Climate Leadership in Action

Financing resilience and climate adaptation for the poorest

At a Glance

- Climate change is undermining hard-earned development gains, trapping the poorest and most vulnerable in poverty, increasing malnutrition and exacerbating inequality.
- Given the potentially significant economic impact of climate change on national development, governments need support to develop comprehensive strategies that address risk by driving investment in climate resilience.
- Investment frameworks that are informed by analysis of climate and disaster risks in vulnerable sectors, areas and populations deliver results. Including disaster-linked social protection measures helps governments strengthen resilience and boost cash transfers to beneficiaries immediately following disasters.
- Government commitment is needed to manage climate risks and to integrate disaster-linked social protection to national financing and insurance strategies.

THE CHALLENGE

Under current levels of warming, significant climate and development impacts are already being felt. The last decade has seen extreme weather events resulting in widespread human suffering and increasing economic damage across all regions. Current development patterns, particularly population growth in high-risk areas and environmental degradation, continue as the most important drivers of disaster risk.

Without ambitious climate action the world could warm by 2°C in our lifetime, impacting livelihoods and people living in poverty. There is likely to be increased risk of food insecurity linked to warming, droughts, floods, and changes in rainfall, particularly for poorer populations. In Sub-Saharan Africa, food shortages will become more common. In South Asia, shifting rain patterns will leave some areas under water and others without enough water for power generation, irrigation or drinking. In South East Asia, the degradation and loss of reefs would diminish tourism, reduce fish stocks, and leave coastal communities more vulnerable to increasingly violent storms and landslides. Urgent action is needed to not only reduce greenhouse gas emissions, but to help countries finance resilience and prepare for a world of dramatic climate and weather extremes.

Finance for climate-resilient development is available, but is fragmented and small. Global climate finance flows in 2013 were about US$359 billion . Of this US$20 billion to $24 billion[1] (or around 6%) was for adaptation; nearly all of this was financed by Development Finance Institutions, multilateral and national climate funds. The fragmented nature of finance has made it difficult to integrate adaptation finance with the development process to ensure a focus on poverty alleviation. Investments are needed to simultaneously address the poverty trap and improve preparedness for climate risks.

A range of financial instruments are needed to address climate impacts. Integrating climate and disaster risk management approaches into development financing has successfully built resilience, through risk assessments, risk reduction and disaster preparedness activities. Disaster risk financing and insurance has also been effectively used to minimize the fiscal impacts of disasters, and optimize the timing without compromising development, fiscal stability, and well-being. These combined solutions need to be expanded.

Strong government ownership is required, combined with effective multi-sector coordination across ministries. Getting the institutions and incentives right is often the most important issue in climate- and disaster-resilient development. Although an integrated, multi-stakeholder and multi-sectoral approach takes time and may slow initial disbursements, it results in stronger stakeholder buy-in and is likely to be more sustainable over the long term.

There is a need for more effective partnerships between developing countries, donor governments, development banks, private finance and companies. Many developing countries lack the financial management, fiduciary and technical capacity to engage the private sector and the enabling environment for private finance is often limited.

Moving Forward

Combining finance for adaptation with strategic planning for development will reduce poverty risks. The Pilot Program for Climate Resilience and the Global Facility for Disaster Reduction and Recovery have been effective in supporting countries to combine finance with a strategic planning and investment frameworks. Substantive investments have been made to enhance fiduciary capacity and financial management. A result measurement system tracks support for the poorest and most vulnerable communities and reductions in vulnerability. These models could be scaled up in other countries.

Improving links between disaster risk financing and scalable social protection is key. Sovereign disaster risk financing instruments can use insurance tools and manage the contingent liability of social protection, strengthening the resilience of the poorest and most vulnerable. Social protection programs can increase payments after disaster events through existing channels. Existing programs can be "scaled out" to provide payments to vulnerable beneficiaries that were not in the original social protection program to ensure they do not slip into poverty due to climate shocks. Existing programs can be "scaled up" to increase the level and frequency of benefits to current beneficiaries. This enables governments and donors to manage costs as part of a larger sovereign disaster risk financing and insurance strategy. Governments can thus secure contingent funding to protect the poorest against climate shocks before a disaster strikes.

Sovereign Disaster Risk Financing helps increase the financial response capacity of governments and their access to effective funding for rapid response and reconstruction. Sovereign disaster risk financing encompasses the mobilization, allocation, and disbursement of funds following disasters. It draws in private capital to meet financing needs by transferring risk to international financial markets, for example through catastrophe (CAT) bonds, catastrophe swaps, or reinsurance. Contingent credit, such as the World Bank's CAT DDO[2], is helping governments to secure funds in advance of a disaster. Contingent credit can finance emergency response when a disaster strikes. It has also been successful in supporting a dialogue on broader issues of disaster risk management and has been instrumental in engaging the ministries of finance in this agenda.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF), a Caribbean-owned "parametric" insurance pool, offers fast payout to its 16 Caribbean member countries upon occurrence of pre-defined hurricane strengths and earthquake magnitudes. The CCRIF offers participating countries an efficient and transparent vehicle to access international reinsurance and capital markets and is a self-sustaining entity, relying on its own reserves and reinsurance for its financing. Building on the Caribbean experience, a similar effort is underway in the Pacific, and under development in Indian Ocean Islands and in Africa.

Examples of Leadership

The Government of Ethiopia is integrating contingency planning and financing into the Productive Safety Net Program, its food security safety net. This enabled Ethiopia to scale up food assistance from 6.5 million to 9.6 million drought-affected people during the 2011 Horn of Africa drought.

The Government of Kenya is exploring large-scale agricultural insurance, implemented as a public-private partnership, to provide protection for vulnerable populations. This complements Kenya's Hunger Safety Net Program, a social protection program for the poorest.

Mexico's long-standing natural disaster fund FONDEN was established in the late 1990s as a mechanism to support the rapid rehabilitation of federal and state infrastructure affected by adverse natural events. FONDEN was supplemented by the FOPREDEN Program for prevention in the early 2000s, recognizing the need to promote stronger preventive disaster risk management.

The Government of the Philippines is setting up an innovative fund to address climate adaptation and disaster resilience that combines private investment with disaster risk financing and insurance.

Building on recommendations from a climate risk study undertaken by the International Finance Corporation, Terminal Maritimo Muelles el Bosque, a port in Cartagena, Colombia, made investments to better manage sea level rise and other potential climate impacts.

References and suggested reading

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1 The Global Landscape of Climate Finance 2013. Available from http://climatepolicyinitiative.org/usa/wp-content/uploads/2013/10/The-Global-Landscape-of-Climate-Finance-2013.pdf

2 To date, the World Bank has approved CAT-DDOs in eight countries for a total value of $1.37 billion, with one additional loan currently under preparation