

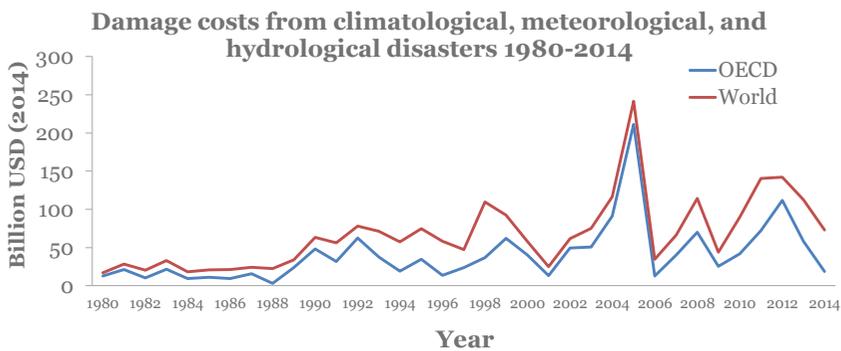


## SUPPORTING NATIONAL ADAPTATION: FINANCIAL PROTECTION AND DEVELOPMENT CO-OPERATION

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### Mounting (recorded) costs of climate-related disasters



- Socio-economic trends and the changing climate are expected to make losses **larger** and **less predictable**
- Figures above only show a fraction of the full cost

Source: OECD (2015) based on data from EM-DAT (Emergency Event Database) (n.d.).

## Unequal distribution of costs of weather-related extreme events

- Costs are higher in a relative-term in developing countries:
  - GDP on average **2% lower** in developing countries five years after a natural disaster (by e.g. low insurance coverage); while **no sustained effect** on growth in OECD countries
  - **95% of casualties** directly caused by natural disasters\* were in developing countries between 1970 & 2008  
(\*not limited to extreme weather)

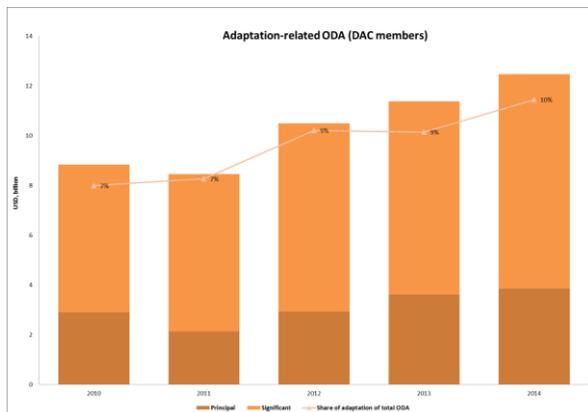
(Source: Handmer et al., 2012; Hochrainer, 2009; Lis and Nickel, 2010)



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## Increasing integration of adaptation into bilateral ODA

Bilateral donors provided **USD 12.3 bn** related to Climate Adaptation in 2014 – but have also committed to having their entire ODA portfolio (USD 133 bn) support adaptation



Climate-related ODA:

- 2005 – 5%
- 2014 – 19%

Adaptation-related ODA:

- 2010 – 7%
- 2014 – 10%



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## ... but need to take an integrated approach to managing climate risk

### Increasing momentum to tackle this problem:

- Sendai framework, Sustainable Development Goals and COP21
- G7 InsuResilience initiative

### OECD aims to be support this process by:

- **Sharing experience** from policy practice on adaptation;
- **Promoting better adaptation in partner countries** (e.g., alignment and harmonisation, climate finance statistics);
- **Identify, agreeing and communicating** ways to improve development co-operation for adaptation;
- **Producing guidance** (e.g., *Integrating Climate Change Adaptation into Development Co-operation*, OECD 2009).



## Current focus: linking adaptation planning and financial protection against natural disasters

- **What:** OECD is exploring how risk transfer and risk sharing mechanisms can be integrated into adaptation planning in developing countries and what role development co-operation providers play now and can play in the future
- **Objective:** how do countries put into practice transfer and sharing tools as part of their efforts to strengthen resilience to climate change? What are the right mixes of tools?
- **How:** Informed by two detailed case studies: Colombia and Senegal (to be published late 2016)



## Financial protection measures

Ex-post / Ex-ante	Risk sharing or transfer measures	Level of risk coverage		
		National / Regional	Private sector (incl. FIs)	Household / Community level
Ex-ante	Insurance mechanisms	✓ (e.g. insurance pools, weather derivatives)	✓ (e.g. Credit insurance)	✓ (e.g. micro- insurance)
	Catastrophe bonds	✓		
	Post-disaster credit / Contingent credit	✓		
	Savings and credit		✓	✓
	Ex-ante social safety nets			✓
Ex-post	Coping strategies			✓
	Ex-post public funding	✓		
	Remittances			✓

Source: Revised from OECD/G20 (2012).

**Ex-ante** and **ex-post** mechanisms used to address risks that remain after adaptation

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## What are the main challenges in-country?

- **Increase coverage** of financial risk management tools – particularly for vulnerable groups
- Address the **underlying drivers of climate risks** (e.g. development in high-risk areas)
- **Link processes: financial protection and adaptation** – reduce risks and costs
- **Improve data quality** on risk of disasters and impact of climate change
- Strengthen capacity for response, particularly at the **sub-national level**
- Allocate **sufficient resources** for ex-ante risk reduction
- Strengthen **private sector** engagement

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## How can development co-operation providers support?

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- **Combine resources** for targeted support (ex. SECO and WB in Colombia)
- Align programs with **national priorities** for impact and continuity
- **Technical capacity** essential: data gaps enormous
- **Tailored financial products:** loans, credit lines, insurance products
- Co-operation with **private sector** to achieve scale (ex. Munich Re in Peru)

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# THANK YOU!

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<http://oe.cd/adaptation>  
<http://www.oecd.org/dac/environment-development/climate-change-development.htm>





## PRELIMINARY FINDINGS: COLOMBIA CASE STUDY

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### Why Colombia?

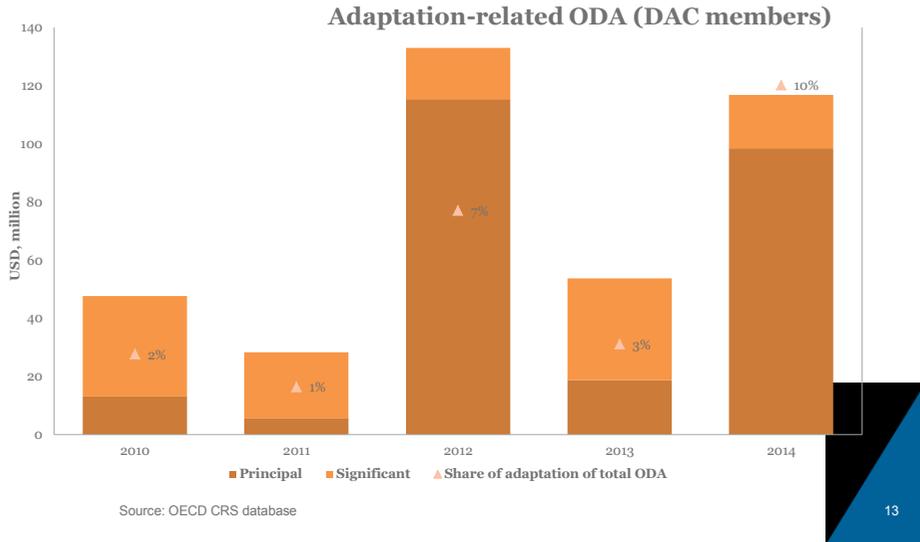
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- Adaptation accounts for 10% of bilateral ODA in 2014 (from 2% in 2010)
- Relevant experiences:
  - Contingent finance (CAT DDO)
  - Insurance for infrastructure (road concessions)
  - Legal framework integrating adaptation into decision making-mandate to create the adaptation fund
  - Well-developed DRM systems at national and subnational levels

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## Evolution of adaptation finance in Colombia



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## Preliminary findings

- Increasing coordination among actors, but different systems for DRM and climate change
- Clear link between climate impact (e.g. La Nina) and disasters recognised
- Targeted financial products available (CAT DDO, Bonds, Adaptation Fund)
- Increasing role of private sector in managing risk in public and PPP assets
- Implementation relies upon sub-national level, but serious resource constraints
- Scope to increase the incentives for reducing climate risks

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## What has been done?

### - Examples of risk transfer mechanisms

#### National institutions

- Insurance pools
  - **The African Risk Capacity (ARC)**: capitalises on the natural diversification of weather across the African continent.
  - **The Caribbean Catastrophe Risk Insurance Facility (CCRIF)**: uses a parametric trigger and pay-outs are proportional to the estimated impact of an event.
- Contingent credit facilities
  - **Colombia's Catastrophe Deferred Drawdown Option (Cat DDO)**: provides quick liquidity after natural disasters
- Catastrophe bonds
  - **Mexico** launched a USD 315 million catastrophe bond that covers earthquakes and hurricanes



## What has been done?

### - Examples of risk transfer mechanisms

#### Private finance institutions

- Insurance pool
  - **Munich Climate Insurance Initiative's** Loan Portfolio Cover  
...transfers risks to international risk pooling markets

#### Community/households

- Micro-insurance
  - **Sahel Crop Insurance**
  - **Malawi Index-based Drought Risk Insurance**



## Key questions

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- How well are climate risks embedded into national and subnational planning, including development strategies? Are they standalone initiatives or are they part of other programs or strategies?
- How strong are the links (explicit or implicit) between risk transfer and other policy mechanisms to support adaptation, for example broad resilience-building efforts and/or disaster risk management interventions?
- Based on experience to date, what does the evidence suggest are the key results, factors driving success and remaining challenges for the effective integration of risk transfer and sharing mechanisms?
- How can the private sector best be engaged to support managing the risks from climate change, as part of an integrated approach to adaptation?
- What is the most appropriate way to ensure that the poorest and most vulnerable groups can be reached, for example by combining insurance and social protection?
- What evidence has emerged on the role of donors in developing, financing and implementing these measures?

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## Questions

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- What are the **enabling conditions** for successful implementation of risk sharing, transfer and financing ?
- How can the enabling conditions be **achieved** in developing countries?
- What are **the key entry points** for selecting and implementing risk-transfer and risk-sharing tools at the national and sub-national level?
- How can risk transfer and sharing tools be **incorporated into the NAP process**?

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