragedies that might befall all of humankind. With the 75th anniversary of the UN around the corner, the time is now to enhance transparency and risk pooling in this global endeavor. The Global Risk Atlas for developing countries and a Global Risk Pooling Reserve Fund, recommended in this paper, can provide a crucial contribution to that aim.

Endnotes

1. This brief introduces original ideas but also draws on the author's ideas developed at the Council on Energy, Environment and Water (<https://ceew.in/>) and written submissions as a member of the UN Committee for Development Policy. The proposals presented here are the author's alone and do not necessarily convey the endorsement of these institutions. The author published some passages in this note as columns in the Business Standard. The author is grateful to Nandini Harihar for her research assistance.
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UN75 Global Governance Innovation Perspectives | June 2020

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