

## A joint G7 and V20 ambition: Working towards a Global Shield against Climate Risks

- The urgent needs of vulnerable economies and people in the face of increasing climate risks need to be addressed.
- When a climate-related disaster strikes, we need to have better systems in place that provide immediate finance in the most efficient, effective and fast way for the most vulnerable. So far, financial protection is not systematic, coherent and sustained enough.
- The G7 in partnership with the Vulnerable Twenty Group (V20) of Finance Ministers from the most climate vulnerable countries want to help close the protection gap for poor and vulnerable people against climate-related losses and damages.
- The aim is a Global Shield against Climate Risks by providing and facilitating more and better pre-arranged protection against climate and disaster related risks.

### **The call by vulnerable countries within and outside UNFCCC for an adequate response to the climate crisis is loud and clear.**

In partnership with the V20, the G7 therefore committed to jointly work towards a Global Shield against Climate Risks. The Global Shield (GS) will start delivering soon and contribute to the international efforts to avert, minimise and address climate-related losses and damages.

The GS builds on recent years' substantial progress on enhancing financial protection against climate-related disaster risks for poor and vulnerable people and countries. Through the joint efforts under the V20/G20 InsuResilience Global Partnership (IGP), which builds on the G7 InsuResilience Initiative (Elmau 2015), 150

**Country example: Senegal** is heavily affected by recurring droughts. Complementary coverage<sup>1</sup> through sovereign insurance, corporate risk transfer and microinsurance helps responding to drought-related food crises. In 2020, the government received a payout of US\$ 12.5 million from the African Risk Capacity (ARC). The payout was complemented by support through the [Start Network](#) of additional US\$ 10.6 million. In 2021, more than 8 million vulnerable people in Senegal were insured against climate risks.

<sup>1</sup> Macro: African Risk Capacity and the ARC Replica Program, Meso: Natural Disasters Fund in collaboration with Vision Fund, Micro: InsuResilience Investment Fund and World Bank's Global Index Insurance Facility

million poor and vulnerable people benefited from climate and disaster risk finance and insurance (CDRFI) solutions in 2021 alone.

However, funding for disaster response and recovery is still mainly arranged ex-post. Thus, important time to save lives and livelihoods is lost and the cost of disasters and their impact increases. Moreover, climate-fuelled risk has driven up cost of capital and unsustainable debt levels across climate vulnerable economies, which has contributed to worsening financial protection gaps.

**We have to address climate impacts by swiftly redesigning existing structures to deliver for impacted vulnerable countries and people.** More and better CDRFI can lower the impact of disasters, make vulnerable countries' economies more resilient, and protect lives and livelihoods of poor and vulnerable people. This includes instruments which pre-arrange finance at the government level, providing quick and reliable funding when disasters happen, and instruments of financial protection for communities, businesses, and social protection schemes for households.

## Vision and Objectives of the Global Shield

The GS will **increase protection for poor and vulnerable people** by substantially enhancing pre-arranged finance, insurance and social protection mechanisms against disasters. Greater financial protection, and faster and more reliable disaster preparedness and response, will **help to cost-efficiently and effectively minimise and address losses and damages** exacerbated by climate change.

To achieve its objective, the GS will close urgent protection gaps in countries by designing, funding, and facilitating interventions. All interventions will be based on **national ownership**. The GS will ensure more systematic, coherent, and sustained financial protection through the following building blocks:

1. **Strengthened coordination** within the global CDRFI architecture **across G7, V20 and other climate vulnerable economies** to ensure coherence of different institutions' and donors' efforts at the global, regional and national level.
2. A **global, flexible, and collaborative financing structure** to mobilise and pool respective donor and other funds and enable a more systematic global approach to closing protection gaps.
3. **Sustained protection** in the face of increasing climate risks by scaling up existing successful CDRFI programmes and preparing country-specific, needs-based CDRFI support packages, including the scaling up of **smart premium and capital support** to address affordability barriers.

## How the Global Shield will work

1. **Countries will lead on identifying key protection gaps.** Starting with a systematic analysis of countries' protection gaps, the GS will facilitate instruments designed to provide rapid financial relief directly to households and businesses to respond to disaster-related losses, or instruments which pre-arrange finance for governments, humanitarian agencies, and non-governmental organisations for disaster preparedness and rapid response. This will also entail strengthening and building shock-responsive social protection systems and other delivery systems to ensure that pay-outs are spent on providing what affected individuals and communities need when they need it the most.
2. The GS provides **a set of adequate instruments and partners to close these gaps** in the most efficient and effective way. Depending on a country's readiness for these instruments, the GS will facilitate different types of support from various sources to help countries access the needed instruments sustainably. Technical assistance will be available to **support policy reforms, CDRFI strategies, strengthened regulatory frameworks, and capacity building.** Financial assistance will be available to build in-country systems like **adaptive social safety nets, capitalise risk carriers, and (co)finance insurance premiums.** In addition, the private sector will be mobilised to deliver risk analytics, design products and triggers, and underwrite respective risk transfer solutions.

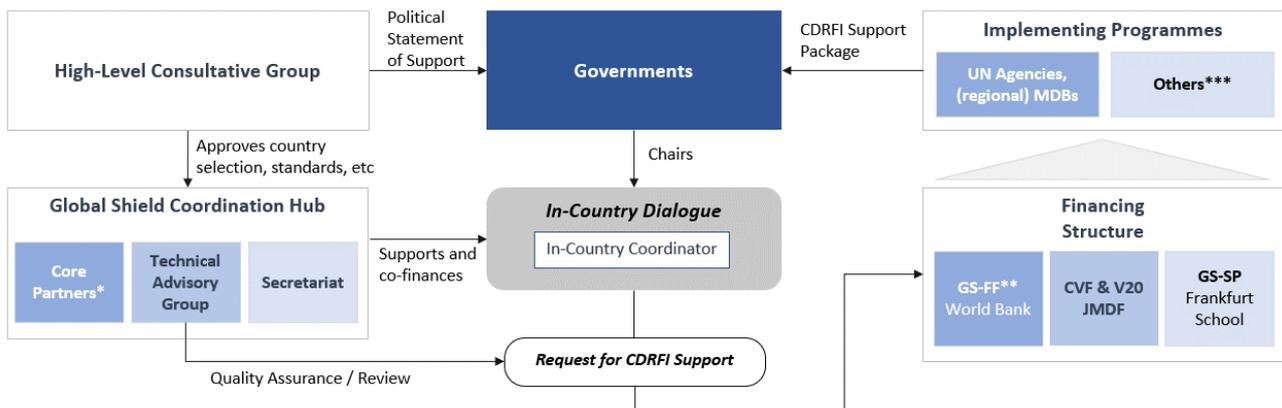
## Proposed Structure of the Global Shield

It is the explicit aim to minimize the creation of new institutions and to instead build as much as possible on existing structures. However, in order to deliver on the GS's objective in a timely, inclusive and efficient manner, existing structures and contributing partners will need to be reformed, endowed with broader mandates and include a wider range of stakeholders. The GS is proposed to consist of the following elements:

- i **Political guidance and oversight provided by the GS High-Level Consultative Group** (HLCG, based on the IGP HLCG). In addition to the current HLCG set-up, further donors of the Global Shield Financing Structure and additional vulnerable countries may join the HLCG.
- ii **Overarching technical work, global coordination** beyond country-specific dialogues **and preparation of decisions for the GS HLCG by the GS Coordination Hub.** The Coordination Hub consists of the reformed IGP Program Alliance (PA) and is

supported by the **GS Secretariat** (strengthened IGP Secretariat) and a **Technical Advisory Group (TAG)**. PA membership<sup>2</sup> will be expanded to become more inclusive.

- iii **Identifying country-specific CDRFI needs, gaps and options of interventions / instruments through inclusive in-country-dialogues under the leadership of host countries.** Country dialogues will aim at **crowding in and leveraging existing and additional CDRFI support** from a wide range of partners and identify remaining support gaps in view of arriving at **comprehensive country protection packages**.
- iv **Covering support gaps through additional GS-focused financing provided through a central GS Financing Structure with a single entry point encompassing three complementary vehicles: the Global Shield Solutions Platform (GS-SP) (building on the InsuResilience Solutions Fund and hosted by Frankfurt School), the reformed Global Shield Financing Facility (GS-FF, the reformed Global Risk Financing Facility (GRiF)) hosted by the World Bank, and the CVF & V20 Joint Multi-Donor Fund (V20 JMDF)<sup>3</sup>.** The three will **supplement existing CDRFI programmes and finance urgent protection gaps by channelling funding** to governments, implementing organisations, private sector, non-governmental organisations, and humanitarian agencies led by GS standards and decision making.



\* V20 Sec, BMZ, FCDO, ADB, Centre for Disaster Protection, KfW, UNDP, World Bank, IDP Sec

\*\* GS-FF can fund both World Bank-executed projects and external projects via transfer-outs

\*\*\* Private Sector, Risk Pools, IIF, NDF, GIZ, V20 SIF/UNEP FI PSI, V20 Loss and Damage Funding Program, Climate Prosperity Plans, bilateral G7 programs

Figure 1 **Global Shield - Proposed Structure**

<sup>2</sup> Current membership: BMZ, FCDO, Asian Development Bank: Asia-Pacific Climate Finance Fund (ACliFF), Centre for Disaster Protection, KfW Development Bank incl. InsuResilience Solutions Fund, UNDP Insurance & Risk Financing Facility (IRFF), World Bank Global Risk Financing Facility (GRiF) & Global Index Insurance Facility (GIIF)

<sup>3</sup> The V20 JMDF supports the V20 initiatives including the Loss and Damage Funding Program.

## Annex

### The Commitment of V20 and the G7

**V20 Communiqué:** “[...] Closing the financial protection gap through the creation of an adequately-resourced, centralized and coordinated G7 presidency-initiated Global Shield for financially protecting against climate-related losses and damages. The Global Shield as a centralized mechanism for adaptation and resilience can build domestic, regional and international markets in order to avert, minimize and address losses and damages is important to strive for. We will all be better off because we can build a market to handle these risks in a highly effective way and to encourage a system that delivers the objective of resilience to economies and climate justice to communities. [...]”<sup>4</sup>

**G7 Development Ministers’ Communiqué:** “[...] We are committed to working with partners outside the G7 to further strengthen the global CDRFI architecture so it becomes more systematic, coherent and sustained, and will work towards a Global Shield against Climate Risks. [...] We will work with the IGP to build a strong coordination mechanism for CDRFI and call upon the InsuResilience Solutions Fund and the WB Global Risk Financing Facility to contribute by identifying and covering protection gaps and supporting a wide range of partners.”<sup>5</sup>

**G7 Summit Communiqué:** „We recognise the urgent need for scaling-up action and support to avert, minimise, and address loss and damage particularly in vulnerable developing countries. We commit to scale up climate and disaster risk finance and insurance (CDRFI) and will work towards a Global Shield against Climate Risks, building on the InsuResilience Global Partnership and other initiatives. We ask our Development Ministers to make progress on the Global Shield by COP 27.”<sup>6</sup>

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<sup>4</sup> See [V20 Ministerial Dialogue VIII Communiqué](#), 21.04.2022

<sup>5</sup> See G7 Development Ministers Communiqué, 19.05.2022

<sup>6</sup> See G7 Leaders Summit Communiqué, 28.06.2022.