AFD & KfW activities in the context of Loss and Damage

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Framing Loss and Damage

The COP27 negotiations have placed the issue of Loss and Damage (L&D) at the heart of the debate on climate finance. While the Transitional Committee worked to establish new funding arrangements for L&D, including a new fund, stakeholders such as AFD and KfW are reconsidering their activities in the light of this new critical component of international climate policy. This joint working paper intends to stimulate the discussion, inter alia among the Development finance institutions (DFIs) and Public Development Banks (PDBs).

First mentioned in 1991, L&D has become the third pillar of the climate negotiations within a few years. In the absence of an agreed UNFCCC definition, a number of competing framings of L&D have emerged over the course of the negotiations. Nevertheless, elements of consensus have emerged, notably through the promotion of a comprehensive climate risk management (CRM) framework within the Warsaw International Mechanism (WIM) and Article 8 of the Paris Agreement, which links L&D to the "importance of averting, minimising and addressing" adverse climate risks and impacts. However, negotiations on finance remained stalled until COP27 achieved a breakthrough on the creation of "new financing arrangements including a fund" dedicated to L&D.

Over the course of five working sessions, the last of which ended in November 2023, the Transitional Committee (TC) mandated to set up a new L&D fund has developed recommendations on the structure, governance and modalities of the Fund, as well as ways to ensure coordination and complementarity with existing funding arrangements. The final recommendations are the result of substantial equilibrium between developed and developing countries on the location of the Fund, its status as an operating entity of the UNFCCC financial mechanism, eligibility and access modalities, the scope of the Fund, and sources of funding and financial contributions. It established the Loss and Damage Fund as a coordinating entity of the L&D financing arrangements, responsible for organising an annual high-level dialogue to enhance coherence and coordination in the L&D financing landscape. At the opening of COP28, the adoption of the conclusions of the TC on the operationalization of the fund as well as first financial pledges of more than 600 million USD show the high political commitment of parties to make the Fund to become real.

Exchanges regarding definition of L&D finance focused on addressing immediate impacts rather than averting or minimizing them. These impacts integrate economic and non-economic losses and damages as well as rapid and slow-onset events. The TC also discussed relevant L&D activities according to different timescales: preparedness[1], response, recovery, rehabilitation, resettlement, reconstruction. The governing instrument developed by the TC, recommends the Fund to finance responses, inter alia activities complementary to humanitarian actions taken immediately after an extreme event, intermediate or long-term recovery, to address slow onset events, the development of national response plans; addressing insufficient climate information, and promoting equitable, safe and dignified human mobility in the form of displacement, relocation, and migration.

The activities mentioned are at the intersection of several policy agendas, such as Disaster Risk Management (DRM), Adaptation to Climate Change (ACC), Climate Risk Management (CRM) and Climate and Disaster Risk Finance and Insurance (CRDFI). They provide a reference operational framework for L&D policies. More specifically, **the concept of Comprehensive Climate Risk Management (CRM)**, which builds on the IPCC's recent advances in understanding climate risks, **involves developing solutions for dealing with Loss and Damage by linking the Disaster Risk Management and Adaptation to Climate Change agendas**. It involves notably the integrated design of **risk assessment, risk reduction, risk retention and risk transfer instruments** and can be implemented at different scales (individual, national). Similarly, other analytical frameworks related to Disaster Risk Management or Adaptation propose a different approach to analysing L&D activities, while remaining consistent with a holistic view of risk.

Reflecting on AFD's and KfW's portfolio of activities through these different analytical frameworks, makes their contribution to the L&D policy agenda clear, while also highlighting gaps and challenges in a number of activities. These challenges are partly reflected in the agenda of the Summit on a New Global Financing Pact.

1 Whether the scope of the fund should include support for preparedness remains controversial. Some parties underline that preparedness are part of adaptation activities. Other parties believe that the Fund should address the full continuum of loss and damage.

AFD and KfW contribution to the “Adaptation - Disaster risk management - Loss and Damage continuum”

AFD and KfW support a mosaic of responses and tools situated on an Adaptation to climate change — Disaster Risk Management and Loss and Damage continuum. They have the capacity to mobilize a range of financial instruments: projects grants, grants for vulnerability or feasibility studies, public policy loans and contingency loans, etc. Projects are able to address a variety of risks. An effective support to deal with L&D will always require a tailored analysis to find the most appropriate instruments and develop the most relevant partnerships to design effective crisis prevention and response. Annex 1 contains a list of illustrative project examples.

As the international community is referring to different frameworks, AFD and KFW are reflecting on their portfolios of activities from various perspectives notably Disaster Risk Management, Adaptation to Climate Change, Climate Risk Management and Climate Risk Disaster Finance and Insurance (CRDFI) among other.
To date, illustrations of the continuum of responses include:
— Activities supporting risk analysis (including vulnerability analysis);
— Activities supporting strategy/planning and governance;
— Adaptation investment;
— Disaster Risk Reduction activities to prepare and prevent;
— Risk transfer or retention instruments (pre-arranged finance);
— Emergency relief/working with humanitarian actors;
— Build back-better: recovery and reconstruction activities;
— Social protection activities ;
— Human mobility responses.

These categories are not mutually exclusive and do not refer to a unique framework. For example, an adaptive social protection mechanism may be considered as an activity contributing to the adaptation of a territory and a risk transfer activity. A contingency loan can be a Disaster Risk Management investment that supports national climate and risk governance reforms and is a risk retention mechanism. Therefore, AFD and KfW consider all these activities as contributing to the Adaptation — Disaster Risk Management — Loss and Damage continuum, while recognizing that the projects below can be organized into various typologies based on the frameworks mobilized and related finance and impact accountability.

Challenges to increase support for Loss and Damage and ways forward

In line with TC5 conclusions, AFD and KFW, acknowledge the funding gaps and challenges to increase support for L&D. While emphasizing the significance of an enabling environment that includes research and collaboration, we highlight the main challenges based on our experience below, accompanied by initial suggestions to address them:

❶ Fill knowledge gaps and lack of experience for specific dimensions of L&D:

In line with the 5 areas of work of the Executive Committee of the Warsaw International Mechanism for Loss and Damage, AFD and KFW recognize knowledge gaps and lack of expertise on:

— Risks that cannot be predicted;

— Slow onset events and complex risks (drought/ desertification and see level rise);

— Not preventable/not insurable risks;

— Non-economic losses and damages (NELD).

More research and country analysis as well as pilot experiences are needed to address these challenges. One way might be learning and scaling-up of existing successful approaches including necessary risk analysis in AFD and KfW. The Global Shield Initiative should partly address these challenges by supporting the development of innovative responses to these risks that have been insufficiently considered in existing initiatives.

❷ Meeting the need for additional funding and dedicated grant funding:

Contingency budget lines, adaptive social protection, insurance, preparedness and anticipation activities etc. are typically financed by grants. Moreover, the associated risk-taking costs of such investments in vulnerable countries also require also grant support. Dedicated tools such as contingency loans, provide relevant responses to the loss and need to be further supported and expanded, while carefully balancing them with the risk of over-indebtedness.

Furthermore, the perspective of local development banks should be included by safeguarding their development action, i.e. insuring development bank activities to allow them to increase their work.

❸ Improve the operationalization of the humanitarian-development (H-D) nexus[2]:

The L&D agenda further emphasizes the need for coordination between humanitarian and development actors. The current context urges AFD and KfW to extend activities originally developed in fragile context (contingency line) to a broader portfolio (to address climate–induced crisis).

❹ Accelerate provision of liquidity in the aftermath of climate related disasters:

Apart from being too little in volume, crisis response is often criticized for being too slow in delivery. The development finance community has not yet explored the full potential of their institution to support countries with timely adequate financial support. AFD and KfW should consider deploying instruments that are pre-arranged and able to respond quickly to climate disasters more widely (contingency line, climate disaster debt clauses, etc.). While some experience in implementing these approaches exist, their mobilization remains too limited. There is also the need to increase subsidized resources and technical expertise to support the establishment of these new approaches. Furthermore and coherently, the mobilization of private sector know-how and capital should be piloted.

2 In France, the Foreign Ministry, Centre de crises et de soutien (CDCS) coordinates the humanitarian efforts. In Germany, humanitarian aid lies in the responsibility of the foreign office who channels its funding mostly through humanitarian organisations i.e. not KfW.

Conclusion and ways forward

AFD and KFW underline the importance for the public development banks to take an active part in the L&D financial architecture as defined in Annex II of TC5 agreement.

The long experience of public development banks in implementing activities along the Adaptation – Disaster Risk Management – Loss and Damage continuum is critical to tackle the challenge of L&D via the L&D Fund and beyond. They have historically developed know-how and expertise that can be leveraged to improve solutions in the existing financing landscape. They should consequently also become a key partner in the efforts around coordination and coherence within the mosaic of financial arrangements for L&D.

AFD and KFW are ready and willing to address the challenges related to L&D by broadening their range of financing instruments and strengthening pre-arranged financing to leverage and maximise their responses to L&D. They invite other PDBs to join into an exchange among peers to learn from each other and develop adequate solutions.

Annex 1
Project examples

Non exhaustive list of projects, illustrating the types of interventions along Adaptation- Disaster Risk Management and Loss & Damage continuum. Projects and activities are not organised along frameworks or typologies. A specific project encompasses several activities falling in different and non exclusive categories of activities.

I. Common project with French and German contribution

1. Contribution to the Global Shield Initiative

II. AFD project examples

1. Vulnerability Studies of the AdaptAction Programme
2. Disaster Risk Reduction Public Policy Loan Tunisia
3. Contingency Loan Mauritius
4. Resilience of Mangrove Ecosystems in Mozambique.
5. Disaster and flood risk management project Lebanon.
6. Natural disaster management and capacity building of Haitian CSO
7. Soft Solutions to Counter Coastal Erosion in West Africa
8. Enhancing Resilience to climate change in Mauritius
9. Adaptive Social Protection in Sahel

III. KfW project examples

1. Global Risk Modelling Alliance
2. Global: InsuResilience Investment Fund (IIF) – Investing in the local climate insurance value chain
3. Global: InsuResilience Solutions Fund (ISF) – Co-financing the development of climate risk insurance products
4. Global: Natural Disaster Fund - Innovative risk transfer
5. Regional: Shock Resilient Loans (SRL) – Co-financing the development of climate risk insurance products
6. Regional: Africa Risk Capacity (ARC) and ARC Replica – Risk transfer, preparedness, and DH-nexus
7. Local: Kerala, India – Reconstruction and policy-based loan for DRM
8. Local: Honduras: Integrated urban DRM
9. Local: Bangladesh: Climate Bridge Fund (CBF) - Preventing and addressing climate-induced migration

I. Common project example

1. Contribution to the Global Shield Initiative

Financing amount and finance mechanism:
French Contribution through AFD:
EUR 20 million grant, bilateral
German Contribution: EUR 170 million grant, bilateral

Levels of intervention: International/ cross scales

Areas of cooperation and facilitation to enhance understanding, action and support under article 8 of the Paris Agreement: Emergency preparedness, Early warning systems, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities

Activities: Feasibility, Design for climate insurance and pooling mechanisms, the fund also support contribution to premium of the insurance/pooling mechanisms

Description:
Germany launched the Global Shield initiative during its G7 Presidency. It aims at improving the coordination and mobilization of climate and disaster risk finance and insurance. AFD is supporting the initiative through its contribution to the Global Shield Solution Platform (GSSP), one of the dedicated financing vehicles of the Global Shield. The aim of the GSSP is to improve the climate resilience of vulnerable states and their populations to climate shocks, by financing and supporting the essential stages of development of insurance solutions:
i) Risk mapping to determine insurability;
ii) Conceptualization of the insurance product;
iii) Formalization of the insurance product;
iv) Potential subsidization of insurance premium

As such, the project will:
— Mobilize the private sector by promoting partnerships between public development entities of beneficiary local entities and private expertise of the insurance sector;
— Strengthen the capacity of local financial actors for the development and distribution of innovative insurance products against climate change risks;
— Deepen and disseminate knowledge relevant to the development of climate insurance products.

II. AFD project examples

1. Vulnerability Studies of the AdaptAction Programme: Scoping Study for Regional Forecast-based Early Actions in the Organisation of Eastern Caribbean States (OECS)

Financing amount and finance mechanism:
EUR 345 000 grant (AFD), bilateral

Levels of intervention: Regional

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Early warning systems, Emergency preparedness, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities:
Vulnerability and Feasibility studies for Adaptation project

Description:
AFD's AdaptAction Programme supports 18 partner countries and regional organizations in strengthening their resilience to climate change and implementing their adaptation strategies.
In the Caribbean, a study launched and financed by AdaptAction – and conducted by Overseas Development Institute – has elaborated a proposal for a regional approach to disaster risk reduction through preventive actions triggered by meteorological indices across OECS member states. It aims to:

— assess the institutional context, response systems and political economy issues associated with scaling up the use of forecasts to trigger early action;

— create an engagement process through action-research, bringing together relevant stakeholders within the OECS and in the broader region;

— promote the institutionalization of anticipatory action through shared evidence and best practice, developing guidelines and a programme of actions, while identifying financing options;

— strengthen the global community of practice for anticipatory action.

2. Disaster Risk Reduction Public Policy Loan: Financing the Disaster Resilience Integrated Programme in Tunisia

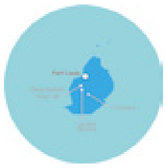
Financing amount and finance mechanism: EUR 40 million loan + EUR 1.5 million grant (AFD), bilateral

Levels of intervention: National and Regional.

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities: DRM project – targeting the Ministry of finance and sectorial Ministries.

Description:
Tunisia is vulnerable to the effects of climate change. Following severe floods in 2018, the government initiated the design of a Resilience to Disasters and Climate Change National Programme to strengthen risk management and financing to improve the protection of the Tunisian population and economic capital against natural disasters.
A project, co-financed by AFD and the World Bank, supports four of the seven pillars of this programme: risk reduction, disaster preparedness, financial protection and institutional reform. Specifically, the Programme will support the achievement of four main objectives: i) improving urban flood risk reduction, ii) strengthening disaster preparedness, iii) strengthening financial protection, and iv) promoting institutional coordination and the development of a legal framework conducive to disaster risk management.
AFD's contribution to this project takes the form of a EUR 40 million loan, combined with a EUR 1.5M Grant to provide technical assistance.



3. Contingency Loan – support for the reduction and risk management of natural and health disasters in Mauritius

Financing amount and finance mechanism:
EUR 300 million loan + EUR 1.5 million grant (AFD), bilateral.

Levels of intervention: National and Regional.

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Slow onset events, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities: DRM project – Contingency loan targeting the Ministry of finance and sectorial Ministries.

Description:
This project aims to strengthen the country's capacity to respond immediately to the economic and health crisis caused by Covid-19, while strengthening its long-term resilience to future health and climate crisis.
It consists of two components. The first component is a contingency loan which disbursement is conditional on the occurrence of a natural or health disaster. It is based on a matrix divided into three complementary pillars, which will provide technical support, public policy dialogue and a three-year follow-up, in addition to the validation of prior actions.

— The first pillar deals with health (activities and context).

— The second focuses on social response measures implemented by the government and medium-term measures to increase the resilience of social protection mechanisms (insurance and assistance). It also covers the resilience of Mauritian public finances, notably through the planning capacity of the Ministry of Finance and the integration of sustainability issues in budget programming.

— The third pillar encompasses key dimensions of Mauritius' long-term resilience, supporting the legal and institutional framework for mitigation and adaptation, its

operationalization, as well as the design and support for the implementation of long-term strategies aligned with the objectives of the Paris Agreement.
Notes: the loan was fully disbursed following the Covid-19 outbreak (trigger).

4. Resilience of Mangrove Ecosystems and Natural Disaster Risk Reduction in Mozambique

Financing amount and finance mechanism:
EUR 6.290 million grant (AFD), bilateral

Levels of intervention: Regional and Local

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Slow onset events, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

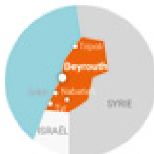
Activities: DRM project (prevention and disaster preparedness) with a contingency budget line implemented by the French and Mozambican Red Crosses.

Description:
Mozambique ranks as the 10th most vulnerable country to climate change impacts in the world. In recent years, various extreme events have confirmed the need to strengthen disaster preparedness and response capacity. In this context, AFD is financing a project aimed at strengthening the ecosystem, community and financial resilience of the Zambezi Delta to the effects of climate change.
This project has three components:

— Capacity building for DRM actors in the Zambezi Delta at the local community level, the Mozambican Red Cross at the provincial, district and municipal levels, and other local actors.

— Protection, restoration, and sustainable management of mangrove ecosystems through the implementation of nature-based solutions. This includes the sustainable management of 15,000 hectares of mangroves, the ecological restoration of 390 hectares of mangroves, and the establishment of two community conservation areas.

— Create financial resilience of the conservation area system in the event of climate disasters by participating in the BIOFUND Endowment Fund and integrating a "Climate Disaster Fund" protocol into BIOFUND procedures, enabling conservation areas to access funds for infrastructure reconstruction after natural disasters.
Notes: a dedicated disaster response contingency line has been integrated into the overall budget. Contingency funds were used twice to respond to emergencies generated by the hurricanes (trigger).



5. Disaster and flood risk management project - Lebanon

Financing amount and finance mechanism:
Financing amount and finance mechanism: EUR 13,7 million grant (AFD) including EUR 2,5 million (Danida), bilateral. .

Levels of intervention: National, Regional and Local.

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Slow onset events, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities: DRM project ("built back better – post disaster – recovery project - prevention and disaster preparedness) with contingency budget line implemented by NGOs.

Description:
This project follows discussions initiated between AFD, the French Embassy and Solidarités International (focal point of the international NGO forum in Lebanon) following the climate events in Lebanon during the winter of 2019. These discussions highlighted the need for an integrated project, consisting of 1) short-term action, upstream of the 2020 rainy season and 2) medium- and long-term action to carry out more structuring actions limiting the impacts of future climate shocks on vulnerable populations. The

project funded by the Crisis and Support Centre (CDCS) of the Ministry of Europe and Foreign Affairs from September 2019 to June 2020 and submitted for co-financing by AFD and the Danish International Development Agency (Danida) for its most sustainable dimension, aims to address this dual-temporality.

This project aims to strengthen the resilience of Lebanese and refugee populations in order to cope with crises and disasters, including floods. It proposes to act at the national level, at the level of the governorates — Akkar and Bekaa — communities and municipalities, and for the first time in Lebanon, at the level of two watersheds, Nahr-el-Ostouane in Akkar and Nahr-el-Ghzaille in Bekaa.

Designed in discussion with Lebanese institutional actors (Disaster Risk Management Unit (DRMU) and CNRS-L) and drawing on the experience of the Lebanese Red Cross in Community Disaster Risk Management (GCRC), the project plans to:

i) Prevent and reduce the risk of floods, by mobilizing communities in the establishment of action plans and promoting the development of a "pilot risk management system" at the inter-communal level;

ii) Prepare the response to the disaster, by equipping communities and local actors with the necessary means and capacities to effectively respond to natural hazard;

iii) Strengthen the capacity of Lebanese actors, including DRM-U and CRL - so that CRL reinforces and disseminates its GCRC approach to benefit communities and sees its role recognized by Lebanese institutions.

Notes: a dedicated disaster response contingency line has been integrated into the overall budget. Contingency funds were used twice to respond to two emergencies (triggers): 1/Beirut blast, 2/Cholera Outbreak.

6. Financing of a natural disaster management project and capacity building of Haitian civil society organizations – Haiti

Financing amount and finance mechanism:
EUR 2 million grant, bilateral.

Levels of intervention: National, Regional and Local.

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Slow onset events, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities: DRR (prevention and disaster preparedness) project with contingency budget line targeting civil society organizations.

Description: AFD's Multi-crisis modifier in Haiti

Initiated in 2019, the Responses to Risks for Sustainable Development (R2D2) is a disaster risk reduction (DRR) programme in Haiti, funded by AFD. Implemented by the established local civil society organizations (CSOs) ITECA, ADEMA and Veterimed, the programme focuses on activities including disaster risk education, risk management training, first aid training, and coordination with relevant authorities, to prepare Haitian CSOs for better prevention and mitigation of natural hazards and improved response to emergencies across the country. Indirectly, the program also supports the operationalization of the National Risk and Disaster Management System, bridging the gap between national and local responses to disasters.

The program's overall budget is 2 million euros. The crisis modifier (or contingency budget line) consists of two parts: 380,000 euros earmarked for the provision of rapid local responses to support community development and recovery in the event of a disaster, and an additional unearmarked protected budget line of 250,000 euros to respond to crises. In case of a crisis, CSOs can use their regular budget lines for program activities to finance emergency responses. Once the emergency phase ends, AFD reimburses the cost of the emergency to the CSOs. Annual budgets include a line item for possible emergencies, and the nature of the R2D2 program (to improve disaster risk management) ensures that the yearly procurement planning anticipates the risk of shocks and crises.

Notes: The contingency budget line was activated in 2021 to respond to the 7.2 magnitude earthquake (trigger encompassed climate and non-climate risk) in Haiti. The program steering committee met 15 minutes after the earthquake hit on 14 August, before the national declaration of emergency, to plan adequate responses. Road clean-up activities started the same day, followed by provision of emergency food kits, shelters, canned drinking water, and hygiene kits within five days, in coordination with local Civil Protection Committees, to areas that had not been reached.

7. Soft Solutions to Counter Coastal Erosion in West Africa – FFEM Contribution to WACA

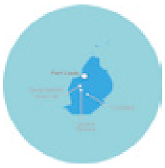
Financing amount and finance mechanism:
EUR 1,277 million grant (FFEM), bilateral

Levels of intervention: Regional

Areas of cooperation and facilitation to enhance understanding, action and support under article 8 of the Paris Agreement: Emergency preparedness; Slow onset events; Events that may involve irreversible and permanent loss and damage; Comprehensive risk assessment and management; Resilience of communities, livelihoods and ecosystems.

Activities: Soft solution and Natural Based solution for adaptation to slow onset events

Description:
To combat coastal erosion and promote the adaptation of populations, the FFEM supports the implementation of the West Africa Coastal Areas (WACA) regional program initiated by the World Bank.
The project aims to develop soft solutions on several pilot sites, such as planting or the use of sustainable materials in breakwater construction. It also brings together coastal observation mechanisms to guide public policy on the management of coastline areas.
The components of the project are i) contributing to the functioning and strengthening of the West African Coastal Observation Mission (WACOM) and its partners; ii) producing data related to understanding coastal risks and capacity-building for WACOM and its partners; iii) encouraging experience-sharing and the implementing of pilot initiatives to mitigate coastal risks; iv) running communications and capitalization activities related to the project.



8. AdaptAction Facility support: Enhancing Resilience to Climate Change in the Republic of Mauritius

Financing amount and finance mechanism:
EUR 997 544 grant (AFD), bilateral

Levels of intervention: national

Activities: Support to national climate and risk governance

Description:
The actions undertaken by AdaptAction in collaboration with the Republic of Mauritius have aimed to mitigate the losses and damages resulting from disasters and climate change, by strengthening the country's resilience and implementing appropriate adaptation measures.
More specifically, the Program has carried out the following actions:

— A "climate change vulnerability assessment" performed in association with multiple stakeholders provided a better understanding of the current and projected impacts of hydro meteorological hazards, and helped scale adaptation options for the integrated management of risks and tourism. Risk maps were created at national level and for priority sites. It thus provides an initial estimate of the losses and damages potentially caused by extreme weather events.

— Technical assistance was provided to the Land Drainage Authority, which is in charge of coordinating the different drainage works on the island, in order to support its operationalization and identify any gaps between the current situation and future needs through detailed analysis of available hydrological data, in cooperation with meteorological and water-management services in Mauritius. This support will ultimately lead to the creation of a national drainage plan.

— Lastly, the National Disaster Risk Reduction and Management Centre received support for the analysis of visions, strategies and processes to reduce existing disaster risks, and for the creation of the new policy, strategic framework, and action plan to reduce and manage disaster risks for the period 2020-2030, under the Sendai Framework 2015-2030.

9. Adaptive Social Protection in Sahel

Financing amount and finance mechanism:
EUR 35 million grant (AFD) in Sahel, bilateral (with World Banks and DFID)

Levels of intervention: National (Multi-country)

Areas of cooperation and facilitation to enhance understanding, action and support under Article 8 of the Paris Agreement: Emergency preparedness, Events that may involve irreversible and permanent loss and damage, Comprehensive risk assessment and management, Resilience of communities, livelihoods and ecosystems.

Activities: Adaptive Social Protection

Description:
Adaptive social protection in the Sahel – EUR 35 million committed in Sahel since 2018.
Since 2018, AFD has been working with its partners in the Sahel Alliance to support the Programme de protection sociale adaptative au Sahel (PPSAS). Thus, AFD supports the multi-donor fund dedicated to the Programme de protection sociale adaptative au Sahel implemented by AFD.
The objective of the program is to bolster the development of adaptive social assistance systems in an environment highly exposed to climate change. This involves incorporating vulnerabilities to the effects of climate change into social registers (database of poor people eligible for social assistance), or improving early warning systems and establishing connections with climate services and warning systems. The programme supports the populations most vulnerable to climate change, particularly during lean season (hunger gap) or in response to drought episode.
The program seeks not only to improve the resilience of individuals by diversifying their sources of income, but also to prevent harmful adaptation strategies (selling livestock at low prices, dropping out of school, etc.) that hinder long-term development prospects.

III. KfW project examples

1. Global: Global Risk Modelling Alliance

Financial contribution: EUR 21 million grant

Goal: Improving availability of climate risk data and modelling capacities in developing countries to enable informed decisions on climate and disaster risks, including for risk transfer solutions/insurance.

Description:
Global initiative by the V20 and Insurance Development Forum hosted at the InsuResilience Solution Fund (ISF). Implemented by experts on climate risk management, insurance sector and development finance. Countries participating to date: Pakistan, Niger, Madagascar, Nigeria, interest by Ghana and Costa Rica. Results will feed into the Global Shield work.

2. Global: InsuResilience Investment Fund (IIF) – Investing in the local climate insurance value chain

Financial contribution: EUR 75 million (EUR 57,5 million in equity and EUR 17,5 million grant finance for TA and premium subsidies)

Goal: improve access to and use of insurance in developing countries in order to reduce the vulnerability of MSME, including small farmers and low-income households to extreme weather events

Description:
The IIF is a structured fund, set up by KfW on behalf of the German Federal Ministry of Economic Development and Cooperation (BMZ), active in countries where climate risk insurance is not yet available or is still in its infancy. It offers loans and equity to financial institutions and insurers in these countries so that they can offer their customers insurance against the effects of climate change. In this way, not only do the customers benefit because they are covered in the event of a climate catastrophe and do not have to interrupt their business activities, but the financial institutions also benefit because they can retain customers if an extreme event occurs. This contributes to debt sustainability and economic stability in the country.

In addition, the IIF also invests in providers of technical solutions that, for example, offer data platforms for climate data and information necessary for climate smart agriculture for small farmers or set up weather stations for the reliable measurement of climate data that are necessary for the development of parametric insurance products. The IIF thus covers the entire climate risk insurance value chain.

The IIF's investees benefit not only from the IIF's financial resources but also from the extensive technical advice that makes the development of demand-oriented CRI products or the improvement of existing initial trials possible in the first place. In addition, the IIF can subsidize insurance premiums in the difficult introductory period. This targeted support is rounded off by targeted education and training measures for decision-makers in key government agencies, awareness-raising campaigns on the negative impacts of climate change and the insurance options for those affected, and cooperation with the scientific community.

The IIF has so far invested loans totaling more than USD 95 million to its partners and more than USD 61 million in equity. IIF is investing in 31 firms across four continents and reaches more than 61.4 million beneficiaries (i.e. smallholder farmers, MSME owners, households and their family members) as of December 2023.

The IIF is a public-private partnership project, i.e., in addition to public funds from KfW and other FIs, such as the European Investment bank, the structured fund also mobilizes funds from the private sector, such as the Open Society Foundation and pension funds. More than one third of the fund capital currently paid in or committed comes from private investors who would not have ventured into the still underdeveloped insurance markets in developing countries without KfW's commitment. In this way, the IIF substantially contributes to increasing private sector involvement in the insurance sectors of developing countries.

3. Global: InsuResilience Solutions Fund (ISF) – Co-financing the development of climate risk insurance products

Financial contribution: EUR 91 million grant

Goal: promote the development of innovative and financially sustainable climate risk insurance products in developing and emerging countries, aiming to increase the resilience of poor and vulnerable people to extreme weather events.

Description:
On behalf of the BMZ, KfW has launched the InsuResilience Solutions Fund (ISF), that provides partial grant funding and advice to transform climate risk insurance concepts into products which are ready for market placement and to bring successfully piloted climate risk insurance products to scale. The insurance products have to target poor and vulnerable households who live on less than USD 15 a day in developing and emerging countries. This includes micro-finance clients, low-income households and employees working in agriculture. The partial grants can be used to fund the development, introduction, and scale-up costs (e.g., staff costs, data collection, modelling, legal fees, sales and distribution channel development etc.) for new direct and indirect climate insurance products.
Due to high development costs and uncertain demand, international insurance companies are hesitant to invest in the development of new products in developing countries. Local insurance companies on the other hand are often in need of additional expertise and financial resources to develop more complex insurance products such as climate risk insurance. By providing partial grant funding the ISF sets an incentive for international insurance companies to use their knowledge in the development of new climate risk insurance solutions to become more involved in the insurance markets of developing and emerging countries.
To both leverage the expertise of the private sector and to ensure that the developed climate risk insurance products meet the needs of those affected and consider their ability to pay, the ISF promotes partnerships be-tween (local) public entities (e.g., national or regional government bodies), private companies in the insurance sector and NGOs.
By the end of 2022, the ISF completed 9 climate risk assessments, funded 13 feasibility and other studies, launched 8 calls for proposals, received close to 340 concept notes and co-funded the product development of 25 climate risk insurance projects that are projected to protect more than 34m poor and vulnerable beneficiaries.

4. Global: Natural Disaster Fund (NDF) - Innovative risk transfer

Financial contribution: EUR 34 million equity, EUR 3 million grant; together with GBP 25 million from the UK Foreign, Commonwealth and Development Office (FCDO)

Goal: NDF is a blended finance risk transfer vehicle, designed to mitigate the challenges in weather and natural catastrophes resilience for low-and middle-income countries.

Description:
NDF provides risk capital for transactions that are assessed on their potential for impact: reach, vulnerability of the targeted community, scalability, and additionality. In managing the NDF, Global Parametrics seeks to make a positive contribution throughout its value chain and throughout its operations by the implementation of an Environmental and Social Monitoring System that follows international sustainability standards. By leveraging private risk capacity for innovative risk protection, the NDF contributes to a large-scale transfer of weather risks from target groups in developing countries to international reinsurance and capital markets. NDF has developed inter alia an excess heat product for the urban poor in India, a hurricane cover for Caribbean reefs, a forecast-based cover against typhoons as well as recovery micro-lending in rural areas.

5. Regional: Shock Resilient Loans (SRL) – Co-financing the development of climate risk insurance products

Financial contribution: EUR 10 million

Goal: strengthen the financial and fiscal resilience of development banks and their member countries against climate risks

Description:
The shock resilient loans (SRL) have been designed by KfW on behalf of BMZ as an innovative financing instrument to avoid debt spirals caused by climate disasters. Sovereign loans (e.g. via a regional development bank) that are intended

for investments are bundled with an insurance policy to make them shock resilient. In the event of a climate disaster, the insurance kicks in and takes over payment obligations of the debtor for a predefined timeframe. The infrastructure originally financed with the insured loan does not have to be directly affected by the disaster. The insurance payout is more of an indirect budget support.

Rather than making debt repayments after a disaster, borrowing countries can instead spend scarce resources on emergency relief and reconstruction activities. Countries are therefore less likely to need to take out additional loans following a disaster, protecting them from over-indebtedness and are also less likely to need to make emergency budget cuts that could limit their citizen's access to essential services or undermine development gains.

When the insurance component is specifically offered for loans aiming to finance investments in resilience strengthening, they can be an additional incentive to invest in risk reduction and adaptation.

Because they are arranged before a crisis, SRLs help to build risk awareness and support ex ante planning and cost-effective use of resources. Additionally, SRLs support debt sustainability at the sovereign and institutional levels by protecting both borrowers and lenders from climate shocks. They can also be linked to Nationally Determined Contributions (NDCs) and contingency plans to create incentives for climate adaptation and effective risk management.

SRLs can potentially be used to protect all lending activities of development banks against climate and disaster risks and thus protect their clients (partner countries) from over-indebtedness due to catastrophes.

The instrument is currently being piloted with the West African development bank BOAD, which provides shock resilient subsidized loans to member countries for investments in climate change mitigation and adaptation as well as in health resilience infrastructure. In the event of a climate disaster or an epidemic, BOAD receives the insurance pay-out and in return waives the debt and interest service of the affected member country in the same amount. The insurance will enable BOAD to continue lending to member countries even after an extreme event, preventing liquidity shortages.

Due to KfW's well established network and general transparency during the conceptual phase of the project, the concept has benefitted substantially from private sector knowledge and the tender for the product development has attracted the interest of major private sector stakeholders.

6. Regional: Africa Risk Capacity (ARC) and ARC Replica – Risk transfer, Preparedness and Development/Humanitarian nexus

Financial contribution:

Since 2014 approx. EUR 100 million (35 million subordinated loan for capitalization, 65 million grant)

Goal:

Increase the preparedness of African countries for natural hazards by improving access to and use of needs-based insurance solutions. African households particularly vulnerable will receive faster and more effective support in the event of a disaster.

Description:

ARC was founded on the initiative of the African Union in 2014. ARC provides insurance against droughts and tropical cyclones to African countries. Compared to other risk pools, ARC stands out because it closely links climate risk insurance with an early warning system and emergency response planning. Since 2019 humanitarian actors are also able to buy insurance with ARC to the benefit of a country (ARC Replica). This has contributed to a paradigm change towards anticipatory action in humanitarian aid. KfW has contributed to the capitalization of ARC Ltd, supported the institutional set up and product development with TA, financed the piloting of the ARC Replica approach and premium payments for Replica partner World Food Program and Start Network, and currently supports the take up of the insurance by subsidizing premiums of member countries and Replica partner.

7. Local: Kerala, India – Reconstruction and policy-based loan for DRM

Financial contribution: EUR 270 million concessional loan (100 million development policy loan and 170 million investment loans)

Goal:
Increasing the resilience of Kerala against natural hazards and rebuilding transport infrastructure after devastating flooding in 2018.

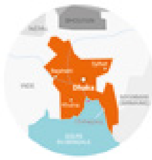
Description:
Support for the state government's Rebuild Kerala Initiative. Development policy loan to increase resilience is implemented jointly with the World Bank. Resilience should be strengthened by
(i) improving the institutional and financial capacity of Kerala regarding disaster and climate risk and (ii) mainstreaming disaster and climate risk in critical infrastructure and services. Reconstruction efforts are targeted on road infrastructure, which integrates climate risks/DRM from the beginning on, for instance higher elevations, sewers, stabilizing slopes to prevent landslides.

8. Local: Honduras: Integrated urban DRM

Financial contribution: EUR 23 million grant

Goal:
Support to the capital city in protecting the urban poor from flooding and landslides

Description:
i) Reducing climate risks by grey and green adaptation measures: e.g. absorption wells, drainage systems, water retention basins, retaining walls, stabilized embankments and newly planted trees to secure unprotected hillsides. Risk areas are afforested or converted into urban green areas. Adapted land-use plans and new building regulations introduce regulated and resilient urban development.
ii) Strengthen disaster risk management and disaster preparedness in coordination with the civil protection agency and the Environment Ministry: integrated risk-maps, early warning system, simulation models, training for population. Certification systems for protection officers who help to warn and inform the population.



9. Local: Bangladesh: Climate Bridge Fund (CBF) - Preventing and addressing climate-induced migration

Financial contribution:
EUR 22.7 million grant

Goal:
Strengthen the resilience of urban poor people who are either displaced or are at the risk of being displaced due to the impacts of climate change.

Description:
The Climate Bridge Fund (CBF) is a trust fund established by BRAC in November 2019 with support from KfW. It provides small-volume, long-term financing for the poorest of the poor and thus security and stability. Its long-term orientation enables to strengthen and stabilize the commitment of local societies. Projects are being implemented by BRAC and other NGOs. Women will benefit disproportionately from the activities supported by the fund.

About AFD Group

AFD Group contributes to the implementation of France's sustainable development and international solidarity policy. Consisting of Agence Française de Développement (AFD), which is responsible for public sector and NGO financing, research and training; its subsidiary Proparco, dedicated to private sector financing and support, and Expertise France, a technical cooperation agency, the Group has a mandate to fund, support and accelerate the transition to a fairer and more resilient world.Together with our partners, we work with and for communities to build shared solutions in over 150 countries, as well as 11 French Overseas Departments and Territories. What is our objective? To reconcile economic development with preservation of common goods, in the fields of climate, biodiversity, peace-building, gender equality, education and health. Our teams are involved in more than 4,200 projects in the field, thus reinforcing France and the French people's commitment to supporting the Sustainable Development Goals (SDGs). Towards a common world.

About KfW

KfW Bankengruppe, founded in 1948, is the German promotional bank and one of the world's leading promotional banks. It is 80% owned by the Federal Government and 20% by the federal states.The business sector KfW Development Bank carries out Financial Cooperation (FC) projects with developing countries and emerging economies on behalf of the German Federal Government, especially of the Federal Ministry for Economic Cooperation and Development (BMZ). KfW Development Bank employs approximately 1,200 people at the head office in Frankfurt am Main and 400 specialists at more than 60 international locations, who cooperate with partners all over the world. Their goal is to combat poverty, secure peace, protect the environment and the climate as well as ensure fair globalisation. KfW Development Bank is a competent and strategic adviser for current development policy issues. KfW Development Bank's climate finance commitments reached 7.6 billion EUR in 2022, which is 69% of total new commitments of that year.

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