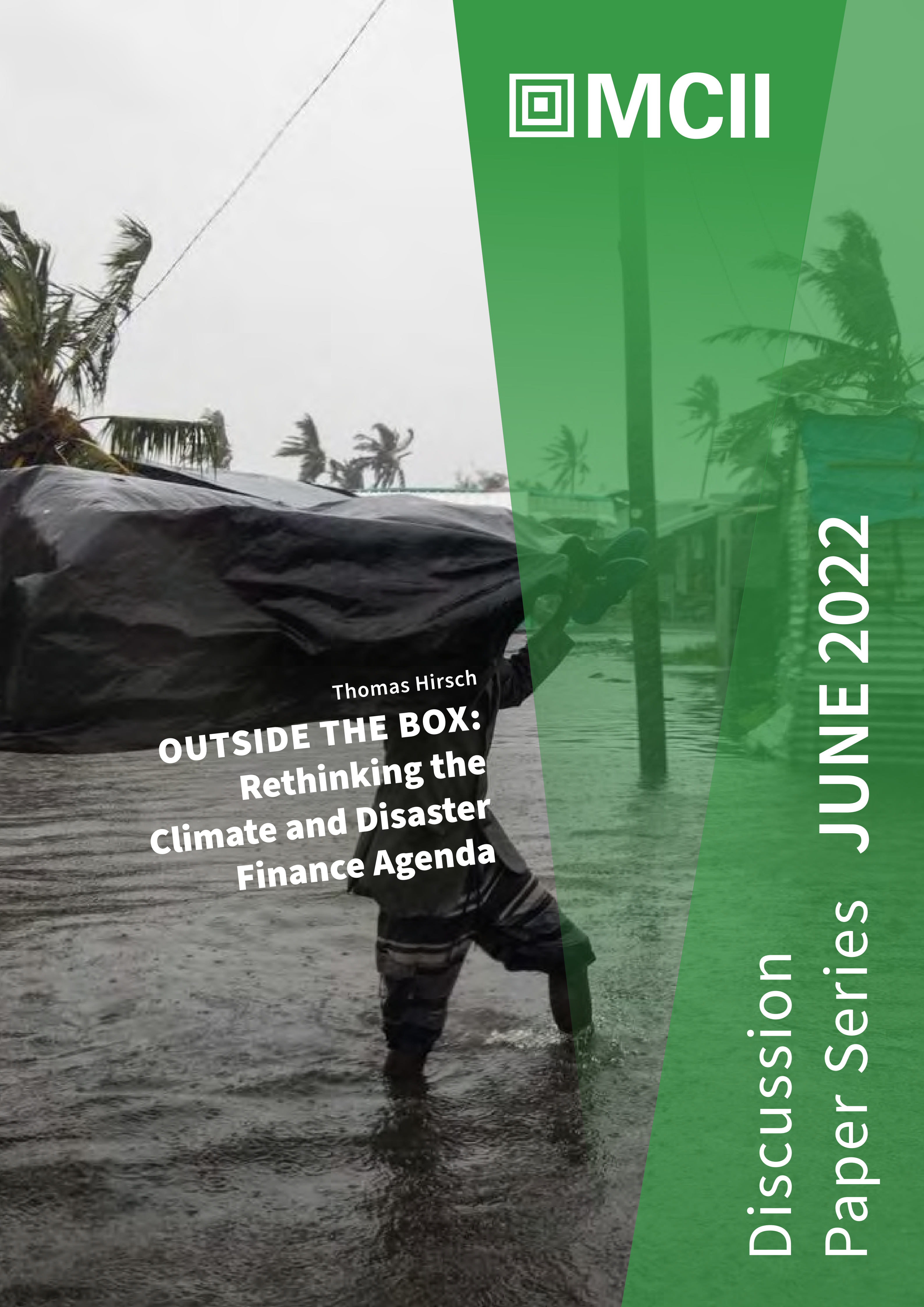

Thomas Hirsch

OUTSIDE THE BOX: Rethinking the Climate and Disaster Finance Agenda

Discussion Paper Series

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Outside the Box: Rethinking the Climate and Disaster Finance Agenda

A Discussion Paper

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Contents

Abbreviations

AOSIS	Association of Small Island States
AR6	6th Assessment Report of the IPCC (2021-2022)
BMZ	German Federal Ministry for Economic Cooperation and Development
CAN	Climate Action Network
CDRFI	Climate and Disaster Risk Finance and Insurance
COP	Conference of the Parties (to the UNFCCC)
CRD	Climate Resilient Development
CRDP	Climate Resilient Development Pathways
CSOs	Civil Society Organizations
CVF	Climate Vulnerable Forum (Association of 55 climate vulnerable countries)
DRM	Disaster Risk Management
EM-DAT	Emergency Event Database
GD	Glasgow Dialogue on Loss and Damage
GDP	Gross Domestic Product
GRiF	Global Risk Financing Facility
G7	Group of Seven
G20	Group of Twenty
G77	Group of Seventy-Seven
IGP	InsuResilience Global Partnership
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ISF	InsuResilience Solutions Fund
LDFF	Loss and Damage Finance Facility
NDC	Nationally Determined Contribution (the climate pledge of states)
ODA	Official Development Assistance
PCS	Premium and Capital Support (for climate risk insurance)
RST	Resilience and Sustainability Trust (of the IMF)
SDG	Sustainable Development Goals
SDRs	Special Drawing Rights (under the IMF)
SBI	Subsidiary Body for Implementation
SIDS	Small Island Developing States

SNLD	Santiago Network on Loss and Damage
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
UNDRR	United Nations Office for Disaster Risk Reduction (formerly UNISDR)
V20	Forum of Finance Ministers of the Climate Vulnerable Forum (CVF)
WIM	Warsaw International Mechanism for Loss and Damage

Glossary

Climate resilient development is a process of implementing mitigation and adaptation options to support sustainable development for all.

Climate resilient development pathways (CRDP) are trajectories for the pursuit of climate resilient development (CRD) and navigating its complexities. Systems transitions can enable CRD, when accompanied by appropriate enabling conditions and inclusive arenas of engagement. There is a rapidly narrowing window of opportunity to implement systems transitions needed to enable CRD.

Risk is defined in the 6th Assessment Report (AR6) of the Intergovernmental Panel on Climate Change (IPCC) as the potential for adverse consequences for human or ecological systems, recognizing the diversity of values and objectives associated with such systems. Relevant adverse consequences include those on lives, livelihoods, health and well-being, economic, social and cultural assets and investments, infrastructure, (ecosystem) services, ecosystems and species.

Key risk is defined as a potentially severe risk. Key risks are potentially severe because, while some could already be severe now, more typically they may become so over time due to changes in the nature of the associated climate-related hazards and/or of the exposure and/or vulnerability of society or ecosystems to those hazards. They also may become severe due to the adverse consequences of adaptation or mitigation responses to the risk.

Introduction

With USD 252 billion of reported economic damage caused by natural disasters, 2021 became the fourth most damaging year recorded over the last two decades (CRED, 2021). Hurricane Ida alone caused USD 65 billion in damages and ranks as the 6th most damaging natural disaster of the last 20 years.

The 432 natural disasters recorded by the Emergency Event Database (EM-DAT) for 2021, which accounted, apart from the economic damage, for 10,492 deaths and affected 101.8 million people, are just the tip of the iceberg, as far as the damage balance is concerned. In most developing countries, there are large gaps in the recording of damage, so the real economic losses are likely to be significantly higher, estimated at USD 280 billion annually, and expected to rise to USD 500 billion in 2030 in developing countries alone (Schaefer, L. et al, 2022). In addition, there are non-monetizable losses and indirect consequential economic costs. Overall, experts believe that the protection gap is still as high as 95% of losses and damages (Schaefer, L. 2022).

The recently published IPCC Sixth Assessment Report Climate Change 2022: Impacts, Adaptation and Vulnerability (IPCC, 2022a) warns urgently that the risks of climate change continue to increase, but that despite growing knowledge of impact chains, we are making little progress in climate adaptation and risk management. If the widening protection gap is not narrowed down soon, we will soon run up against the hard limits of human and ecosystem adaptation in many areas.

This discussion paper highlights opportunities in 2022 in the various policy forums of international climate, development, and humanitarian policy, to narrow the protection gap through Climate and Disaster Risk Finance and Insurance (CDRFI). The paper offers an overall view of the discourse landscape and is aimed primarily at those political and civil society actors who have so far been familiar with only parts of the debate (e.g. the negotiations on loss and damage in the United Nations Framework Convention on Climate Change (UNFCCC) process) and are interested in identifying possible synergies with other parts.

The paper is based on an analysis of the literature and a series of expert interviews[1], which provide information on the current status of the most important political processes both within and outside the UNFCCC process and their potential this year. The focus is on how the increasingly urgent protection

[1] A total of 16 experts were interviewed between April 11 and May 23, 2022.

needs of the most vulnerable countries and populations can be addressed as quickly and effectively as possible. Therefore, an overview of the most important results of the 6th Assessment Report of the IPCC on climate impacts is at the beginning. The discussion paper concludes with a summary and recommendations on how best to use the scope in the different policy processes and mobilize synergy potentials between them.

Key Takeaways of the IPCC AR 6th on Climate Change Impacts, Adaptation and Vulnerability

Eight years after the IPCC 5th Assessment Report (AR5) on Impacts, Adaptation & Vulnerability, its update was published in February 2022. It reflects the massive growth of the body of scientific knowledge during the last years, and that research on climate impacts and resilience is becoming increasingly systemic, transformative and transdisciplinary. The identification of more than 130 *key risks* and their drivers, as well as the description of *climate-resilient development pathways* and their conditions, illustrate a great leap forward. The interrelationships between climate impacts and sustainable development are discussed in great detail. Intensive reference is made to the achievability of the Sustainable Development Goals (SDGs) in a climate constrained world. Following on from this, fundamental questions of climate justice and the connections between growing social inequality and climate impacts and their management are examined in depth. The report also stresses that we are still making little progress in climate adaptation and that the climate resilience gap is growing.

Consequently, the IPCC (2022a) devotes more attention than in any previous report to the issue of loss and damage that occur when adaptation limits are exceeded. It shows how evidence has increased that extreme weather events such as tropical cyclones, droughts, and floods have not only caused substantial direct economic losses, but have also reduced economic growth in the short-term as well as the long-term. The most severe impacts occur in developing countries, where there are indications that climate change has had an impact on economic development on an aggregated national level with a tendency towards increasing inequality. It cites new studies attributing observed damages in coastal human systems to rising sea levels and increased rainfall intensity associated with cyclones (IPCC, 2022b).

As with regard to future climate change impacts, IPCC predicts that they are very likely to worsen poverty and exacerbate inequalities within and between nations with projections that by 2030 these will increase significantly; that climate change impacts carry the risk of amplifying or aggravating existing tensions between communities or countries; and that one population of concern, especially vulnerable to climate change impacts with limited capacity to adapt, are those displaced and resettled in the course of conflict or disaster, either internally or across borders. They will likely require interventions to safely maintain residence in areas exposed to climate hazards. Adaptation planning and climate disaster risk management should consider these groups and how to improve their capacities to deal with the consequences of climate change in an already destabilized context.

The IPCC identified over 130 key risks across regions and sectors, i.e. climate-related risks that are potentially severe. They are clustered and represented by eight so called *Representative Key Risks*, related to low-lying coastal systems; terrestrial and ocean ecosystems; critical physical infrastructure, networks and services; living standards; human health; food security; water security; and peace and migration. Severe outcomes in each of them were assessed along four criteria: magnitude of impacts, likelihood of adverse impacts, timing of impacts and ability to respond to impacts. Consequences arising from the Representative Key Risks directly impact on specific indicators of the SDGs. To assess these impacts, it may be useful to consider specific climate change impact indicators and metrics for monitoring, and to design targeted adaptation and climate risk management measures.

The IPCC highlights that small islands are particularly affected by the growing impacts of cyclones, storm surges, droughts, changing precipitation patterns, sea-level rise, and others. These impacts affect ecosystem services, settlements and infrastructure, health, water and food security, and economies and culture. Projected climate change will lead to severe cascading impacts, especially through coastal flooding, unless adaptive measures are successful. Therefore, the vulnerability of islanders is projected to amplify, resulting in impacts upon settlements and infrastructure, food and water security, health, economies, culture, and potentially migration. Vulnerable communities in small islands, especially those depending on marine resources or with limited financial resources, may exceed hard limits to adaptation soon. This makes them, according to the IPCC, a priority group for support, including in terms of CDRFI: Small islands are highly dependent on international financing to address slow and rapid onset events but face severe challenging in accessing finance.

The IPCC identified several enablers that can be used to build resilience, however noting that solutions are often context dependent. Enablers include, inter alia, better governance and legal reforms;

improving justice, equity and gender considerations; building capacity; increased finance and risk transfer mechanisms; education and awareness; increased access to climate information; and embedding Indigenous and local knowledge into decision-making.

The IPCC found that the overall extent of adaptation-related responses in human systems is low, still dominated by minor modifications to usual practices, with socio-economic constraints such as financial, governance, institutional and policy constraints being the most significant determinants of soft limits to adaptation. While reported public and private financing of adaptation has increased, the adaptation finance gap between estimated costs and finance has widened. Finance for adaptation has remained small relative to mitigation, at 4-8% of total tracked climate finance since 2014.

The IPCC considers climate risk management as crucial for climate resilient development: Most of the factors needed are understood, but action at scale is lagging the rate of climate change and associated impacts. Early warning systems, the risk-sensitive 'climatization' of social safety nets and risk transfer solutions, especially insurance, are stressed as important risk management elements.

Urgency about the need to adapt to climate risks is an important driver of decision making, according to the IPCC. Nationally Determined Contributions (NDC) are another important driver, with cascading effects on sectors and sub-national action, especially in developing countries. In this regard, climate services have become an increasingly important enabler for climate risk management provided they are reliable, relevant, and usable. While climate services have expanded since 2013, they often do not reach the most vulnerable, maintaining or exacerbating inequality.

Accordingly, the IPCC pays special attention to procedural justice (e.g., through participation of vulnerable communities or multiple stakeholders) and distributive justice in adaptation prioritization, planning, and implementation to achieve positive outcomes for the most vulnerable.

The IPCC closes by stressing that climate-resilient development is potentially possible with different climate futures and pathways, but that increasing levels of warming narrow the options and choices available. Therefore, societal choices in the near-term future will determine future pathways.

The Climate and Disaster Risk Finance and Insurance Architecture, and how it Addresses Key Challenges in Vulnerable Countries and Communities

Climate hazards cause humanitarian and development risks as discussed above. To address them, risk assessment, mitigation and management are required (BMU 2022a). Climate and disaster risk finance and insurance (CDRFI) provides the financial resources to do so.

Climate and disaster risk finance consists of ex-ante- and ex-post-disaster risk financing, both being provided by national and international sources, as well as risk transfer to third parties, as shown in the table.

Table 1: Climate and disaster risk financing and insurance (CDRFI) instruments[2]

	Ex-ante-disaster risk financing	*Ex-post-disaster risk financing*	*Financing resilience building through adaptation*
National sources	*Calamity fund / Disaster reserve fund* *Budget contingency*	*Budget reallocation* *Tax increase* *Domestic credit*	*Budget lines* *National funds* *Domestic credit*
International sources	*Contingent debt facility*	*Donor assistance* *External credits & bonds*	*Bilateral donor assistance* *Multilateral climate funds* *External credits/(green) bonds*
Risk transfer to third parties	*Climate risk insurance* *Sovereign (regional) climate risk pools* *Catastrophe (CAT) bonds*		

In response to steeply rising climate risks, the CDRFI landscape has significantly grown in recent years in terms of both diversity of instruments and financial volume. Still, important challenges to effectively reduce and address climate risks in vulnerable countries and communities remain, as discussed in the previous chapter showing that the protection gap is widening instead of shrinking. Key CDRFI-related challenges, that need to be addressed with urgency, are the following:

CDRFI financing gap: Severe underfunding of CDRFI, and the fact that adaptation needs exceed climate finance provided for it by several times, contribute to growing loss and damage. Group of 7 (G7) members and other major emitters need to walk the talk and ramp up climate finance, as they have

[2] An introduction into the CDRFI landscape for development and humanitarian practitioners can be found here: https://reliefweb.int/report/world/climate-risk-insurance-and-risk-financing-context-climate-justice-manual-development

repeatedly committed to do. The rapid increase of the so far very low loss ratio of just 5% in developing countries would be a CDRFI success indicator.

CDRFI anticipatory action gap: It is essential for the affected people that climate and disaster risk finance is provided much more rapidly and reliably when a disaster strikes. Quicker disbursements require more anticipatory action and pre-arranged financial support packages.

CDRFI gap in commonly applied consistent pro-poor principles: Access, affordability and impact in terms of higher resilience for the most vulnerable people are key CDRFI success criteria. Participatory and inclusive action along the entire chain from needs and risk assessments over solution design to the implementation of disaster risk management are pivotal. While in some areas corresponding principles have already been established and their implementation is taking place, for example in the form of cost coverage for hedging instruments for particularly vulnerable groups, this is not yet the case for other CDRFI instruments. There is a need for harmonization at the highest possible level.

CDRFI coherence gap: The CDRFI landscape is too fragmented and lacks coordination. There is an array of instruments and a wide range of actors which do not collaborate and coordinate action sufficiently. A coherent overall strategy is hardly visible in any country, which undermines the efficiency, effectiveness and sustainability of the measures taken. Multilaterally, there is a lack of linkage between negotiations on financially addressing loss and damage in the context of implementing the Paris Agreement under the UNFCCC umbrella and efforts to strengthen CDRFI outside the UNFCCC context.

CDRFI ownership and subsidiarity gap: The application of the principle of subsidiarity to the assessment of needs and the development of rights-based risk management solutions create ownership and impact. Vulnerable countries and civil society should be supported to develop own CDRFI solutions, local insurance markets and climate resilient economic policies.

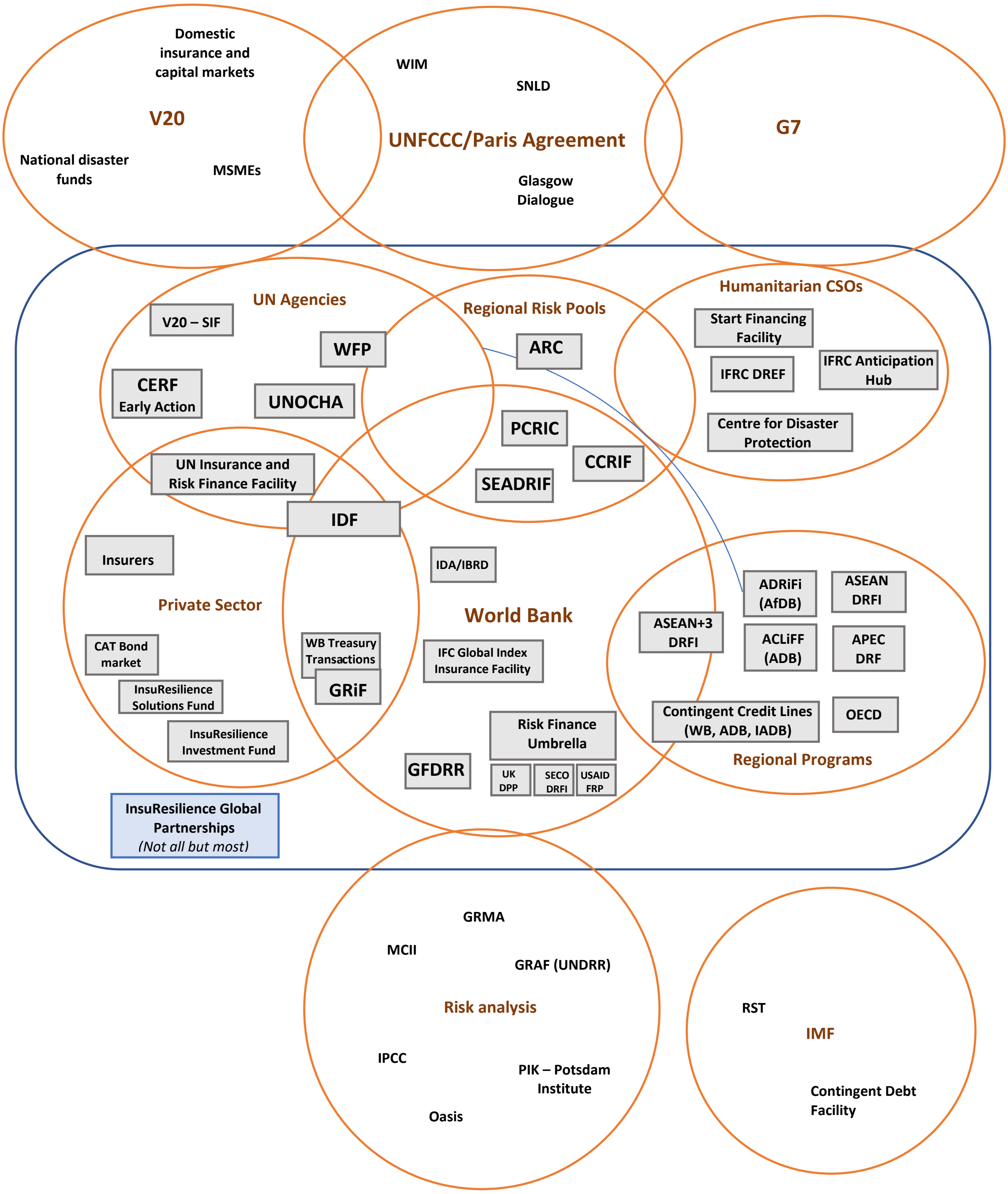
CDRFI protection gap against non-economic losses and losses resulting from slow onset events: The existing CDRFI has huge blind spots vis-à-vis these losses, which are significant and increasing, and against which there must also be protection.

Dangerous debt risks for climate vulnerable countries: The multiple climate-, debt-, pandemic- and geopolitical crises[3] pose an enormous risk of economic decline, social division and political instability

[3] An introduction to the nexus between climate risks, foreign debt and the economic impact of the pandemic can be found here: https://www.brot-fuer-die-welt.de/fileadmin/mediapool/downloads/fachpublikationen/analyse/Analyse_102_English.pdf

for vulnerable countries and populations. A new level of international solidarity, support and cooperation is urgently needed. Providing this requires political vision and common leadership, especially from the G7, but also the Group of 20 (G20) countries.

Figure 1: A growing but fragmented CDRFI landscape



The CDRFI Agenda in 2022 and Entry Points for Narrowing Protection Gaps

Addressing and narrowing the gaps identified in the previous chapter need to be in the engagement focus in 2022. The Bonn Climate Change Conference (SB 56) (June 6-16), the G7 Summit (June 26–28), the 13th Petersberg Climate Dialogue (July 18–20), Conference of the Parties (COP) 27 in Sharm el-Sheikh (7-18 November), and the G20 Summit (November 15-16) provide opportunities therefor. The lack of financing at scale, adequate coverage of all relevant risks, comprehensive risk financing strategies, the fragmented CDRFI architecture, and big gaps in demand-driven, human rights-based CDRFI implementation are the main topics that should be addressed (MCII, 2022a). MCII calls on the G7, as group of historic major emitters and leading industrialized countries, to commit to developing, jointly with vulnerable countries, a system of global protection. This should provide financial and other support for comprehensive, poverty-oriented, rights based and gender-responsive solutions for managing climate risks, and address impacts from rapid-onset events and slow-onset processes (Ibid).

Along these lines, the relevant policy forums, entry points for engagement, and possible deliverables will be briefly introduced and discussed in the following sub-chapters. The size of the climate threats requires urgent, massive, collaborative and coordinated action of multiple stakeholders. Therefore, it would be completely contradictory to narrow down the focus on only one policy forum, as for instance the UNFCCC climate negotiations. All actors, but especially vulnerable countries and civil society organizations (CSOs), would do well to understand how fatal it would be to rely on just one approach or policy forum to approach climate-related loss and damage: A variety of complementary, well-coordinated strategies is imperative. Silos must be torn down. Donor countries and organizations must work much better together in the future instead of profiling against each other. Industrialized countries must be ready to discuss financial solutions to address loss and damage across all of the forums presented below and abandon the strict separation of discourses inside and outside the UNFCCC.

Finally, the governments and communities of vulnerable countries need to be included much better in decision making, also paying due attention to the smallest of them, in order to achieve good results. They are the major risk managers at the frontline of climate change. Building on their knowledge and supporting them financially and technically to build their domestic and regional protection shield bottom up is efficient and effective to avert, minimize and address loss and damage.

Kick-Starting the Glasgow Dialogue on Loss and Damage, and the Establishment of a Loss and Damage Finance Facility in the Run-up and during COP27

While the damage caused by climate change is increasing year by year, the UNFCCC negotiations on addressing it are not making any headway. There is increasing resentment among the victims and a growing impression that the polluters are trying to avoid responsibility. This increases the general distrust in the already difficult and politically very sensitive climate negotiations. However, the year 2022 could bring movement, not least because in some countries that have so far tended to block progress in negotiations, such as the USA, Germany and Australia, a slow rethinking seems to have begun thanks to new governments. With the 'Glasgow Dialogue' (on financing options to address loss and damage) agreed at COP26 in Glasgow and the Group of 77 (G77) proposal on the table to establish a 'Loss and Damage Finance Facility' (LDFF), there is new momentum to actually move from talk to action (Sharma-Khushal et al, 2022). The IPCC's warning that the hard limits to adaptation will soon be reached or have already been reached, combined with the prospect of rapidly increasing and regionally as well as sector-wise expanding residual risks of unchecked climate change, should also contribute to a reassessment of the urgency and relevance of multilateral solutions, as otherwise there is a threat of unforeseeable collateral damage.

Currently, there are three (partly interrelated) avenues to advance the debate on climate finance for addressing loss and damage, and ultimately mobilize funds for it.

Santiago Network of the Warsaw International Mechanism for Loss and Damage (SNLD): The SNLD was established at COP25 in Madrid (2019) as a key outcome of the review of the Warsaw International Mechanism for Loss and Damage (WIM) with a view to catalyze technical support for averting, minimizing and addressing loss and damage in developing countries (UNFCCC, 2022a). Currently, the institutional arrangements of the SNLD are being discussed. Controversial are, inter alia, the form and composition of the advisory body (under the Executive Committee of the WIM or as a separate body on equal footing, as preferred by African and LDC countries) and the housing of the SNLD Secretariat (at a UN organization like United Nations Environment Program (UNEP) or the United Nations Office for Disaster Risk Reduction (UNDRR), or at a (regional) organization with more Global South ownership).[4]

[4] For further information see UNFCCC (2022b) Hybrid Technical workshop on the institutional arrangements of the Santiago Network of the Warsaw International Mechanism for Loss and Damage in Copenhagen, Denmark.

When asked for their views on the operationalization of the SNLD, several observers, including MCII, and 15 Parties[5] filed their submissions, revealing that the SNLD is expected by a number of countries across regions to provide both finance for technical assistance, as well as technical support to access finance for addressing loss and damage. Although the SNLD is unlikely to play a major role to mobilize funding, at least some financial resources will probably be made available or accessible for technical assistance, pilot projects and capacity building on Loss and Damage in developing countries.

Glasgow Dialogue on Loss and Damage (GD): The GD was agreed at COP27 as a platform for discussing the arrangements for funding to avert, minimize and address Loss and Damage amongst Parties and relevant organizations and stakeholders.[6] The Subsidiary Body for Implementation (SBI) was tasked to organize a dialogue to take place during SB56, SB58 and SB60 (mid-year UNFCCC sessions in 2022, 2023 and 2024), together with the WIM Executive Committee. While a clear mandate is lacking, G77 and the Association of Small Island States (AOSIS) expressed their strong views at COP26 that the GD was expected by them to result in a decision to establish a Loss and Damage Financing Facility, preferably at COP27 in 2022. Unfortunately, by the end of May 2022, no roadmap or even details how to proceed with the topic at SB56 in June 2022 were announced by the SBI chair. Civil society should support vulnerable countries in calling for a clarification of expectations and a robust roadmap, leading to the establishment of a LDFF. Both, U.K. as the outgoing and Egypt as the incoming COP Chair should be pushed to provide guidance for achieving a meaningful outcome of the process, including a stock-take of interim results, agreement on a roadmap with timelines and milestones, and agreement on envisaged outcomes, all to be achieved no later than at COP27. Furthermore, the Petersberg Climate Dialogue as the only Ministerial before COP27 should be used for a deep dive on financial arrangements to address loss and damage, i.e. an exchange of views, needs and expectations among participants. To make such a deep dive meaningful, selected Parties, including from G77 and AOSIS, should be invited well beforehand to give keynote speeches on the topic.

Loss and Damage Finance Facility: The request of the G77+China, among others, to adopt a Loss and Damage Finance Facility at COP26 in Glasgow was rejected by the industrialized countries, much to their annoyance. Instead, the GD was set up first. However, this does not mean that the proposal is off the table. On the contrary, it is likely that it will be reintroduced at COP27, albeit perhaps in a modified form. Opinions differ as to whether it is realistic to establish an LDFF within the next 1-2 years. While some

[5] Australia, Antigua and Barbuda, Bangladesh, Canada, Chile, Ecuador, EU, Indonesia, Kenya, Norway, Senegal, Uganda, U.S., Vanuatu and Zambia.
[6] For a critical analysis see Schalatek and Roberts (2021).

argue that the WIM and the SNLD were also adopted relatively quickly in principle (at the COPs in Doha and Madrid) due to high political pressure, and that it then took some time to shape the two institutions, others consider it realistic to adopt an LDFF at the end of the GD at the earliest. How a LDFF could look like in terms of both form and function is shown in a recently published discussion paper of Climate Action Network (CAN) International and partners, serving as a source of inspiration (Sharma-Khushal, 2022). Hopefully, this discussion paper will stimulate a deeper dive, and more such papers of like-minded Parties, especially vulnerable developing countries, pointing out what they need and what their expectations are vis-a-vis a LDFF, in order to address residual risks. The current lack of concretization for what exactly financial support is needed for, and how an LDFF could effectively address these needs, is probably one of the reasons why it does not feature prominently in the debate. It is important to create momentum for this debate now. If this is not achieved, and if insufficient political capital is deployed by the vulnerable states, it is to be feared that the Egyptian COP Presidency will not give the issue much space in favor of a strong focus on climate adaptation and resilience. A minimum requirement would be to achieve a ministerial on the interim results of the GD and on the LDFF.

For industrialized countries, on the other hand, it is now high time to constructively engage in a debate on an LDFF. Otherwise, there is a risk of a further loss of confidence and a widening of the protection gap with enormously destabilizing effects for the countries concerned, which no one can have any interest in. Listening to developing countries, understanding their needs and expectations, is a first step to take. A good talk, however, is no substitute for delivery of finance as the ultimate benchmark of success.

According to the principle '*never put all of your eggs in one basket*', civil society and vulnerable countries should combine their continuous engagement for the delivery of climate finance for addressing Loss and Damage inside the UNFCCC climate negotiations with complementary efforts to advance financial support provided by other CDRFI segments, processes and forums, e.g. regarding the InsuResilience Global Partnership (IGP), the Resilience and Sustainability Trust (RST) of the International Monetary Fund (IMF), the Global Platform for Disaster Risk Reduction and the agendas of G7 and G20. Not only are these of equal importance in terms of the potential outcome of narrowing the protection gap against residual risks, but it is also important to ensure that synergies are used, coherence is ensured with regard to the principles (including pro-poor) and implementation is well coordinated and carried out at the highest 'warp speed'. Failing that, climate change will expose billions of people to unacceptable risks.

InsuResilience Global Partnership

The InsuResilience Global Partnership (IGP) was launched in 2017 and brings together multiple stakeholders such as governments, international organizations, private sector, civil society and academia (InsuResilience Secretariat, 2018). It aims at strengthening resilience of developing countries and protecting the lives and livelihoods of vulnerable people through enabling more timely and reliable post-disaster response, and to better prepare for climate and disaster risk using climate and disaster risk finance and insurance solutions, increasing local adaptive capacity, and strengthening local resilience (UNFCCC, 2022c). In 2021, IGP counted 150 million beneficiaries being protected by either direct (50 million) or indirect (80 million) climate risk insurance schemes. Even though a great deal has already been achieved, there is still a long way to go to reach the ambitious 2025 targets: protection against climate and disaster shocks for 500 million poor and vulnerable people, with 15% of climate and disaster losses faced by vulnerable populations absorbed by pre-arranged CDRFI solutions (InsuResilience Secretariat, 2021).

CDRFI access and affordability for these populations have been a key issue of concern since the very beginning of the IGP. Meanwhile, the IGP adopted an approach of premium and capital support for climate risk insurance, to maximize its effectiveness in improving access and affordability of poor and vulnerable populations. This approach is laid down in the *SMART Premium and Capital Support (PCS) Principles* aiming to provide sustainable impact for the most vulnerable, maximizing the value for money, granting accessibility to CDRFI instruments, and transparency and consistency – as shown in Table 2 (Toepper and Stadtmueller, 2021). In 2022, these principles were adopted by the G7 Development Ministers. This is expected to improve donor cooperation, which has been lacking so far, as well as the replenishment of the Global Risk Financing Facility (GriF) and the InsuResilience Solutions Fund (ISF) so that they can provide sufficient premium and capital support according to the needs of the target groups and countries.

Table 2: Smart Premium and Capital Support

	MACRO LEVEL	MICRO/MESO LEVEL
SUSTAINABLE IMPACT FOR THE MOST VULNERABLE	Poor countries with weak fiscal positions. Gross Domestic Product (GDP) per capita suggested as indicator for need to provide premium support. Climate vulnerability: Taking a multi-hazard approach extended beyond climate-related risks and including natural hazards. PCS should be accompanied by a strategy for medium term coverage of market-based premiums. For countries in fiscal distress or in the very low-income segment, long term support is likely to be required. Where capital support to macro-level risk carriers is deemed appropriate, repayable capital forms should be the default mode and, where possible, in the form of equity rather than debt – with no fixed repayment date.	PCS to build or enhance insurance markets by eliminating market failures and economic efficiencies such as externalities. Improving equity of coverage with provision of better insurance to excluded groups. Premium support should be targeted to lower income households. PCS to be phased out when market inefficiencies are overcome. Equity and inclusiveness of insurance coverage to remain as long as individuals need it.
VALUE FOR MONEY	How much PCS should be provided? Expected impact on the poor and vulnerable as key criteria. Relative performance of premium vs. capital support in financial terms and/or attracting private capital. Concessionality and type of financing: Promoting integrated risk management, a comparison of the cost-effectiveness of resilience benefits and costs of CDRFI instruments with risk reduction/adaptation measures to precede PCS provision.	Value for Money model to consider: Indirect resilience benefits from market-building potential. It can be cost-effective to address inefficiencies in insurance markets. PCS should be provided based on needs, adjusted to the local context and embedded into holistic risk management and resilience-building strategies. Elasticity of demand for insurance.
ACCESSIBILITY	Enabling environment with proactive disaster risk management (DRM) is a pre-condition. PCS to be provided to countries with strong political commitment PCS levels should be needs-based and hence be set at a least "at the minimum level to make a project viable" The suggested size of PCS programmes is as follows: $P_e = t_n * \frac{\textbf{expected contingent government liabilities from disasters}}{\textbf{total government budget}}$ $\textbf{where } P_e + P_p = P_a \textbf{ and } P_a = 1$ Where Pe is the externally supported premium share, Pp is the remaining premium share payable by the policyholder (country), and Pa is the full, actuarially priced premium charged by the risk carrier. t is a scaling factor that could decrease or increase annually (year n).	PCS to be employed to enable people and businesses to receive the insurance cover they need. The demand side of PCS to flexibly ensure financial and non-financial accessibility. The supply-side of PCS to facilitate the access to micro- and meso-level insurers.
RESILIENCE-BUILDING INCENTIVES	PCS should incentivize countries to pre-arrange funding for disasters in an integrated way, avoiding threats of maladaptation and "moral hazard" PCS should not favor risk transfer solutions over the reduction of risks. PCS provision should be linked to the building of "minimal DRM requirements" to stimulate a risk-reducing behavior. Risk transfer only for residual risks.	Where feasible PCS ought to be targeted – particularly premium support. PCS to prevent rent-seeking and undue private market rents Risk transfer only for residual risks.
TRANSPARENCY & CONSISTENCY	Transparency towards PCS recipients and among providers of support. Transparent M&E and public project documentation. Transparent money-out systems.	PCS initiatives to transparently communicate multi-year support conditions, timeframes, and phase-out plans. PCS initiatives must comply with competition regulation and not favor single market actors over competitors.

Source of information: Toepper and Stadtmueller (2021)

With the partial or complete coverage of insurance costs, an essential prerequisite is met to insure poor and vulnerable population groups against climate-related loss. Civil society actors in particular have been pointing this out since the beginning of the IGP. It is welcomed that the IGP has now adopted this position, moving away from considering subsidies for insurance costs only as a market introduction measure. It seems to be also clear for key actors that PCS cannot be phased out very soon, at least for the poorest target groups, and as long as adaptation measures do not enhance resilience significantly.

There are other topics that deserve particular attention to achieve the IGP vision. Still, climate risk insurance remains a concept that is little known in many countries and among IGP's key target groups. Enhancing understanding, raising capacity and building trust in insurance-based solutions is very much needed. Furthermore, the CDRFI landscape with climate risk insurance as an element among others remains very fragmented in most countries. Narrowing the protection gap will require systematic mapping and modelling of all climate risks, development of an integrated protection approach that takes into account adaptation, insurance, and other risk financing solutions, and pooling of financial and technical support from donor agencies. Testing such a comprehensive strategy in selected countries would be an innovative next step in line with the IPCC's call for a systemic and transformative approach to climate adaptation and risk prevention in order to arrive at climate resilient development pathways. The *Global Protection Shield* envisaged by Germany during its G7 presidency could provide the necessary financial resources for this purpose. The Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum (V20) would be an appropriate partner to develop and implement such an approach in partnership and in full consideration of the de-risking development needs of vulnerable countries.

Civil society, especially those being firmly rooted at national and local levels in target countries are another indispensable partner. They can greatly contribute to create access, trust and common ownership for insurance solutions at community levels, apart from being the voice to ensure that in order for insurance solutions to be beneficial for the vulnerable, they need to be conceptualized and implemented in a consistently pro-poor way. So far, civil society has done a good job but can even do better by setting the IGP agenda.

Finally, IGP can make a greater contribution to the UNFCCC debate on loss and damage by discussing more systematically and, above all, more proactively the role that CDRFI elements used by IGP can play in addressing loss and damage, but also where the limitations lie, especially of insurance solutions. COP 27 will become a resilience COP and is therefore, the place for this discussion.

Resilience and Sustainability Trust (RST) of the International Monetary Fund (IMF)

Increasing adaptive capacity as well as taking further action to reduce emissions requires much more financial resources than can be mobilized in the UNFCCC process in the foreseeable future. One fast-acting measure would be to mobilize USD 500 billion in Special Drawing Rights (SDRs) from the International Monetary Fund for the next 20 years, as suggested by Barbados on behalf of Small Island Developing States (SIDS) at COP26 in Glasgow in 2021. SDRs are international reserve assets, created by the IMF in 1969, to supplement its member countries' official reserves.[7] Barbados suggested to provide poor countries with cheap finance. The idea, that was presented in Glasgow by Prime Minister Mottley (Barbados), goes back to her compatriot Avinash Persuad, a former professor, who said: "The whole framework of the Paris Agreement (…) is potentially fundamentally flawed in being based around national pledges. Because these are pledges without any financing plan, we have a USD 50 trillion scale of a problem and we're using a village hall budget to try and address it" (Farand, 2021). The V20 as the forum of Ministries of Finance of the 55-member states to the Climate Vulnerable Forum (CVF), support this approach as one possible element of a 'Fit for Climate Prosperity Global Financial System', aiming at narrowing the climate protection gap.[8]

The use of SDRs to provide financially weak, climate-vulnerable countries with liquidity for resilience investments, has been discussed by the IMF Managing Director Kristalina Georgieva in light of the economic outfall caused by the pandemic, and alarmingly rising debt ratios, especially in low- and middle-income countries. In 2021, the G20 endorsed the establishment of such an approach to provide affordable long-term financing, and the G7 started to discuss possible allocations of SDRs (IMF, 2021).

In April 2022, following months of discussions with the various stake- and shareholders, the IMF Executive Board approved the establishment of the Resilience and Sustainability Trust (RST) to help countries build resilience to external shocks and ensure sustainable growth (IMF, 2022a). The RST aims at complementing the IMF's existing lending toolkit by focusing on longer-term structural challenges

[7] The original intention of SDRs was to stabilize the Bretton Woods System of fixed exchange rates. Since then, they have been allocated several times to provide liquidity to the global economic system in times of economic crisis and to support developing countries. In August 2021, for instance, the IMF allocated the equivalent of USD 650 billion in SDRs to its members to boost the fight against the COVID-19 pandemic and its economic consequences. For more information see Hollebon and Hickie (2021).

[8] Further key elements, called for, are, inter alia, a climate resilient debt restructuring, a Global Shield, and at least doubling international finance for adaptation within 30 months. For more information see V20 (2022).

including climate change that entails macroeconomic risks, and where policy solutions have a strong global public good nature. In these cases, low- and lower middle-income countries are eligible for longer-term affordable financing from the RST, if they have ready been supported by another IMF programme.[9] The RST, as a loan-based trust, will channel SDRs contributed by financially strong member states on a voluntary basis. It is expected that the trust will be able to provide first loans at the end of 2022, when the target initial volume of the equivalent of USD 45 billion has been reached.

The way the RST is currently designed does not entirely meet the expectations of vulnerable countries, neither in terms of volume nor with regard to conditionalities: 27 lawmakers from around the world, belonging to the Global Alliance for a Green New Deal, issued an open letter to the IMF, calling for a higher volume, debt-free financing, waiver of policy conditionality, more accessibility for middle-income countries, and additionality to existing official development assistance (ODA) and climate finance commitments (Potts, 2022).

The biggest criticism of the V20, which had formed its own task force to constantly provide input to the IMF, apart from the narrow ceiling for loans, lies in limiting access to the RST to those countries which already have IMF programs. This is something that many countries have always tried to avoid because it means experiencing balance of payment difficulties and goes hand in hand with a credit rating downgrade and thus, higher interest rate spreads on capital markets.[10] RST access, according to the V20, should be based on climate vulnerability and climate policy commitments in NDCs or climate prosperity plans, rather than on being in financial difficulties. The RST should contribute to preventing risks rather than serving as a rescue umbrella (V20, 2022).

The V20 continues the dialogue with the IMF along these lines, aiming at changing the final RST conditionalities, which are yet to be approved. The main argument is that the protection gap has arisen precisely because classical IMF conditionalities and austerity principles have led countries to underinvest in climate change mitigation and resilience. Therefore, it is now time to change the investment conditions so that the climate crisis is not deepened, but overcome. Looking at the G7 members, the UK in particular has been unwilling to compromise at the G7 so far. The hope of finding a solution is now directed at the German G7 presidency. This calls for haste. After the mid-term elections

[9] I.e. access will be based on the fulfilment of debt conditionalities. IMF countries' reforms strength and debt sustainability considerations and Loans will be capped at the lower of 150 percent of quota or SDR 1 billion. Loans will have a 20-year maturity and a 10½-year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate, with the most concessional financing terms provided to the poorest countries (IMF, 2022a).

[10] On May 25th, 66 countries had IMF programs. For further information see IMF (2022b).

in the USA in fall, a domestic political situation could arise there in which there would no longer be a parliamentary majority for financial participation by the USA, which is urgently needed.

Table 3: Likely eligibility of climate-exposed countries to the RST

Probably eligible Climate-exposed countries having IMF programs	Probably ineligible Climate-exposed countries not having IMF programs
Columbia, Costa Rica, Honduras, Kenya, Madagascar, Mexico, Pakistan, Peru, South Africa	Algeria, Bangladesh, Cambodia, China, Congo, Dominican Republic, Egypt, Ghana, Guatemala, India, Iran, Malawi, Mongolia, Morocco, Nigeria, Philippines, Tanzania, Tunisia, Venezuela, Vietnam

Source: Luma Ramos, Boston University Global Development Policy Center, 2021 (quoted in Ahmed and Bhandary, 2022)

On the donor country side, there are sometimes problems with central banks or ministries of finance refusing to provide climate finance through SDRs. In the case of Germany, for example, the Bundesbank raises objections under European law, although these are disputed (France, for example, sees no obstacles under European law). In Germany, the Federal Ministry for Economic Cooperation and Development (BMZ) will now step in with a loan of EUR 6.3 billion. All in all, it is clear that there is still no prospect of even remotely adequate and, above all, sustainable funding, as would be required to narrow the protection gap. In addition to the unresolved problems of access, it is still unclear where the financial resources will come from and what alternative sources of funding would be possible. In Germany, for example, in addition to the current funds in the BMZ budget, additional special funding or a special fund are needed to ensure that Germany contributes its fair share to international climate financing in the long term. Internationally, the World Bank could carry out a capital increase to flank the RST in order to be able to provide additional climate financing. For example, an interest rate reduction facility could be established to offset the additional capital costs incurred by vulnerable countries due to their high exposure to climate risks.[11]

[11] For further information on these additional capital costs see Ahmed and Bhandary (2022)

Global Platform for Disaster Risk Reduction 2022 - From Risk to Resilience

Heat stress. Water scarcity. Food insecurity. Flood risks. Risks are rising and becoming more frequent and complex. Adaptation action is increasing but not fast enough. Therefore, all hands-on-deck are needed, including better sharing of risk findings, more cooperation, pooling of expertise and funding. The humanitarian, climate and development communities have a key role to play in rethinking how to better prepare for rising disaster risks and helping communities to take anticipatory action in order to minimize climate-induced loss and damage, including through thorough risk assessments, risk reduction, early warning and pre-agreed risk financing modalities, or CDRFI in case a disaster strikes. It should be noted here how important it is to undertake bottom-up rather than top-down planning and implementation, in line with the principle of subsidiarity: Strengthening localization and subsidiary structures for resilience building, including through the formation of multi-stakeholder partnerships, is considered as a key strategy, to be pushed further in 2022 in different forums (MCII, 2022).[12]

The 7th UN disaster summit, the Global Platform for Disaster Risk Reduction, held in Bali from 23rd – 27th of May with 184 countries participating, was a wake-up call that echoed these considerations. It concluded with a self-critical assessment, emphasizing that many states are lagging far behind in implementing the 2030 goals of the Sendai Framework for Disaster Risk Reduction. *Think Resilience: The Bali Agenda for Resilience*, which was agreed to at the summit, calls not only for early warning systems but also for mainstreaming disaster risk reduction to all investments and decision, making resilience building, also with a view to other external shocks, as for instance future pandemics, a whole-of-government and whole-of-society-approach. For the first time in a UN process an outcome document recognizes the challenges to narrow the protection gap and to make insurance solutions affordable through premium and capital support, combined with micro-finance and forecast-based financing. It also speaks to the need to connect to anticipatory humanitarian action and scaled social protection systems that are adaptive (Adaptive Social Protection). In addition, it recognizes special challenges for debt-burdened developing countries and the need multidimensional vulnerability indices to target funding.

[12] A first CDRFI and Anticipatory Action Stakeholder Mapping can be found in Miro (2022)

Moving the CDRFI Agenda under the German G7 Presidency

"Progress towards an equitable world" is the motto of the G7 Presidency, which Germany has held since 1 January, 2022. Fostering sustainable development, healthy lives, investments in a better future and stronger cooperation are its key elements. Development policy priorities have been addressing the impacts of Russians aggressive war against Ukraine, transforming agri-food systems towards sustainability, resilience and justice, gender equality, ambitious and collaborative climate action, and enabling investments in sustainable infrastructure investments This agenda reflects an overarching goal to enhance *resilience* to external shocks.

By recognizing "the urgent need for scaling up action and support, as appropriate, including finance, technology and capacity-building, 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" in their Meeting Communique, G7 development ministers signaled their readiness to take action on loss and damage (G7 Germany, 2022). The fact that they also mentioned non-economic loss and damage in their communique can be seen as another trust builder. G7 Ministers for Foreign Affairs also made important pledges, as doubling adaptation finance, aligning development banks with the 1.5-degree target and entering into open climate partnerships with developing countries and emerging economies (BMZ, 2022b). These pledges, however, need to be backed by concrete and binding financial commitments, at the latest at the G7 summit.

With regard to CDRFI, a key priority of the German G7 Presidency is to establish a *Global Shield against Climate Risks*, as a means to "strengthen the global CDRFI architecture, so it becomes more systematic, coherent and sustained," as said in the G7 Development Ministers' Communique (G7 Germany, 2022). In how far this Global Shield gets strong buy-in and significant capitalization by all G7 members, how it will operate and which would be the cooperation mechanisms with existing CDRFI mechanisms, remains to be seen. The Communique vaguely states: "We will strengthen existing frameworks and mechanisms, including those that reflect specific features of each region, with the private sector fully on board. We will work with the InsuResilience Global Partnership (IGP) to build a strong coordination mechanism for CDRFI and call upon the InsuResilience Solutions Fund and the World Bank Global Risk Financing

Facility (GRiF) to contribute by identifying and covering protection gaps and supporting a wide range of partners" (G7 Germany, 2022).

It is still relatively unclear which form such a protection shield will take. As there is obviously no agreement yet on this within the G7, but there is agreement that other stakeholders should also be consulted, this offers a very good opportunity for vulnerable states, especially the V20 (which are increasingly becoming the political counterpart of the G7 and G20 on climate risk management), but also for civil society actors, to submit their own proposals on the form and function of the Global Shield. This increases the chance that it will become a relevant financing instrument for insurance and, above all, non-insurance protection mechanisms against climate-related loss and damage.

A key question for the future CDRFI architecture and its effectiveness in protecting vulnerable groups and countries from climate risks, but also for the form and function of a Global Shield, is how the GRiF, a Multi-Donor Trust Fund, launched in 2018, so far sourced by Germany and the UK with USD 200 million and housed in the World Bank, will be oriented in the future (GRiF, 2022). Will GRiF become a truly global, multi-collaborative facility that supports those in need first, and that cooperates with multiple regional, national, subnational, and civil society actors in the humanitarian and disaster risk management sector? Can it be transformed into a financial intermediary fund that serves as an umbrella fund to hedge residual climate risks? Can it also receive grants from foundations and, in perspective, funds from CO_2 pricing? Or, does the GRiF remain a relatively small instrument with a narrow mandate and strongly subordinated to the interests of the World Bank? In order to further develop the GRiF into a useful instrument designed to serve the needs of the most vulnerable, also taking into account the UNFCCC loss and damage negotiations (as an instrument that stands outside of this process, but nevertheless serves it as a communicating tube), there is now a need for greater civil society articulation to shape the future GRiF and the Global Shield, and to contribute to a less fragmented, better financed, more coherent, effective and pro-poor CDRFI architecture. A Global Shield to be functional, would require guidance and action in at least seven areas: sourcing, coordination, country needs assessments (identifying protection gaps and options how to narrow them), core principles (definition of residual risks/nexus to adaptation, pro-poor and vulnerable focus, role of private sector/markets, impact, efficiency, etc.), regional networking (country ownership, regional risk pools), institutional partnerships/cooperation (within and beyond CDRFI landscape), and financing packages for recipients (pre-arrangements/anticipatory action).

Other important topics for discussion are whether and how a Global Shield would also protect against residual risks resulting from slow onset processes (as for example prolonged dry spells, glacier melting or sea level rise) and non-economic losses (as for example land, water, biodiversity, culture);[13] if and how a Global Shield can contribute to climate-proof social protection systems, enabling them to provide a rapid response in case a disaster strikes; and last but not least, how to ensure that a Global Shield is developed not only for but together with vulnerable states and communities.

To turn words into action, and to build trust, a significant start-up contribution of all G7 members to source a Global Shield against Climate Risks is highly recommended. The German G7 presidency should make the start with EUR 1 billion. A well-designed Protection Shield, developed together with the vulnerable countries, governed by an honest broker, and sourced by major emitters, beginning with the G7, would also create positive momentum to re-launch the stalled loss and damage negotiations within the UNFCCC, not to replace them but to complement them.

Germany's efforts as G7 presidency to strengthening anticipatory humanitarian action, CDRFI and contributing to averting, minimizing and addressing loss and damage include further flanking initiatives in related policy fields: Supporting early warning capacities in developing countries, addressing the risks associated with crossing so-called tipping points (the critical threshold, when exceeded, leads to irreversible and massive changes in larger climate systems, as the monsoon or the climate of the Amazon rainforest basin), thematizing migration in the context of climate change, and setting the agenda for climate change as a risk for global security and stability as an issue for climate diplomacy. These topics, which are all related to civil society, humanitarian as well as climate justice engagement, offer further entry points for NGOs to promote their perspectives and policy demands. Here, too, it is important to act strategically in the sense of a combined inside (the UNFCC) – outside (use of other forums like G7, G20, Global Platform for Disaster Risk Reduction, IGP, RST-IMF) approach, i.e. raising the level of ambition to the utmost possible level; ensuring a strong voice of the V20 and other vulnerable countries and communities in the design, participation and governance of existing and new CDRFI instruments; creating coherence and synergies between them; calling for adequate funding, especially for ex ante risk financing; and ensuring that funding is needs-based and transparent, and that there is no double counting of commitments or cannibalization of funding for other important sustainable development tasks.

[13] For an introduction into non-economic loss and damage see Hirsch et al. (2017)

Conclusions and Policy Recommendations

Economic losses caused by climate extremes in developing countries are estimated at USD 280 billion annually, and expected to rise to USD 500 billion as of 2030. The climate protection gap is still widening, despite harsh warnings of the IPCC that hard limits to adaptation are likely to be reached and surpassed in this decade, especially in so-called key risk areas, with severe implications reaching far beyond them, if adaptation is not scaled up systemically. Even if residual risks are minimized, loss and damage will not only remain but probably increase compared to today, even in an optimistic scenario. CDRFI, despite significant growth in the past decade, is still severely underfunded, lacks adequate coverage of all relevant risks, especially of the most vulnerable, as well as collaboration, coherence and comprehensiveness. After years of talks, time has come for the G7 and other major emitters to walk the talk by first fulfilling and then stepping up their financial commitment to stand in solidarity with vulnerable countries and communities, and to support them in developing an effective system of global protection. This should provide the necessary support for comprehensive, pro-poor, rights-based and gender-responsive solutions for managing climate risks and address impacts from both extreme weather events and slow-onset processes.

CSOs and other stakeholders should engage to come to tangible and sustained results. The year 2022 bears decisive political momentum to ramp up CDRFI reform efforts at high-level events like the G7 and G20 summits, the ongoing negotiations in the UNFCCC process, at the IMF, IGP, and other forums, building on the preliminary results already achieved. The IPCC 6th Assessment report underlines, as never before, relevance and urgency to take action, in order to avoid runaway loss and damage. The following policy recommendations result from this discussion paper:

1. G7 members and other major emitters need to ramp up climate finance, achieving the USD 100 billion climate finance commitment in 2022. The rapid increase of the very low loss ratio of just 5% in developing countries would be a CDRFI success indicator.

2. It is essential for the affected people that climate and disaster risk finance is provided much more rapidly and reliably when a disaster strikes. Quicker disbursements require more anticipatory action and pre-arranged financial support packages.

3. Access, affordability and impact in terms of higher resilience for the most vulnerable people are key CDRFI success criteria. Participatory and inclusive action along the entire chain from needs and risk assessments over solution design to the implementation of disaster risk management are pivotal. Corresponding pro-poor principles that have been established and implemented for some instruments[14], for example in the form of cost coverage for hedging instruments for particularly vulnerable groups, need to be expanded and harmonized for CDRFI at the highest possible level.

4. The fragmented CDRFI landscape lacks coordination and collaboration across the wide range of instruments and actors. Vulnerable countries need to be supported to develop, get financed and implement comprehensive CDRFI strategies to ensure efficiency, effectiveness and sustainability of actions, based on their needs.

5. Efforts to avert, minimize and address loss and damage that take place inside and outside the UNFCCC umbrella need to be aligned in a complementary way.

6. The principle of subsidiarity in setting up needs-based protection shields for vulnerable countries and communities against economic and non-economic loss and damage caused by both, extreme climate events and slow-onset processes should be applied to the most possible extent to create ownership and impact. This includes the provision of support to develop domestic CDRFI solutions, including insurance and non-insurance instruments, and climate resilient economic policies.

7. To reduce the enormous risk of economic decline, social disruption and political instability, caused by the multiple climate-, debt-, pandemic- and geopolitical crises, requires vision, leadership and ramped up international solidarity, especially demonstrated by G7 and G20 members. Debt cancellation, the free-of-cost transfer of Special Drawing Rights to vulnerable countries under the IMF, and decisions to establish a Global Protection Shield, and a Loss and Damage Finance Facility (LDFF) are benchmarks for success in 2022.

8. For industrialized countries it is now high time to constructively engage in a debate on an LDFF. Listening to developing countries, understanding their needs and expectations, is a first step to take.

[14] For an overview of pro poor principles, see MCII (2022c).

9. U.K. as the outgoing, and Egypt as the incoming COP Chair, should be pushed to provide guidance for achieving a meaningful outcome of the Glasgow Dialogue, including a stock-take of interim results, agreement on a roadmap with timelines and milestones, and agreement on envisaged outcomes, to be achieved at COP27. The Petersberg Climate Dialogue should be used for a deep dive on financial arrangements to address loss and damage. Selected Parties, including from G77 and AOSIS, should be invited in beforehand to present their views on the topic.

10. IGP can make a greater contribution to the UNFCCC debate on loss and damage by discussing more systematically and, above all, more proactively the role that CDRFI elements used by IGP can play in addressing loss and damage, but also where the limitations lie, especially of insurance solutions.

11. The way the Resilience and Sustainability Trust at the IMF is currently designed does not meet the expectations of vulnerable countries, neither in terms of volume nor with regard to conditionalities. A higher volume, debt-free financing, waiver of policy conditionality, more accessibility for middle-income countries, and additionality to existing ODA and climate finance commitments is required. RST access, in line with the V20 suggestion, should be based on climate vulnerability and climate policy commitments in NDCs or climate prosperity plans, rather than on being in financial difficulties. The RST should contribute to preventing risks rather than serving as a rescue umbrella. The current protection gap has arisen precisely because classical IMF conditionalities and austerity principles have led countries to underinvest in climate change mitigation and resilience. Therefore, it is now time to change the investment conditions so that the climate crisis is not deepened but overcome.

12. The humanitarian, climate and development communities have a key role to play in rethinking how to better prepare for rising disaster risks and helping communities to take anticipatory action in order to minimize climate-induced loss and damage, including through risk assessments, risk reduction, early warning and pre-agreed risk financing modalities, or CDRFI in case a disaster strikes. It is important to undertake bottom-up rather than top-down planning and implementation, in line with the principle of subsidiarity: Strengthening localization and subsidiary structures for resilience building, including through the formation of multi-stakeholder partnerships.

13. A Global Protection Shield against Climate Risks, as proposed by the German G7 Presidency, should be established and sourced by G7 members. Germany should make the start with EUR 1 billion. A well-designed Protection Shield, developed together with the vulnerable countries, governed by an honest broker, and sourced by major emitters, would also create positive momentum to re-launch the stalled loss and damage negotiations within the UNFCCC, not to replace them but to complement them.

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About MCII

The Munich Climate Insurance Initiative was initiated as a charitable organisation by representatives of insurers, research institutes and NGOs in April 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the UN Framework Convention on Climate Change and the Kyoto Protocol. This initiative is hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS). As a leading think tank on climate change and insurance, MCII is focused on developing solutions for the risks posed by climate change for the poorest and most vulnerable people in developing countries.

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