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The landscape of financing options to address human mobility in the context of climate change

Instruments and approaches to finance measures on climate change related migration, displacement and planned relocation

Background

Climate change induced slow onset processes and extreme weather events have been worsening and increasing over the last few decades and as a result **human mobility has been increasing.** Changing climates are forcing people to leave their homes in search of better economic opportunities, **slower environmental changes** such as water scarcity or sea-level rise are making certain **areas uninhabitable**, **disasters are destroying livelihoods and force displacement**, and entire villages are **undertaking planned relocations** to avoid inevitable loss and damage.

The **implementation of timely and diversified financing** can **dampen the effects** of climate shocks**, preserve and rebuild livelihoods,** lead to **positive gender transformative outcomes** and significantly **reduce future costs.**

Every

USD 1

invested in risk reduction and prevention saves up to

USD 15

in post-disaster recovery.

(UNDRR, 2021)

Sources of financing

National/domestic level: most of the funding used to address human mobility in the context of climate change (HMCCC) from national governments comes in the form of **budget contingencies**, **loans** secured from international organisations, and financial instruments such as, but not limited to, **sovereign risk pools and bonds**.

Left: Children riding a bus to the relocated village Vunidugoloa in Fiji, South Pacific

Photo: © GIZ / Aaron March

<u>Multi- and bilateral:</u> sources include **disaster response organisations, humanitarian aid organisations, development banks and agencies** and foreign governments, and multilateral institutions via established **funding programmes**, such as the Green Climate Fund or the Adaptation Fund.

<u>Private:</u> in the private sphere the most important funding sources are **remittances** and **insurance companies**.

Countries revealed that

81%

of respondents have 'at least one national financial mechanism or instrument to deal with climate risks and impacts'.

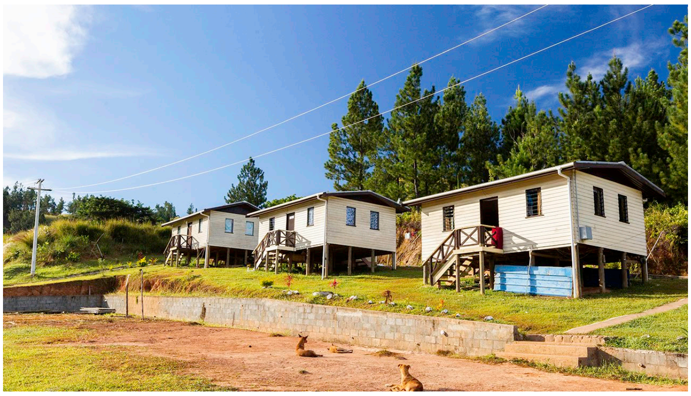
(Künzel and Schäfer, 2021)

Financial tools and instruments

Financial instruments addressing HMCCC have either the effect of climate **risk retention, risk transfer and risk reduction**. They can help **prevent displacement** or make short term displacements safer as well as **facilitate planned relocations**. For migration they can help provide **safer infrastructure and better amenities** in receiving communities, or make **the need to migrate not necessary** in the first place. No single instrument will solve HMCCC related issues on its own. A **mix helps finding synergies** and also enables a **diversified risk portfolio**. The instruments can be designed to be **gender transformative** to improve well-being on several social fronts. They are also generic, and can be **adjusted to different cultural and religious contexts**, e.g., instead of bonds, Sukuk can be deployed in an Islamic context.

Gender aspects in financing

In the context of developing countries, **women are more likely to be affected** by climate change. Thus, **transformative gender elements** need to be embedded in the institutional practices and tools for financing HMCCC by ensuring that more macro-level policies **pay special attention to the social context and the recipients of benefits at the more micro-level**. Such approaches can be **applied and extended to marginalized groups being highly vulnerable** to climate change impacts.



Top: Relocation of communities require costly construction work, like in Vunidugoloa in Fiji, South Pacific

Bottom: Since self-groups proved to be creditworthy, the counters have been opening up for millions of tiny businesses, small farmers, landless agricultural workers and women in India.

10 Financial instruments to address HMCCC

A non-exhaustive selection of **10 financial instruments and tools, with high contribution to a diversified risk portfolio** in dealing with the eventualities of HMCCC, has been analyzed in terms of variable aspects:

		Point of Intervention			Type of Event		Source of Finance			Instrument Maturity		
Action	Instrument	Before	During	After	Slow-onset	Sudden-onset	Domestic	Multi-lateral	Private	Nascent	Early	Private
Risk Reduction	Remittances	•	•	•	•	•			•			•
	Forecast-based -Financing	•			•	•	•	•		•	•	
	Bonds	•		•	•	•	•		•		•	•
	Micro-credit	•		•	•	•	•	•	•			•
	Grants and Loans	•		•	•	•	•	•				•
Risk Retention	Relocation Fund	•		•	•		•	•		•	•	
	Climate Land Bank			•	•	•	•			•		
	Budget Contingency and Contingency Credit		•	•		•	•	•			•	•
Risk Transfer	Micro-insurance	•	•	•		•	•		•		•	•
	Risk Pools		•	•		•	•	•		•	•	

Recommendations for financing to address HMCCC

In general, for achieving a better risk portfolio, **instrument synergies** are needed, and **macro-level funding should be channelled to micro-level policies** by e.g., using government bonds for providing microcredits or small grants.

Therefore, **national governments** are recommended to **implement a diversified risk portfolio** to spread the risk as well as to **support capacity building** of national micro-level projects. Furthermore, the role of **monitoring and data** in the application of the different finance instruments should be improved.

Multi- and bilateral institutions are encouraged to **offer flexible financing periods** for addressing difficulty of disaster prediction and **support national governments** through providing capacity building projects together with seed funding and funds dedicated exclusively to HMCCC, such as the Global Climate Fund or Adaptation Fund.

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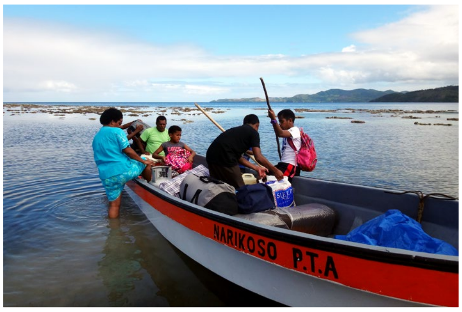

Examples for financial instruments and tools:

Microinsurance

Small-scale individual insurance product provided at affordable rates and pay-outs are parametric. These can prevent the loss of livelihood before actual loss has taken place which can help avoid displacement. See the Insuresilience Global Partnership and the Munich Climate Insurance Initiative for more resources on micro-insurance.

Forecast-based Financing (FbF)

FbF is used to provide anticipatory humanitarian action. Early Action Protocols (EAPs) define important tasks and parameters such as triggers for financing, role division, and fund allocation. Learn more and see examples of FbF and EAPS at the Anticipation Hub.

Relocation fund

A relocation fund is being implemented by the Fiji government with guidelines that provide principles and further social safeguards to assist Fijian communities at risk of rising sea levels in the coastal regions of the island. It is considered a last resort measure for relocation. Read the UNHCR report on planned relocation.

Sovereign risk pools

A risk pool is a method that insurance companies use to reduce their risk of sudden and extreme losses caused by major disasters. The rapid funding made available through a souvereign risk pool can provide flexibility in financing action to meet urgent infrastructure and livelihood needs, which can either facilitate migration or shorter-term relocation or help prevent displacement.

The full study with detailed explanations of all 10 instruments can be downloaded here: https://www.adaptationcommunity.net/publications/the-landscape-of-financing-options-to-address-human-mobility-in-the-context-of-climate-change/

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