

»»» The climate crisis is now – Call for protection against climate risks

One Pager

No. 2, 03 May 2023

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The scientific evidence is crystal clear: global warming threatens life on this planet. As the heavy floods in Pakistan and the dire droughts in Eastern Africa in 2022 have demonstrated, climate-induced disasters occur more often and with an increased intensity. Almost half of the human population, 3.3-3.6 billion people, lives already in hotspots highly vulnerable to climate extremes. This will further accelerate and threaten welfare and food security. The paper aims to create a better understanding of climate risks and identify forward-looking disaster risk financing solutions that increase resilience.

Urgent, concerted action needed

The Intergovernmental Panel on Climate Change (IPCC) has recently called for a climate resilient development to protect vulnerable countries and people. Without a transformation of economic and financial systems and individual behavior, welfare will increasingly be at high risk.

With the climate heating up and threatening populations, urgent and concerted action is needed to sharply reduce CO₂ emissions and to mitigate the detrimental effects of climate-related disasters. The group of the most vulnerable countries (V20) has recently called for immediate crisis-level action not only to mitigate climate change, but also to create protection.

From awareness to action

To create climate protection, first climate-related risks need to be understood, including its implications in sectors, programmes and for specific investments. Based on this knowledge, adequate steps to address and minimize climate-related risks can be identified and taken, such as adaptation measures in construction and rehabilitation or

introducing climate smart approaches in agriculture.

Risks that cannot be mitigated through concrete adaptation measures, so-called *residual risks*, can be addressed by disaster risk financing instruments. These financial solutions provide money quickly when a climate shock occurs to speed up relief and reconstruction and to build back better.

How to create climate resilience?

- 1 Understand climate-related risks.
- 2 Identify and adopt measures to mitigate climate-related risks.
- 3 Address residual risks through climate risk financing solutions, such as insurance.

There is a whole spectrum of risk finance instruments that can be used to address residual risks, reaching from climate risk insurance, shock resilient loans, loans with pre-defined moratoria (pause clauses), or even bonds which trigger when a climate disaster hits.

To create holistic protection, a set of instruments and a risk-layered approach is usually taken to address different severity and frequency levels of risks. The right mix of instruments very much depends on the need and context of the risk taker, e.g. the country and the target group that needs protection.

Call for protection against risks

At the COP 27 climate conference the G7 have teamed up with the V20 and have launched the political initiative *Global Shield against Climate Risks* to bring more and better protection to the poor and vulnerable countries. Germany with the German Ministry for Economic Cooperation and Development (BMZ) has successfully led the Global Shield

initiative and has collected more than EUR 200 million seed funding to scale up climate risk protection. The initiative has received high attention also as one of the first initiatives contributing to Loss and Damage at COP 27.

The Shield initiative incorporates three financing vehicles to offer grants for climate risk analysis, capacity building, structuring and the design of climate risk financing solutions, as well as premium support and capital to create pre-arranged risk finance solutions. The recently created Global Shield Solutions Platform at the Frankfurt School, one of the vehicles under the Global Shield, offers technical and financial support to develop climate risk finance solutions for countries and development finance institutions to e.g. create climate resilient loan portfolios of their partner banks, of infrastructure projects, or shock-resilient social safety nets.

From solutions to resilient systems

In the past years, the development finance community has supported several flagships in building climate risk finance solutions and infrastructure, such as the awarded InsurTech *Global Parametrics* that is managing the *Natural Disaster Fund (NDF)*, the *InsuResilience Solutions Fund (ISF)*, and the development insurer *African Risk Capacity (ARC)*. These solutions have so far only been used in a fragmented way by development and humanitarian actors and countries highly exposed to climate risks. Now the time has come to get out of silos and fully utilize these providers and solutions and the financial support under the Global Shield in a systemic and coherent manner to deal with the increased levels of climate-related risks and protect the poor and vulnerable. ■