DAC-EPOC Task Team
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DISCUSSION OF EMERGING FINDINGS

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OECD
BETTER POLICIES FOR BETTER LIVES

Project recap: 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

Guiding questions for the analysis

1. What are the rationales for and expected outcomes of using climate-related risk sharing, transfer and reduction mechanisms, based on experience in the selected countries and/or regions?
2. How are mechanisms for financial protection best placed in a broader set or continuum of adaptation and disaster risk management policies within a developing country?
3. Based on experience to date, what does the evidence suggest are the key results, factors driving success and remaining challenges for effective integration of financial protection mechanisms?
4. How can financial protection mechanisms influence the incentives of various public and private sector actors to implement risk reduction measures?
5. What evidence has emerged on the role of donors in developing, financing and implementing these measures?

Looking beyond insurance, to explore a range of mechanisms

	Level of risk coverage		
	National / Regional	Private sector (incl. FIs)	Household / Community level
Insurance mechanisms	✓ (e.g. insurance pools, weather derivatives)	✓ (e.g. Credit insurance)	✓ (e.g. micro-insurance)
Catastrophe bonds	✓		
Post-disaster credit / Contingent credit	✓		
Savings	✓	✓	✓
Social protection			✓
Humanitarian relief			✓
Remittances			✓

Source: Revised from OECD/G20 (2012).

… with good coverage in the case studies

	Case studies	
	Colombia	Senegal
Insurance mechanisms	✓	✓
Catastrophe bonds	✓	-
Post-disaster credit / Contingent credit	✓	-
Savings	✓	✓
Social protection	✓	✓
Humanitarian relief	✓	✓
Remittances	-	-

Source: Revised from OECD/G20 (2012).

EMERGING MESSAGES

Need to strengthen data and capacity

- “Poor data equals expensive coverage”, with large gaps in analysis of:
  - Historic climate data
  - Disaster losses, esp. smaller, more frequent events
  - Exposure of people and assets
- Subnational level essential for implementation, but limited resources and capacity
- Challenges:
  - Recreating missing historical data
  - Co-ordination of data held by different organisations

Building proactive links with risk reduction activities

- Increasing use of mechanisms that inherently support risk-reduction:
  - ARC (Senegal), Cat DDO (Colombia)
- "Bundling" of risk reduction activities with financial protection
  - World Bank DPL, R4 initiative
- Challenges:
  - Expanding coverage of financial protection tools
  - Ensuring that measures to reduce immediate risks are conducive to adaptation

Financing climate risk reduction

- Additional finance needed to expand financial protection:
  - Subsidies are necessary, but not sufficient for increasing uptake of insurance mechanisms
  - Non-market mechanisms
  - Strengthening enabling environment
- Initial analysis suggests integration between DRM and CCA funding; no reliable data on financial protection

Development planning provides an opportunity for linking these agendas

- Financial protection currently has limited emphasis in adaptation planning
- Development plans provide the opportunity to combine these agendas
  - Colombia's NDP & role of territorial plans
- Challenges:
  - Implementation of plans
  - Generating political will

Monitoring and evaluation

- Climate risk and vulnerability assessments
- Indicators for monitoring prioritised climate change risks and vulnerabilities
- Learning from adaptation approaches
- National audits and climate expenditure reviews

- Early stage in both countries
- Some elements are in place, but not used systematically

Overview of the main challenges in-country?

- **Increase coverage** of financial risk management tools – particularly for vulnerable groups
- Implementation of measures to address the **underlying drivers of climate risks** (e.g. development in high-risk areas)
- **Better 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

How can development co-operation providers support?

- **Join 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** for scale up (ex. Munich Re in Peru)

Remaining questions

- ~~What are the rationales for and expected outcomes of using climate-related risk sharing, transfer and reduction mechanisms, based on experience in the selected countries and/or regions?~~
- How are mechanisms for financial protection best placed in a broader set or continuum of adaptation and disaster risk management policies within a developing country?
  - Theory is understood, but practical implementation is context specific
- Based on experience to date, what does the evidence suggest are the key results, factors driving success and remaining challenges for effective integration of financial protection mechanisms?
  - Useful insights on factors driving success and challenges
  - Mechanisms in Colombia and Senegal still very recent
- How can financial protection mechanisms influence the incentives of various public and private sector actors to implement risk reduction measures?
  - Good examples from both case study countries, but analysis of further examples would be valuable
- ~~What evidence has emerged on the role of donors in developing, financing and implementing these measures?~~

THANK YOU!

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Interim report structure

Introduction (4 pages)

- As current synthesis paper

Financial protection tools (5-6 pages)

- Discussion of available tools for the national level, private sector (including agriculture) and households

Colombia case study (10 pages)

  - Country profile (2 pages), including climate and disaster risk profile & state of planning climate/drm/development
  - Institutional and policy framework (2 pages)
  - Financing for adaptation and disaster risk management (1-2 pages)
  - Mapping of risk sharing and risk transfer instruments being adopted (4-5 pages), origin, scope and coverage

Senegal case study (10 pages)

  - Country profile (2 pages), including climate and disaster risk profile & state of planning climate/drm/development
  - Institutional and policy framework (2 pages)
  - Financing for adaptation and disaster risk management (1-2 pages)
  - Mapping of risk sharing and risk transfer instruments being adopted (4-5 pages), origin, scope and coverage

Lessons learnt and conclusions: key enablers of action & implications for development co-operation providers (7 pages)

- As current synthesis paper, revised in line with comments from Task Team

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

- 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?

Questions

- 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**?