HIGH TIME FOR HIGH AMBITIONS: Next steps for the G7 to deliver on climate risk and impacts
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Briefing paper

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Executive Summary

Adequate and additional needs-based support for most vulnerable people, communities and countries to avert, minimize, and address loss and damage comprehensively is currently not delivered. Also, current climate finance flows are insufficient, and although the international CDRFI architecture has evolved over the last ten years, it has major gaps in providing adequate and reliable financial protection and building resilience of people most at risk of loss and damage - those who have contributed least to the causes of climate change. The gaps include:

1. Lack of financing at scale to meet real needs;
2. Lack of (adequate) coverage of all relevant risks and impacts,
3. Lack of comprehensive risk financing strategies and limitation to a narrow scope of instruments,
4. Fragmented and complex CDRFI architecture, and big gaps in a demand-driven, human rights based CDRFI implementation.

The G7, as group of historic major emitters and leading industrialized countries, needs to demonstrate leadership in delivering solutions and new and additional financing that supports the most vulnerable in managing climate risks and addressing loss and damage - at the right scale, reliably and considering climate equity principles. In 2022, the G7 should 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. As key success criteria, this system needs to

1. Provide new and additional funding to support developing countries in managing climate risks and addressing loss and damage,
2. Expand the CDRFI architecture to a system of global protection in order to provide coverage for all relevant climate risks and impacts,
3. Reform the IGP Programme Alliance to implement a strategic disaster finance approach,
4. Develop and implement needs-based solutions jointly with vulnerable countries.

Securing a meaningful outcome on climate risk management and loss and damage at the G7 summit would show leadership of the G7 countries in tackling climate impacts can be an important signal, and concrete contribution towards the loss and damage discussions under the UNFCCC.
1. Introduction and Background

The 6th Assessment IPCC WGII (2022) report clearly showed: The rising frequency and propensity of climate change impacts causes widespread economic and non-economic losses and damages to people and nature. Across sectors and regions, the most vulnerable people and systems are disproportionately affected\(^1\). However, progress towards supporting vulnerable developing countries in comprehensively managing climate risks and impacts has been far from adequate. There are numerous shortcomings in the current Climate and Disaster Risk Finance and Insurance (CDRFI) architecture that need to be addressed in order to increase financial and social resilience of the most vulnerable. These gaps exist in a time of interlinked and cascading crisis - where climate vulnerability and the lack of access to finance is compounded by the economic fallout from the Covid-19 pandemic, increasing debt levels and rising food and fuel prices due to the Russian war on Ukraine. The most vulnerable countries already need to allocate significant and growing proportions of public budgets to fund loss and damage, leading to the erosion of hard-won development gains.

The Group of 7 (G7), as the historic major contributors to the climate crisis, and as leading industrialized countries, must not only deliver its fair share in the globally needed mitigation effort, but also has a special responsibility to support vulnerable countries in managing climate risks and addressing loss and damage. In the past, the G7 announced its willingness to ‘intensify our support, particularly for vulnerable countries’ own efforts to manage climate change related disaster risk and to build resilience\(^2\). Particularly as part of the Group of Twenty (G20), Vulnerable Twenty Group (V20), and InsuResilience Global Partnership (IGP), enhancing insurance coverage for the most vulnerable and developing new insurance and other types of climate and disaster risk finance solutions have been supported. Adequate and additional needs-based support to avert, minimize, and address loss and damage comprehensively is, however, insufficient. The Glasgow Climate Summit (COP26) also failed to provide sufficient support to the most vulnerable people and countries. In this context, the G7 is expected to demonstrate leadership in delivering solutions, and new and additional financing that support the most vulnerable in managing climate risks and addressing loss and damage - at the right scale, reliably and considering climate equity principles. The German G7 Presidency in 2022 offers the opportunity to take important steps to deliver these solutions.

This briefing paper describes the current shortcomings in the global CDRFI architecture and details what the G7 needs to deliver in 2022 in order to adequately support vulnerable countries in managing climate risks and addressing loss and damage.

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\(^1\) https://www.ipcc.ch/report/ar6/wg2/

\(^2\) Leaders' Declaration. G7 Summit. 7–8 June 2015. Available at: https://sustainabledevelopment.un.org/content/documents/7320LEADERS%20STATEMENT_FINAL_CLEAN.pdf
2. Current Shortcomings and the Need to Improve the Climate Risk Financing Architecture

The international CDRFI architecture has evolved significantly over the last 10 years. However, progress towards supporting vulnerable developing countries in comprehensively managing climate risks and impacts has been far from adequate. In 2022, the financial protection gap is still prevailing at 98% in V20 countries; most vulnerable households in developing countries are still bearing the brunt of costs to prevent and repair loss and damage. There are numerous shortcomings in the current CDRFI architecture that need to be addressed in order to increase financial and social resilience of the most vulnerable.

1. Lack of financing at scale to meet the real needs

There is a severe lack of CDRFI, adaptation and loss and damage funding which manifests in the enormous protection gap against financial impacts of climate change. Developed countries failed to meet their commitment to provide USD 100 billion climate finance per year by 2020 and also the agreed upon balanced provision of finance for mitigation and adaptation was not met. These figures are set against the general fact that the promised amount of climate finance does not match the actual needs of developing countries. Adaptation costs are estimated to increase up to USD 300 billion per year in 2030; estimated costs of residual loss and damage will rise as high as USD 580 billion by 2030, only for developing countries. However, to date, no specific percentage of international climate finance is assigned to loss and damage. In the end, it is the most vulnerable who bear the brunt of costs, as seen in Bangladesh where rural households are spending almost USD 2 billion /year on preventing and repairing loss and damage – two times the amount that the government of Bangladesh spends, 12 times more than international donors.

While many instruments already exist, they lack adequate financing in order to reach real scale and fulfill their potential. One instrument with a big potential to serve as a strategic tool for climate risk management and increase the resilience of people against climate related, as well as other types of shocks, is social protection. Investments in building systems for social protection in the last decade have however not been sufficient enough to enable them to manage large shocks. When it comes to sovereign risk finance, the African Disaster Risk Financing Programme (ADRiFi) had only 50% of the

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4 https://pubs.iied.org/16643iied
5 In 2019, only USD 20 billion of about USD 80 billion (i.e. about a quarter of all finance reported in the context of the USD 100 billion goal) was provided to support adaptation.
8 https://pubs.iied.org/16643iied
means to finance the premium support required by African countries\textsuperscript{10}. Apart from the sovereign instruments, the increasing number of micro/meso-scale and risk market creations also often need kick off funding and premium support. If the funding improves, so must the instruments through which it is channeled, and the coordination thereof.

2. Lack of (adequate) coverage of all relevant risks and impacts

Climate change causes economic and non-economic loss and damage through increasingly frequent and severe extreme weather events as well as slow-onset processes. The international CDRFI system and the climate finance architecture however do not provide (adequate) coverage for all relevant climate risks and does not allow countries to adequately address all climate change impacts. Particularly, coverage of slow-onset processes and non-economic loss and damage is still largely absent\textsuperscript{11}.

Additionally, support for rapid response to and rehabilitation from extreme weather events (incl. for rebuilding of infrastructure, restoration of ecosystems and landscapes as well as rebuilding of livelihoods) is not available at the scale needed. Also, the project-based approval and disbursement of funds does not allow for an agile response to climate disasters\textsuperscript{12}. Humanitarian assistance is essential to supporting vulnerable people, communities and countries in the aftermath of extreme weather events. However, the level of aid provided is typically only a fraction of what is needed. In the face of record levels of humanitarian need, between 2019 and 2020, international humanitarian assistance from governments and EU institutions stagnated at USD 24.1 billion as major contributors significantly lessened their contributions\textsuperscript{13}.

In 2015, the G7 already committed to protect 400 million people against the financial impacts of climate change through direct or indirect insurance solutions by 2020. This goal is yet to be met; as per the 2021 Annual Report of the IGP, 150 million people benefited from CDRFI solutions, out of which 60 million were beneficiaries from micro-insurance solutions\textsuperscript{14}.

3. Lack of comprehensive risk financing strategies and limitation to a narrow scope of instruments

Existing instruments are often used in isolation and without using a coherent risk layering approach, preventing the application of integrated financial protection strategies. Integrated, comprehensive strategies covering risk analysis, risk reduction, risk preparedness, financial risk management for residual risks as well as recovery and rehabilitation, are needed to systematically increase resilience.

Transferring risks in a cost-efficient way through insurance or other tools is a key financial instrument to address residual risk – but is only one step in a systematic process\textsuperscript{15}. To enable climate-resilient

\textsuperscript{10} https://www.wri.org/research/future-disaster-risk-pooling-developing-countries-where-do-we-go-here
\textsuperscript{11} https://www.germanwatch.org/sites/default/files/part_3_-_financing_instruments_and_sources_to_address_loss_and_damage_from_slow-onset_processes_0.pdf.
\textsuperscript{12} https://www.climatechangenews.com/2022/04/25/vulnerable-nations-set-to-design-and-test-loss-and-damage-funding-facility/
\textsuperscript{15} https://www.weadapt.org/system/files_force/2017/march/mcii_policyreport2016_making_cri_work_for_the_most_vulnerable_7guidingprinciples.pdf?download=1
development, effective risk management should involve a portfolio of actions aimed at improving the understanding of disaster risks, to reduce and transfer risk and to respond to events and disasters as well as measures to continually improve disaster preparedness, response and recovery – as opposed to a singular focus on only one action or type of action\textsuperscript{16}.

4. Fragmented and complex CDRFI architecture and big gaps in a demand-driven, human rights based CDRFI implementation

The multi- and bilateral CDRFI architecture is increasingly complex and fragmented\textsuperscript{17}. In the last few years, a multitude of different funds and initiatives have been set up by donors and implementation agencies. This growth, and the inherent interest is positive, but the programs, funds and initiative lack coordination, and activities are increasingly duplicating. This results in a confusing situation for potential recipients and an inefficient duplication of efforts, since application procedures are different for all funds. More coordination and streamlining are needed to facilitate easy access to CDRFI solutions. Additionally, coordination is lacking across silos, which includes government organizations, development and humanitarian actors, civil society and the private sector. Overlapping roles and inefficiencies among funds and institutions leads to the architecture not fully meeting countries’ needs\textsuperscript{18}.

The V20 has recently highlighted that their “representation in global governance decisions of the G20 and G7 remains weak and continues to result in outcomes that do not go far enough to protect the interests of the world’s most vulnerable groups”\textsuperscript{19}. Accordingly, at the moment, funds are not distributed on a needs-basis informed by climate risk analytics and protection gap analyses. Rather, donors often make unilateral decisions on the allocation of funds without too much formal engagement of recipient countries themselves. This is the case for the various funds in the CDRFI space. V20 representatives are not represented in the steering structures in instruments like the Global Risk Financing Facility (GRiF) by the World Bank, or the Insurance and Risk Financing Facility of the UNDP.

\textsuperscript{16} ibid.

\textsuperscript{17} https://www.insuresilience.org/wp-content/uploads/2021/11/InsuResilience_5th_HLCG_Co-Chair_Conclusions.pdf

\textsuperscript{18} https://www.v-20.org/resources/publications/v20-climate-finance-viewpoint-apr2022

3. What the G7 Should Deliver in 2022

In 2022, the G7 should commit to developing, jointly with vulnerable countries, a system of global protection. This should provide financial and other support for comprehensive, poverty-oriented, gender-responsive and human-rights based solutions for managing climate risks and address impacts from rapid-onset events and slow-onset processes. The following points are key to the development of this system:

1. Provide new and additional funding to support developing countries in managing climate risks and addressing loss and damage

During the G7 process, the G7 governments should commit to provide adequate and additional needs-based funding to support vulnerable developing countries in managing climate risks and addressing loss and damage - at a scale commensurate to existing and future needs, taking equity considerations into account. The G7 should endorse the IGP’s Vision 202520 (which builds on the G7 2015 InsuResilience Goals) and their respective targets.

Realizing the ambitions of Vision 2025 - including to provide coverage to 500 million people at global level - as well as implementing the SMART Premium and Capital Support Principles21 will require new and additional funding by G7 countries. The support for addressing loss and damage should primarily come from public grant finance.

2. Expand the CDRFI architecture to a system of global protection in order to provide coverage for all relevant climate risks and impacts

The financial resources should be used by the G7 to expand the CDRFI architecture in order to cover climate risks comprehensively in a rights-based way and allow for adequately addressing loss and damage through a wide variety of measures and to cater to different needs of recipient countries. The financial vehicle needs to be sufficiently open to finance a broad range of measures to allow for a comprehensive mix of interventions. These include:

**CDRFI protection packages including insurance solutions:** The enormous protection gap shows the need for more CDRFI solutions covering more sectors in more countries. Single solutions are not sufficient but need to be combined in a risk layering approach. In order to facilitate uptake and reduce burdens on recipient governments and affected people and communities, these should be offered in packages as much as possible.

**Social safety nets:** CDRFI solutions are important but are no silver bullet on their own - a key future intervention area specifically to deal with chronic climate stressors is the support of (adaptive) social protection.

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**Strong risk pools**: Risk pools are the established and growing backbone of sovereign risk finance. They enable country ownership and have a closer connection to recipient countries. The reformed CDRFI architecture should strengthen country ownership including through the strengthening of risk pools, premium subsidies and knowledge and capacity building.

**Premium financing**: The G7 needs to affirm the CDRFI Premium and Capital Support Principles, which were developed under the IGP in 2021. Following the SMART principles and delivered in a reliable, sustainable manner and in multi-donor packages that are as coherent and straightforward as possible.

**Other suitable arrangements to directly fund addressing loss and damage**, including recovery from it, e.g. by financially supporting or reinsuring national contingency funds or national loss and damage mechanisms.

**Assistance for countries and affected people to address non-economic loss and damage**, such as by establishing and supporting mechanisms for rapid assistance to protect and preserve cultural heritage and minimize loss of culture in crisis situations.

**Complementary measures**: provide technical assistance, start up and operationalization costs, awareness raising, and capacity building for local stakeholders such as distribution partners, local insurers and regulators. Moreover, an active civil society is a crucial precondition for a resilient society. It is very relevant to create and support enabling conditions and therefore support a vivid civil society in target countries.

**Tend to a diverse group of stakeholders**: the reformed CDRFI architecture needs to be more inclusive and allow for inter- and cross-sectoral cooperation. Therefore, more stakeholder groups need to be able to access funds either through direct project funding or ‘transfer outs’. These stakeholders include humanitarian actors, MDBs, UN Agencies, bilateral partners, CSOs and Risk pools.

**Cover a wide range of climate impacts**: instruments should not be limited to those hazards that can easily be covered by CDRFI solutions, but should always be oriented at the needs of recipient countries. This can also include coverage against slow onset processes.

**Focus on human rights-based approaches**: The rights-based methodology includes the identification of the most vulnerable groups, their integration in the planning process and a focused support to prevent human rights violations.

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Box 1: Technical deep dive on the financial vehicle – ‘transfer outs’ to external parties

If a financial vehicle is to be set up or an existing one is reformed, it should be as flexible as possible. Trust funds can operate with Transfer Outs (TOs), which are disbursements of funds to external parties. This is beneficial to the scope of a financial vehicle since it enables relatively easy funding of many different types of measures or stakeholders. TOs should be relatively quickly accessible to a wide group of partners following a standardized application and approval procedure set out in the administrative agreement. Generally, this applicant’s terms and conditions apply. The percentage of possible TOs of a reformed or new fund should not be artificially cut or lowered. Furthermore, TOs should not be treated in a subordinate manner to those managed by the managing or hosting organization of the financial vehicle. Examples for funds with TO option are:
Multi-Donor Trust Funds (MDTFs): STaR, Public–Private Infrastructure Advisory Facility. The setup of the GRiF already allows for transfer out, but this potential is currently not used.

Financial Intermediary Funds (FIFs): Funds are generally transferred out when instructed by the governing council and used under the terms and conditions of the implementing agency\(^2\).

3. Reform the IGP Programme Alliance to implement a strategic disaster finance approach

Different CDRFI programs need to work in conjunction at the country level and follow a strategic approach. The IGP Vision 2025 aims to establish comprehensive risk financing strategies in 80 vulnerable countries. Such disaster risk financing strategies should provide the strategic guidance for national engagement and navigate different implementers in coordinating their work.

Coordination of different CDRFI actors happens in the IGP Programme Alliance. However, to make the Programme Alliance fit for purpose it needs some major reform. This includes a political strengthening of the Programme Alliance towards implementing agencies as the main forum for coordination. Referencing the Programme Alliance in the G7 outcome would be a step in the right direction. It will need to be followed by strong conditionalities of G7 donors towards CDRFI implementing agencies to engage meaningfully in the Programme Alliance.

In addition, the processes and conduct within the Programme Alliance will need to be changed to enhance objective decision-making and coordination. Structured discussions on in-country engagement following national risk strategies and assessments on the national protection gap should help to align different programs.

Lastly, the Programme Alliance needs to open to V20 leadership and council. This aspect is covered in the following point.

Box 2: Technical deep dive on advisory committees in trust funds

Should an existing Multi-Donor Trust Fund be reformed or a new fund set up, it should include a strong external advisory committee that could consist of delegates from a reformed Programme Alliance. Special emphasis should be given to vulnerable country voices. Examples of such funds include:

The GFF has an advisory “Investors Group” with a broad membership that supports work at country level. The Investors Group also hosts a Global CSOs Coordinating Group.

STaR is supported by two consultative and advisory bodies: (i) the StAR Donor Consultative Group (the “Donor Group”) and (ii) the Friends of StAR (“FStAR”).

\(^2\) https://fiftrustee.worldbank.org/content/dam/fif/documents/FiF_Brochure.pdf
4. Develop and implement needs-based solutions jointly with vulnerable countries

Vulnerable countries and vulnerable people in those countries should be put in the driver seat when (co-)developing CDRFI solutions in order to make sure they tend to their specific needs. Climate vulnerable recipient countries and stakeholder groups need to be included in the CDRFI governance architecture, e.g. by consistently involving the V20 and relevant civil society groups in the Programme Alliance or in advisory committees. Initiatives like the Sustainable Insurance Facility, which tries to build a bridge by coordinating and preparing applications, but only works in the field of Micro, Small and Medium sized Enterprises (MSMEs), or the Loss and Damage Finance Facility - both developed by the V20 - should be specifically supported.

Funds should be distributed on a needs-basis, considering both risk analytics and the amount of existing funding streams towards countries and regions. This requires a global protection gap analysis, building on or coordinating the work that is or will be done in the Crisis Lookout, the Global Risk Modelling Alliance (GRMA), and other providers of risk analytics (private sector in IDF, academia etc.).

Box 3: Inclusivity deep dive - Strengthening CDRFI delivery through civil society engagement

Projects in the climate and disaster finance space are often implemented in a technocratic fashion. At the same time, long-lasting effects require a broader societal engagement and deep ownership of different stakeholders. CDRFI projects need to be connected to strategic planning processes and transformation policies like the National Adaptation Plans or the Nationally Determined Contributions (NDCs) in the UNFCCC process.

Meaningful and respectful engagement of Civil Society Actors can contribute to the impact of CDRFI initiatives on the ground. Germanwatch and MCII in collaboration with CARE are currently supporting CSO stakeholders in Africa, the Caribbean and South East Asia to strengthen their voices in national and international CDRFI processes.

Civil Society Organizations (CSOs) can facilitate the necessary social and political debates in the countries, and can advocate for necessary policy change in the countries. They can ‘ground truth’ impacts of CDRFI initiatives on the ground, thereby contributing to the evidence and impact stories of CDRFI. In addition, they can inform, and in some instances aggregate, the demand for CDRFI solutions by their constituencies.

However, building up the necessary capacities of CSO actors to critically and constructively accompany CDRFI programs requires a long-term investment into partnership and knowledge building. It also requires mechanisms for participation and critique on the level of implementers and funding institutions to be open for CSO feedback and engagement.
4. Next Steps

Securing a meaningful outcome on climate risks and impacts at the G7 summit is a crucial signal that the G7 takes steps in fulfilling its special responsibility to support vulnerable developing countries, communities and people in dealing with climate risk and impacts. The previous chapters have already provided pointers on what such an outcome should entail. However, providing political momentum is only a first step that needs to be continued and furthered – resulting in scaling up, accelerated implementation and further political milestones that realize ambitions towards a truly global and effective shield against ever-increasing climate impacts.

One ambition is to galvanize G7 countries’ (plus other countries) support as a concrete contribution towards the loss and damage discussions under the UNFCCC. Based on the UNFCCC principle of common but differentiated responsibilities, developing countries are calling for concrete financing commitments to weather raising loss and damage from climate change. They demand a Finance Facility for Loss and Damage. In a compromise at the Glasgow Summit, countries decided to launch the Glasgow Dialogue on Finance for Loss and Damage – a two-year process setting the scene for a decision at COP 28 in Abu Dhabi at the end of 2023. This dialogue must be a results-oriented process through which adequate, new and additional support for the most vulnerable people and countries in addressing loss and damage is provided. It would be a very timely and relevant contribution to the process if a group of most vulnerable countries together with a group of frontrunner G7-countries would agree on a meaningful implementation process for measures to address loss and damage. This could be a catalyst for a positive outcome of the Glasgow Dialogue. Additionally, the G7 outcomes should connect to active considerations of the Santiago Network that aims to catalyze technical support on loss and damage and that is intended to be fully set up at COP27 in Egypt at the end of this year.

In addition to making the active connection to the UNFCCC loss and damage process, it is also important that future G7 and G20 presidencies push forward the climate and disaster risk finance agenda in the coming years. In the past, several G7 presidencies have built on previous G7 commitments for further progress. One example is the Canadian G7 presidency in 2018, which added gender-related actions to ongoing work as part of the 2015 G7 goals related to the InsuResilience Initiative. This can be driven by investing into a structured dialogue between V20, G7 and G20 countries to maintain political momentum on the relevant topics.

Lastly, it is important to remain accountable as a G7 country on current and past commitments. This includes quantitative and qualitative aspects. The InsuResilience Global Partnership with its vision 2025 has a broad indicator framework to track progress. Including G7 specific indicators could help to accelerate action by G7 countries on the topic, and maintain or even increase ambition overall.

23 https://climatenetwork.org/resource/briefing-towards-a-glasgow-dialogue-that-matters/
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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