

The Global Takaful Alliance – Concept Note

A Public-Private Initiative Delivering Financial Resilience through Takaful at Scale

Rationale

Countries and communities across the globe are confronted with an increasing set of risks, hazards and shocks, driven by our changing climate, biodiversity collapse, the recent pandemic, rapidly escalating prices, increased conflict and rising insecurity. The impacts from these shocks are particularly pronounced in developing countries, with losses escalating year on year, and where people and governments have fewer resources and capacity to manage their risks. This often leads to the reversal of developmental progress and the perpetuation of cycles of poverty, vulnerability and future heavy impact of crisis.

The vast majority of the world is essentially lacking in financial protection. The protection gap from disasters (the difference between losses insured or not) in most developing countries is often well above 90%, and in numerous developing countries, insurance remains remarkably low, with only a fraction of society and economy covered by financial resilience of any kind. A whole set of key aspects of life, society and economy are essentially without financial protection in a world of rising hazard and shock, leaving the financial burden of risk resting almost entirely with every family, community, business and country.

Insurance and risk transfer solutions provide countries, businesses and communities with a vital means to confront growing risks, improving their ability to manage crises and mitigate financial shocks, and incentivising investment. Despite this, conventional insurance remains vastly underutilized, with insurance penetration often less than 1%. In regions with significant Muslim populations, socio-cultural and religious factors further limit the uptake of traditional insurance. Takaful, a Shariah-compliant alternative built on solidarity and shared risk, offers a viable solution by addressing these barriers.

The lack of financial resilience exposes households to the potential of any shock plunging them into poverty, subjects small-scale farmers to the uncertainties of climate-induced crop failures, leaves SMEs susceptible to overwhelming losses caused by catastrophic events, and already heavily-indebted countries needing to finance recovery and reconstruction when often already heavily indebted. At the same time increasing evidence shows how investment is being undermined by the lack of financial protection in key sectors, by exposing those investments to far too much risk and uncertainty.

Muslim communities are often in the frontline of such impacts, with Muslim majority countries (with more than one billion residents in total) representing 13 of the 27 countries most acutely threatened by climate change. These countries, like many others, suffer from weak levels of financial resilience, a lack of government capacity to manage risk, financially, weak legislation or regulation for insurance market development, a lack of financial literacy, undeveloped insurance providers and more. Yet in Muslim countries, there is an additional strong hurdle in how traditional insurance is seen as being significantly at odds with Islamic jurisprudence.

| | Total Population | Total Muslim Population | Insurance Penetration (% of GDP, non-life) ¹ |
|-------------------|------------------|-------------------------|---|
| Indonesia | 273 | 238 (87%) | 0.5 |
| Pakistan | 225 | 216 (96%) | 0.3 |
| Nigeria | 211 | 106 (50%) | 0.2 |
| Bangladesh | 166 | 149 (90%) | 0.1 |
| Egypt | 104 | 94 (90%) | 0.3 |
| Iran | 84 | 83 (99%) | 1 |
| Turkey | 84 | 82 (98%) | 1.3 |
| Sudan | 44 | 42 (96%) | 0.5 |
| Algeria | 43 | 42 (99%) | 0.6 |
| Morocco | 37 | 37 (99%) | 2.1 |

Figure 1 – Lack of Financial Resilience in the Most Populous Muslim Countries

Takaful, a Shariah-compliant version of insurance that is built on the pooling of both risk and investment, is a significantly under-utilized form of financial resilience. It represents a significant opportunity for governments, development partners, and the philanthropic and private sectors to strengthen financial protection in Muslim communities, supporting the resilience of homes, livelihoods, food systems, businesses and assets.

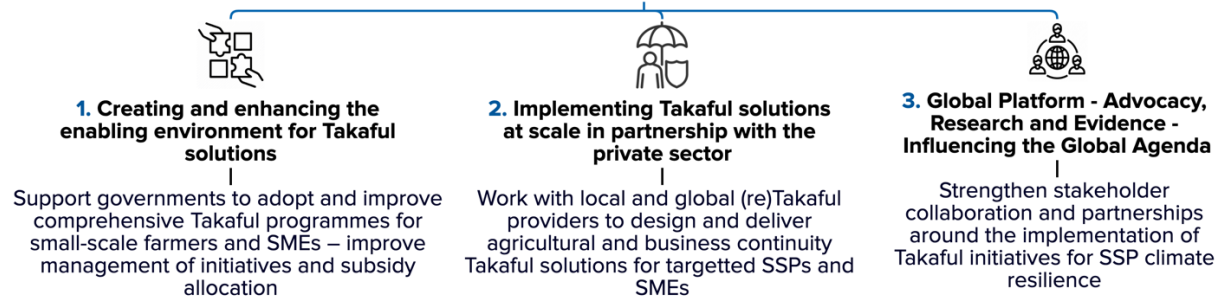
The Global Takaful Alliance

To protect vulnerable people across the world from the escalating effects of risk, hazard and shock, to bring certainty to communities, businesses and countries, and to protect growth and investment, the development community, public and private, global, regional and national, must come together to develop and distribute financial solutions at scale. This is the rationale for the Global Takaful Alliance. A direct response to the challenges of weak financial resilience in Muslim countries and communities on this frontline of growing risk, the Global Takaful Alliance is a visionary public-private initiative, the Alliance will leverage country, regional and global expertise and capacity at scale, with the ambition to build the financial resilience of 100 million people by 2030.



Ambition: Enhancing the Financial Resilience of 100 million people through Takaful by 2030

Core Areas of Implementation and Outputs

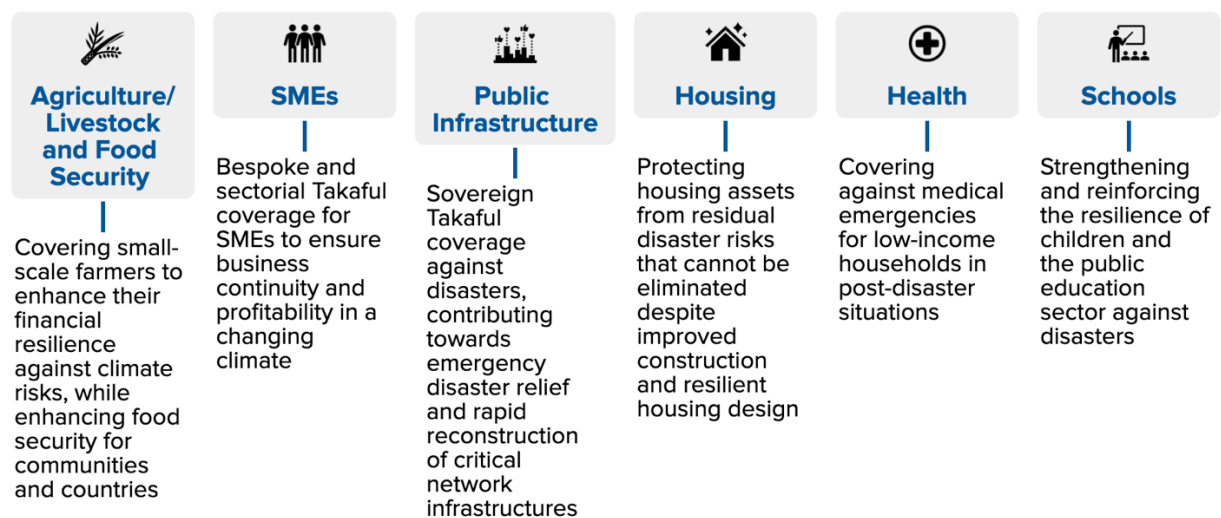


The Alliance is bringing together actors both public and private, national regional and global, development, research and philanthropic, together to pool resources and capacities across Muslim

¹ Data from [Swiss Re Sigma, 2023](#)

communities and countries. Through its three core areas of implementation and outputs, it will create an enhanced enabling environment for Takaful solutions and build national capacities of Takaful providers, while developing and implementing Takaful financial solutions at scale across key sectors of society, growth and development. It will bring the best ideas, talent, research and innovation together in a global platform to drive best practice and influence the global agenda. Covering everything from health to agriculture, from housing to small business, covering schools and hospitals or broader public infrastructure on which everyone depends, the desired impact of the alliance will be significant, massively reducing the direct impact on families, farmers and businesses, reducing the need for emergency assistance, funding recovery and reconstruction, and incentivizing growth and development through the stripping away of both risk and uncertainty.

Targeted Sectors for Enhanced Resilience



Financing Needs and Management of the first phase of the Global Takaful Alliance

To deliver on the substantial and needed ambition of building the financial resilience of 100 million people by 2030, it is estimated that as much as US\$100 million would be needed over the next four to five years.

As a first phase, the partners to the Takaful Alliance development have outlined a critical initial implementation to deliver immediate solutions to the most at-risk countries and communities, and build the global platform that will manage the work of the alliance and its partners. With a strong focus on smallholder farmers and the communities they serve, this US\$20 million first phase is constructed across three key interconnecting outputs over four years: constructing the enabling environment for Takaful, rolling out dedicated Takaful solutions and creating a global platform and community of practice for the Alliance.

The Global Takaful Alliance Phase 1 will be implemented by UNDP and partners from within the Takaful community as a standard programme, but in reflecting its status as an Alliance project, an advisory body drawn from Alliance roadmap development members will guide and support implementation through early development and full activity phases. In addition, the Global Platform component will in particular build out capacity of and deliver on the key partnership components of the wider Takaful Alliance work, building out its partnership, engagement and community of practice.

Takaful Alliance Members – What it means to join

The full details of what it means to be a member of the Global Takaful Alliance has yet to be developed but certainly success will rely upon the collaboration of diverse institutions, each contributing unique technical expertise and financial resources across and within developing countries. All can provide leadership, encouragement and momentum to the Alliance and its work, and all can add value, but here below are key areas of likely and future engagement.

Governments - Provide resources to support Takaful development and implementation in their countries, integrating Takaful into national development policies and planning, and building the enabling environment for successful Takaful expansion.

Donors, foundations and philanthropies - Providing financial resources to support implementation of the Alliance and working to align Alliance priorities with key sectors and geographics of their focus.

Takaful Providers - Providing technical expertise within and across countries on the expansion of Takaful capacity and markets, and developing and implementing Takaful solutions, while providing wider expertise on at-risk demographics.

Private Sector - The range of private sector engagement with Takaful will be significant and diverse, beyond Takaful providers. Beyond technical support potential, all private companies have the opportunity to deploy their CSR resources directly into the financial resilience of Muslim communities.

Research Institutes and Bodies - Providing the very latest and best evidence, research and advocacy to make the work of the Alliance truly transformational through its global platform.

Progress to Date and the Way Forward

To date, UNDP has been joined by the Islamic Development Bank (IsDB), Arab Gulf Fund for Development (AGFUND), the Kuwait Finance House (KFH) and the Mohammed Bin Rashid Al Maktoum Global Initiatives (MBRGI) in committing early resources to develop the Takaful Alliance in its crucial development phase.

A set of events have already taken place in the Gulf region, including at COP28 in Dubai, and that, together with some very preliminary partnership engagement has already secured the interest of more than 70 institutions of all kinds and six countries. These early engagements have suggested there is substantial support for the creation and roll-out of the Takaful Alliance, globally and especially at the country level. In addition, UNDP, IsDB and IsDB Institute have released the first of two analyses designed to drive up engagement with Takaful, a [high-level advocacy report](#) with a Market System analysis guidance report being launched at this year's COP16 UNCCD in December.

Over the next six months the focus will be twofold: raising resources for phase one, commencing implementation and building the global platform; while also engaging with the many actors from all sets of constituencies to build the Alliance for the long-term.

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