

### Increasing the Relevance and Effectiveness of Residual Climate Risk Management in German Development Cooperation

Leppert, Gerald; Köngeter, Alexandra; Moull, Kevin

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# INCREASING THE RELEVANCE AND EFFECTIVENESS OF RESIDUAL CLIMATE RISK MANAGEMENT IN GERMAN DEVELOPMENT COOPERATION

Losses and damages in the context of the climate crisis pose major challenges for development cooperation. They result from residual climate risks, i.e. risks that remain after risks have been reduced through mitigation and adaptation. 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). This Policy Brief shows how their relevance and effectiveness can be increased.

## Key findings:

- German development cooperation is a pioneer in residual climate risk management. Comprehensive climate risk management, however, requires strategic further development of the portfolio plus closer cooperation with partner countries and other actors.
- Greater openness in the choice and combination of instruments, and a stronger focus of these instruments on residual climate risks, can increase their effectiveness and risk coverage.
- Climate risk insurance is a focal area of German development cooperation. However, climate risk insurance interventions are in many cases not a priority of the partners and target groups. If the priorities of the partner countries and the needs of the target groups were given greater consideration when designing the insurance solutions, their relevance could be increased. Combining them with other instruments would also increase their effectiveness.

German development cooperation already uses various instruments to manage residual climate risks. These can be assigned to the groups 'risk finance' (third-party risk finance, risk pooling and, risk retention), 'risk preparedness' and 'transformative risk management'

(Figure 1). These instruments serve different objectives, and are therefore applied in different areas.

## Risk assessments and monitoring fall short

Relevant and effective interventions are based on sophisticated climate risk assessments that take into account the limits to adaptation. German development cooperation supports the further development of these assessments. However, it is evident that climate risk assessments are often not carried out comprehensively or on a sufficiently needs-oriented basis. Moreover, they have little influence on the choice of instruments used. Coordination with partners and other development cooperation actors, and the participation of target groups, are also often inadequate. For example, data and findings of the assessments are rarely shared as needed.

Monitoring and reporting are primarily based on output-related indicators. Such numerical indicators do not capture outcomes and impacts. They can set negative incentives in implementation and thus contribute to maladaptation. To avoid this, indicators for effective risk protection and for effectiveness and impact for the target groups should be included in monitoring and evaluation systems.

## Take greater account of priorities of partner governments and target groups

The evaluation has shown that the strategic priorities of partner governments and the needs of target groups are only partially taken into account in the choice of instruments. For example, German development cooperation relies heavily on climate risk insurance, while partner governments and

**Figure 1 The groups of development cooperation instruments for residual climate risk management**

Source: DEval, authors' own graphic, based on Lal et al. (2012)

target groups often prefer risk preparedness instruments. This gap can also be explained by differences in risk culture. The latter often goes hand-in-hand with low trust in financial institutions and consumer protection in partner countries. The choice of instruments should be geared to the specific risks, and the impacts for target groups. As well as partner priorities, the needs of particularly vulnerable target groups are key to the relevance of interventions as envisioned in the 2030 Agenda principle of 'leaving no one behind'.

### Covering risks more comprehensively through combination and cooperation

The broader the coverage of target groups, climate risks, and losses and damages, the more comprehensive is the management

### References

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.



**Dr Gerald Leppert**  
Team Leader



**Alexandra Köngeter**  
Evaluator



**Kevin Moull**  
Evaluator

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