

STRENGTHENING RESIDUAL CLIMATE RISK MANAGEMENT IN GERMAN DEVELOPMENT COOPERATION

By international comparison, German development cooperation has a large portfolio to support developing and emerging countries in managing climate risks comprehensively. Climate change mitigation, followed by climate change adaptation interventions, plays a crucial role in reducing climate risks and target-group vulnerability. At a certain point, however, limits to adaptation are reached. At a certain point, however, limits to adaptation are reached and so-called residual climate risks remain. Today, these are already causing losses and damages, especially in developing and emerging countries. This is the case, for example, when it is not possible to raise a dike, and it can no longer be guaranteed that floods will be prevented. As part of the evaluation of climate change adaptation interventions, DEval examined the instruments of German development cooperation for managing residual climate risks (Leppert et al., 2021).

Key findings:

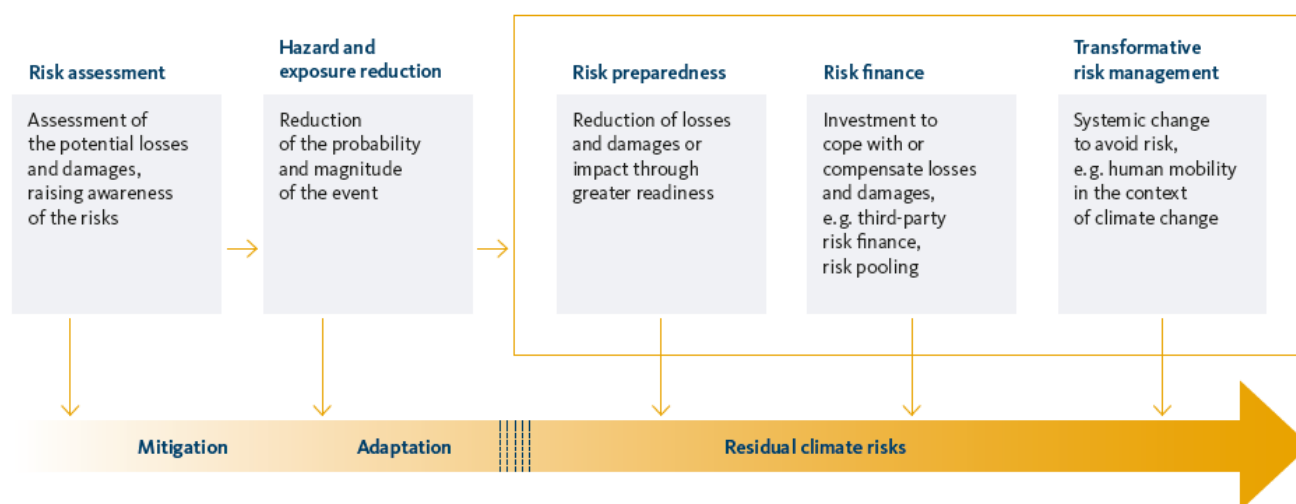
- Residual climate risks pose an increasing challenge for development cooperation. They should be taken into account more systematically in climate finance strategies and portfolios, and in the selection and combination of appropriate instruments.
- German development cooperation has suitable instruments for managing residual climate risks. As these are further refined, risk preparedness options should be used to maximise adaptation to climate change, and reduce losses and damages.
- Transformative risk management instruments should be further developed so that they become effective as integrated approaches in the long term.

Various instruments are available for managing (residual) climate risks. They can be assigned to the groups 'risk preparedness', 'risk finance' (third-party risk finance and risk pooling) and 'transformative risk management'. Figure 1 shows the instruments along the risk spectrum.

Potential not yet being fully exploited

As the DEval evaluation has shown, German development cooperation is already using these instruments in its climate portfolio, either individually or in combination. The focus here is on risk finance, and in particular the instrument of climate risk insurance. This is reflected both in implementation at bilateral level, and in Germany's commitment in the InsuResilience Global Partnership. However, there is a lack of additional support through risk preparedness interventions and interventions to reduce losses and damages. There is also a lack of incentives to fully exploit adaptation options. Transformative risk management interventions, for example involving human mobility in the context of climate change, have so far been implemented only sporadically. Long-term, sustainable approaches for transformative risk management are lacking.

The evaluation also showed that residual climate risks are not considered systematically in German development cooperation strategies and programmes. As a result, the instruments are not always used so as to provide the best fit. It is also difficult to analyse the portfolio due to the absence of categorisation in project documents, and the lack of relevant development policy markers in international reporting.

Figure 1 Instruments along the risk spectrum

Use the portfolio more systematically

Residual climate risk management is a relatively young, dynamic area of learning. German development cooperation already has some experience here. Although the instruments are not newly designed, their application at the limits to adaptation is innovative. Comprehensive risk assessments are increasingly being used as a source of information for the design of projects. In Financial Cooperation, residual climate risks have been included in the audit canon.

To better support developing and emerging countries in managing climate-related losses and damages, the German

portfolio for adaptation to climate change should – in cooperation with other actors – include residual climate risks more systematically. To this end, the existing German approach to comprehensive risk management should be further developed and operationalised. Residual climate risks should be explicitly considered in analyses and strategies, in order to improve the use of instruments. Moreover, the concept of transformative risk management should be further refined to create scope for more integrated approaches. To achieve this, it makes sense to use synergies with the migration portfolio, taking into account causes and processes of migration.

Literature

Leppert, G. et al. (2021), *Evaluation of interventions for climate change adaptation. Instruments for managing residual climate risks*, German Institute for Development Evaluation (DEval), Bonn.



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The German Institute for Development Evaluation (DEval) is mandated by the German Federal Ministry for Economic Cooperation and Development (BMZ) to independently analyse and assess German development interventions. Evaluation reports contribute to the transparency of development results and provide policy-makers with evidence and lessons learned, based on which they can shape and improve their development policies.