



A Global Shield against Climate Risks: Germany's G7 proposal for tackling climate-related losses and damages in developing countries



*Storm damage on the Caribbean island of Dominica after Hurricane Maria in September 2017
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BACKGROUND INFORMATION: IMPACTS OF THE CLIMATE CRISIS

The consequences of climate change can already be felt very clearly. Storms, droughts and floods are continuing to become more frequent and more intense, says the Intergovernmental Panel on Climate Change (IPCC) in its latest report. Such extreme weather events along with slow-onset negative impacts from climate change now pose a growing risk for the sustainable development of all countries, but particularly for the poorest and most vulnerable countries and communities. Despite climate action and investments in adaptation to climate change, there are still residual risks that can lead to **climate-related losses and damages**.

The countries of the Global South are the worst affected and they often do not have the resources needed to protect their citizens from the consequences of climate change. Those citizens must live with the risk of losing everything when disaster strikes – their homes, their fields, their businesses and even all their possessions. If these risks are not reduced to the minimum and the people affected do not quickly receive financial support when a disaster happens, then they find themselves forced, for example, to spend their savings on buying food and to sell their machinery or livestock, leaving them without a livelihood. When that happens, children are then often unable to stay in school, because their parents can no longer afford the school fees. This causes them to lose their prospects for a better life and for being able to earn a higher income.



*A farmer with her herd of goats in drought-affected northwestern Kenya
© Sophia Mbugua/IRIN via The New Humanitarian*



Meeting at the climate negotiations in Glasgow 2021
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CLIMATE NEGOTIATIONS ON “LOSS AND DAMAGE”

“Loss and Damage” is one of the topics being discussed in climate negotiations. The topic is very much tied up with the historical responsibility of the industrialised countries for causing climate change and with the associated question of climate justice. The negotiations are difficult, with the countries of the Global South and North taking opposing positions. This not only threatens to make it harder to contribute effective solutions for dealing with losses and damages, it also risks scuppering climate policy achievements in other important areas of international climate action.

Germany is very engaged in (further) developing support programmes for dealing with climate-related losses and damages, with a view to providing insurance against climate risks for as many poor and vulnerable people as possible. It is against this background that the G7, under Germany's Presidency in 2022, has actively engaged with the topic of losses and damages for the first time, recognising that vulnerable developing countries need more support for dealing with climate-related damage. With the negotiating process having become bogged down, Germany has **taken the first steps towards drafting a Global Shield against Climate Risks** during its G7 Presidency, with the aim of facilitating new, **constructive solutions for the benefit of the poorest and most vulnerable population groups**, a move which has been unanimously supported by the G7. The climate risk shield is to be officially launched at the

global climate conference in Egypt in November and it will then be expanded step by step.

FINANCIAL PROTECTION AND PREPAREDNESS PLANS CAN HELP

Financial protection against climate risks, so-called climate risk finance, is one way for payments to be made quickly to governments and also directly to poor and particularly vulnerable people when a disaster happens. This includes, for example, social protection systems, designated disaster reserves in public budgets, loans from multilateral development banks that are disbursed in an emergency, or government bonds for which repayment can be reduced or suspended in a disaster situation. Climate risk insurance is also suitable for insuring against occurrences that are rare and result in high levels of damage, not just for businesses or households, but also for states or for local authorities.

This way, governments are able to quickly restore the foundations for economic and social activities for the population, and do not have to wait for the arrival of humanitarian aid, which often comes through much later and is frequently not enough. Instead of having to ask for handouts, the victims of disasters – from governments to households – become claimants with a right to speedy disbursement of the funds they are claiming.



Women in Sofala Province, Mozambique
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The rapid liquidity that the instruments of climate risk finance provide can reduce the overall costs of a disaster, since the victims are able to get back on their feet again more quickly thanks to payments being made soon after the event, and do not end up sliding into poverty. This means that they are also more resilient if further climate disasters occur in the future. Farmers are quickly able to buy new seed after a drought or a flood, and the owners of small businesses can reopen faster. In addition, this financial protection is generally accompanied by **measures to prevent damages** and by **disaster planning arrangements**. As a result, **vulnerability to climate risks is reduced right from the outset**. Human suffering and economic losses are significantly reduced overall thanks to forward planning and preparedness.

Many affected people and countries are interested in effectively protecting themselves against disasters, instead of being confronted with almost unmanageable costs following a disaster. But **vulnerable, poorer population groups or countries in particular require advice and international support when it comes to designing the best disaster protection schemes** for their situation. It is cheaper overall to subsidise climate risk finance instruments than to head into the next disaster without any financial protection, relying on an already overstretched system of humanitarian assistance and running the risk of considerable follow-on costs. This is a way to get much stronger protection for each euro invested.



Workshop on climate risks in India © GIZ/Dirk Ostermeier

THE AIMS AND VISION OF THE GLOBAL SHIELD AGAINST CLIMATE RISKS

Under the German Presidency, the G7 have decided this year to work together on further developing existing approaches to climate risk finance so as to create a **Global Shield against Climate Risks**. The aim is for the shield to gather existing activities together under one roof, making them easier to access, and for it to support better coordination and the mobilisation of additional funding, with a view to reaching more poor and vulnerable people and countries, and providing them with better protection against climate risks. **Protection against climate risks is to become more systematic, coherent and sustained than the instruments currently available.**

The plan is that the shield will be a way for affected countries to develop a comprehensive system for climate risk management that is adapted to their needs. With that aim in mind, **comprehensive protection packages** will be put together. The respective governments are to work out these packages in collaborative dialogue with the organisations engaged in development cooperation and humanitarian assistance, the private sector and civil society.

The **dialogue** under the framework of the Global Shield will begin with a stocktaking process in the country concerned: What data and risk analyses are already available? What protection schemes are in place and which players are already active in the country? Which national strategies are relevant and which measures for risk reduction are already in place or being planned? Building on this stocktaking, the next step is to clarify what information is still needed and what risks are likely in the individual regions and economic sectors of the country.

Once all the necessary information has been gathered, a detailed risk analysis will be carried out – where will the biggest damage to the population and economic activity of a country occur if disaster hits, where will mostly poor and vulnerable people be affected, where are the biggest gaps in the

protective shield? This analysis will then be used to identify where adaptation measures and measures to protect against residual climate risks are most urgently needed. The outcomes from this process will then flow into a **financial protection strategy** that is specifically elaborated for each country. On the basis of this strategy and with a view to closing any gaps in existing financial protection solutions at the national and regional levels, **missing elements will be prepared and financed** via the Global Shield. The intention is to begin designing the first protection packages in selected partner countries during the course of the present year.

BUILDING ON THE INSUREILIENCE GLOBAL PARTNERSHIP

Since 2015, the German government has been working with the [InsuResilience Global Partnership](#) (IGP) to provide particularly vulnerable people with better protection against the negative impacts of climate change using the instruments of climate risk finance, including climate risk insurance.

The IGP is actively engaged in more than 100 countries, with 24 programmes and more than 300 projects currently in place. In 2021, 150 million people were already able to benefit from financial protection against climate risks. **This experience and the close partnership with the V20** (the Vulnerable Twenty Group) **within the framework of the IGP** is to be the **basis for the Global Shield**, thus quickly achieving additional protection. The ambition is to **gradually permanently close the gaps in protection for poor and vulnerable countries and people**.

THE EXAMPLE OF SIERRA LEONE: MAKING SOCIAL PROTECTION SYSTEMS RESILIENT TO DISASTERS

Sierra Leone is prone to natural disasters such as floods, landslides and droughts. Furthermore, the country is vulnerable to a large number of health-related shocks like epidemics. In 2017, the country was hit by one of the worst natural disasters in its history, when flooding caused a massive landslide, affecting more than 6,000 people. The disaster left more than 1,000 people dead or missing. The country experienced similar losses in 2014 following an outbreak of Ebola virus that resulted in more than 14,000 people infected and almost 4,000 deaths. In a country where more than half the population is living below the national poverty line, disasters mean costs that the public budget – which is under immense strain even in normal times – simply cannot cover. As a result, Sierra Leone is largely dependent on humanitarian assistance in order to finance the costs associated with these kinds of events.

The intention is that forward-looking planning and protection against disasters will provide a remedy for this problem. Against this background, the World Bank's Global Risk Financing Facility (GRiF), to which Germany is a major financial contributor, is supporting the expansion of the national social safety net in Sierra Leone. The new scheme, which builds on the existing system, will mean that the response to natural disasters and crises, including health emergencies, can be faster in the future. If a disaster occurs then either the sum paid out to the poor and vulnerable members of the population can be increased or the number of people receiving support can be increased. The intention is that these measures will increase the financial resilience of extremely poor households in Sierra Leone towards disaster shocks. The grant funding is supporting Sierra Leone's efforts to expand its protection system, and to plan more precisely which measures will come into play in an emergency.

THE EXAMPLE OF PAKISTAN: LIVESTOCK INSURANCE FOR SMALL FARMERS

Floods and droughts have become worse as a result of climate change, having serious impacts on agriculture in Pakistan in recent years. This is threatening to affect the earnings and thus the livelihoods of poorer women smallholders farming livestock in rural Pakistan.

The micro-finance organisation *Kashf Foundation*, which Germany is supporting under the IGP, is therefore offering women who are small farmers micro-loans that are tied to livestock insurance. This is a way to also counter the danger of over-indebtedness from taking out a micro-loan.

One woman who was a customer of the *Kashf Foundation* was able to buy a cow with her micro-loan. When her cow died during a period of drought, she immediately received a payment. She was thus able to replace the animal quickly and because she could carry on earning a living, she did not fall into a debt trap. Without the insurance she would have faced huge challenges in trying to feed her family.

Since 2018, more than 90,000 women in Pakistan have been able to get financial protection through climate risk insurance via the *Kashf Foundation*.



Smallholder farmer with a cow bought through a microcredit
© *Kashf Foundation*

THE EXAMPLE OF PERU: INSURING SCHOOLS

Peru is a country that faces many natural disasters like floods and heavy rainfall, and these weather events are becoming increasingly extreme due to climate change. In 2017, Peru was hit by especially heavy floods that destroyed the country's public infrastructure. The government did not have the funds to quickly start rebuilding. This meant that many schools had to close for several years and children were not able to take part in lessons.

In order to prevent this happening again in the future, in 2020, with the support of Germany, the Peruvian government established a national insurance programme under the framework of the InsuResilience Global Partnership, through which up to 45,000 schools are protected against damages from floods and earthquakes. After a disaster occurs, the swift and reliable payments from the insurance mean that the schools can quickly be rebuilt and normal school can be resumed. This is ensuring that up to 4.5 million children will continue to be educated, thereby having a considerable influence on the country's long-term development.

With this forward-looking insurance solution, the programme is making a major contribution towards strengthening Peru's climate resilience. The government can make risk-aware plans and the public budget is not burdened by unforeseen expenditure, which comes at the cost of investments in other areas. As a further part of the programme, the government is taking steps to improve the building standards in schools and make them less vulnerable to disasters in the long term.

THE EXAMPLE OF THE AFRICAN RISK CAPACITY: PROTECTING AFRICAN COUNTRIES AGAINST DROUGHT

African countries are threatened by extreme weather events that are set to become more frequent as a result of climate change. The African Risk Capacity (ARC), which is a public natural disaster insurance programme, was launched in 2013 as an initiative of the African Union, supported by Germany and the United Kingdom.

ARC offers African countries insurance against droughts and hurricanes that are a crucial factor in lost harvests. Financial protection against disasters is closely linked here to technical support for disaster risk management, with an early warning system and contingency plans. Countries that take out ARC insurance are required, for example, to have an emergency plan that has been determined in advance in cooperation with ARC. When disbursements are made, then the plans for emergency assistance drawn up before the drought or hurricane are promptly adapted to the situation on the ground, and in some countries they are directly linked to existing social protection systems. This makes it possible to provide assistance to those affected very quickly and effectively. On top of that, the ARC insurance is designed in such a way that it creates incentives for African countries to improve their resilience to natural disasters.

In June 2022, the governments of three African countries (Madagascar, Zambia and Malawi) received an ARC payment of more than 31.2 million US dollars after droughts and a hurricane. On the basis of the plans for emergency assistance that had been previously agreed, the people affected received swift support in the form of cash transfers, food vouchers and food. ARC was thus able to help prevent a humanitarian crisis in these three countries.

Following a drought, Côte d'Ivoire received a payment in 2021 that was organised on the basis of the previously agreed plans for emergency assistance and was quickly passed on to the affected population, including in the form of cash transfers. Small farmers, for example, were able to use the money they received to buy new seed. This meant that they were able to maintain their livelihoods.



Rapid government support after a natural disaster © Oxfam