UNDP Insurance and Risk Finance Facility

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Engagement Initiative Factsheet

Introduction and Background

Least developed countries (LDCs) are on the front line of our changing climate and often face further challenges of high levels of poverty, insecurity and inadequate governance capacity. Development in LDCs remains fragile as result of increasing shocks, rising and interconnected risks, and weak governance capacity, the combination of which locks in vulnerability and poverty, while greatly limiting economic growth. A reliance on climate-sensitive sectors for employment and economic growth, such as agriculture, locks in this fragility. In the wake of crisis, resources continue to be diverted away from sustainable development priorities towards emergency response and reconstruction efforts. The COVID-19 pandemic has only further exacerbated the vulnerability of LDCs and highlighted their fragility. Meanwhile many of these same countries are significantly lacking in financial resilience, and carry heavy burdens of debt, which in many cases are being significantly increased by crisis. With a massively uncertain future comes the need to invest in the long-term financial resilience of LDC countries and their communities.

The ambitious and forward-looking Doha Programme of Action for Least Developed Countries recognizes the need to build the long-term financial resilience and stability of LDCs. The Doha Programme highlights how shocks continue to undermine years of progress on development goals and targets, significantly impacting attainment of the Sustainable Development Goals and delaying progress towards graduation from the LDC category. Insurance, risk financing and all kinds of risk transfer can act as a significant catalyst for helping countries tackle multiple shocks, while also stimulating growth and building long-term capacity, by stripping uncertainty and risk across all aspects of society and the economy. The Doha Programme itself notes the need for "significant support to existing climate and disaster risk finance and insurance and catastrophe-triggered financial instrument as well as developing and enhancing the capacity of existing instruments and derivatives that provide risk insurance and guarantees for where they are most needed, such as micro, small and medium-sized enterprises and low-income households with a gender-responsive approach." (paragraph 231, Doha Programme of Action). The document also reflects on the crucial need to reinforce the enabling environment for private sector development to achieve a sustained, inclusive and equitable economic growth, while ensuring a full and equal access to financial services and products such as insurance to improve financial resilience, especially for women.

However, the actual usage of risk transfer tools, from the individual household through to national governments, remains weak across LDCs. A lack of an understanding of risk, uneven financial literacy, inadequate understanding of the potential for risk transfer, lack of insurance industry capacity, weak systems and governance capacity financial risk management, insufficient legislation, regulation and government capacity, all contribute to this.

The Initiative and Structure

UNDP's Insurance and Risk Finance Facility (IRFF) has identified the weakness of sustainable financial risk management within LDCs, as a critical area to be addressed to help LDCs progress and tackle their climate and development challenges. The IRFF has designed a specific programme, the Engagement Initiative, to work with LDCs to tackle the underlying challenges noted above, by building their capacity to adopt insurance and risk financing solutions, integrating risk transfer into government decision-making, including public financial management, enhancing the regulatory and legislative environment for all aspects of financial risk management, integrating risk transfer into key country frameworks such as countries commitments to the Paris Agreement (the Nationally Determined Contributions) and National Adaptation Plans, and driving long-term engagement between government and the insurance industry.

The Engagement Initiative was launched in 2022 with funding from the German Government, through the Federal Ministry of Economic Cooperation and Development (BMZ). The Initiative is being implemented in Comoros, Senegal and Uganda. Given the rapidly escalating needs, this dedicated Engagement Initiative aims to move significantly beyond its current scope and scale up to 20 countries by 2025.

Main Components of the Work

To kick-off the projects, a detailed diagnostic of the current environment for insurance and risk finance will be undertaken in each country across both supply and demand elements, as well as the underlying risk and development dynamics, with a strong focus on government capacity to construct and implement systems of financial risk management. The respective country diagnostic will form the basis for defining a tailored country workplan, with the global element linking best practice and lessons learnt across all countries.

1. Fostering Demand for Insurance and Risk Financing: Starting with diagnostic reports, feasibility analyses, and research, this component will build the evidence for government investments in insurance and risk-financing. It will also, where appropriate, build the business case for examining losses, recovery costs, and various opportunities for insurance and risk finance.
2. Creating Capacity and Understanding for Insurance and Risk Finance: Build technical capacity on risk financing through training and consultations to strengthen understanding and articulating risk - strengthening measuring and modelling of risk to inform decision-making and disaster finance planning.
3. Financial Resilience and Fiscal Stability: Develop government capacity, systems and practices for the management of resources generated by insurance and risk financing, including contingency planning for disaster risks. Strengthen government capacity in public financial management of disaster risks, integration of risk finance into development planning (INFF, NAP, NDC) and advance research to strengthen public financial management for disaster risks in LDCs.
4. Foundational Development for Insurance and Risk Finance: Develop and implement a programme for foundational insurance market development, focusing on a mix of both insurance regulatory capacity and engagement with national insurers. This component provides a strong foundation for the future management and growth of insurance and risk financing in each country.
5. South-South Learning, Advocacy and Evidence: Countries within the Engagement Initiative will draw lessons from each other that face similar scenarios and ambitions, including learning from those countries where UNDP is already working with industry to create risk financing solutions and build the technical capacity of government.

The Tripartite Agreement

The Tripartite Agreement sits at the center of UNDP's work on risk financing. Signed at the UN Secretary General's Climate Summit in 2019, this agreement brings together the German Federal Ministry for Economic Cooperation and Development (BMZ), UNDP and with the Insurance Development Forum 17 of the world's largest insurance and reinsurance companies in the world to build risk financing solutions for climate vulnerable countries. Agriculture, education infrastructure, transport, health facilities and more are all potential sectors for coverage. Here, industry provides technical assistance in developing financial solutions, alongside up to $5 billion of risk capital. UNDP supports industry through convening and stakeholder management, institutional and government reform, and the integration of risk financing into government decision-making.

One of the aims of the Engagement Initiative is that its countries will also become Tripartite countries, and have access to the dedicated capacity building, technical assistance, and risk-capital, provided by industry. (See here for more detail.)

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