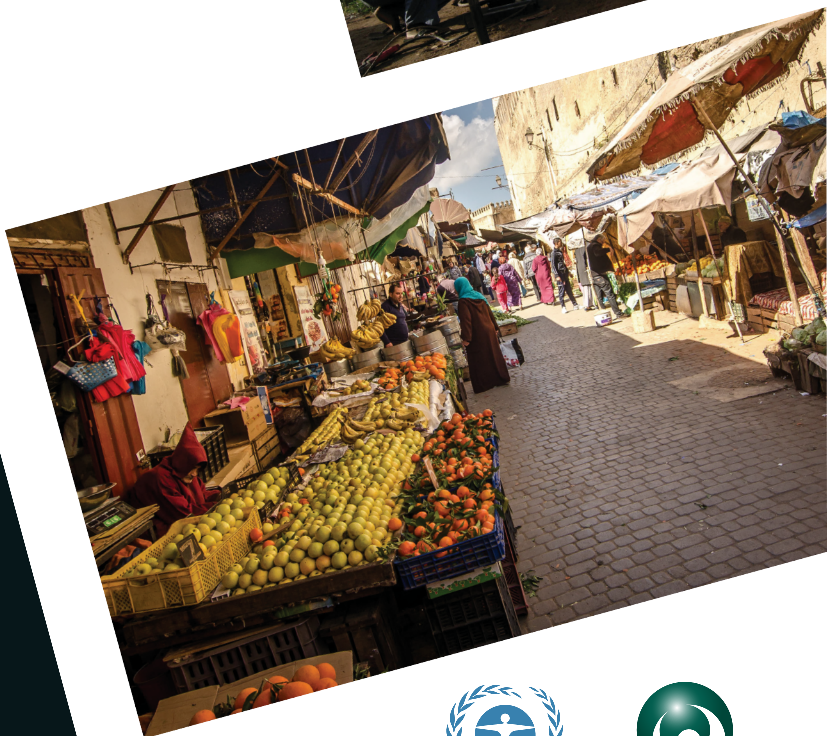
# The V20-led Sustainable Insurance Facility at a Glance

## A Project Pipeline Development Facility for solutions to build resilient micro-, small- and medium-sized enterprises in V20 economies



JANUARY 2021

V20 | VULNERABLE TWENTY GROUP

GLOBAL CENTER ON ADAPTATION

InsuResilience Global Partnership

MCII

UNEP FINANCE INITIATIVE

PSI Principles for Sustainable Insurance

## *Background: Climate change action and MSMEs in V20 economies*

In V20 economies, micro-, small- and medium-sized enterprises (MSMEs), contribute between 20 and 80 percent of GDP, constitute more than 70 percent of all businesses and power the countries' export revenues. They are important drivers of socio-economic growth, arguably a key prerequisite for resilience and government revenue.

*Table 1: Contribution of MSMEs to select V20 economies*

| | Employment | GDP Contribution | % of Business | Export Earnings |
|---|---|---|---|---|
| Afghanistan | > 33% (2012)[1] | 50% (2012)[1] | 90% (2020)[32] | |
| Bangladesh | 75% (2015)[3] | 25% (2015)[3] | 99% (2013)[4] | 75%-80% (2015)[3] |
| Bhutan | 30% (2018)[6] | 13% (2014)[5] | 98% (2020)[2] | |
| Cambodia | 70% (2018)[7] | 58% (2018)[7] | 99% (2018)[7] | 10% (2019)[7] |
| Mongolia | 52% (2010)[8] | 25% (2010)[8] | 97% (2020)[29] | 12% (2010)[8] |
| Nepal | 85% (2018)[31] | 38% (2016)[9] | 99% (2018)[31] | 70% (2018)[10] |
| Philippines | 62.4% (2019)[11] | 36% of GVA( 2019)[11] | 99.5% (2019)[11] | 25% (2019)[11] |
| DR Congo | | 20% (2013)[13] | 90% (2013)[13] | |
| The Gambia | 60% (2019)[14] | 20% (2019)[14] | 99% (2013)[17] | |
| Ghana | | 70% (2016)[16] | 90% (2020)[15] | |
| Kenya | > 80% (2017)[18] | 34% (2016)[18] | 98% (2017)[18] | |
| Lebanon | | 80% (2019)[20] | 95% (2018)[19] | |
| Morocco | 73% (2018)[21] | 37% (2018)[21] | 99% (2018)[21] | 27% (2018)[21] |
| Rwanda | | | 99.8% (2017)[22] | |
| Tunisia | 56% (2019)[24] | 40% (2010)[23] | 99.8% (2019)[24] | 76% (2015)[30] |
| Yemen | | | 97% (2013)[25] | |
| Costa Rica | 33.3% (2017)[26] | 35.7% (2017)[26] | 97.5% (2017)[26] | 5.9% (2017)[26] |
| Dominican Republic | | 38.6% (2014)[27] | 98% (2013)[27] | |
| The Caribbean | 50% (2016)[28] | 70% (2016)[28] | 70% (2016)[28] | |

1) Mashal 2014, 2) National Statistics Bureau Bhutan 2020, 3) Rahman 2015, 4) ADB 2020, 5) National Statistics Bureau Bhutan 2015, 6) SME Employment: NSB 2018, Total Labour force 2018: NSB 2020, 7) ADBI 2020, 8) World Bank 2012, 9) UNCDF 2019, 10) UNESCAP 2020, 11) DTI 2019, 12) World Bank 2019, 13) Woldie 2018, 14) The Gambia National Policy for MSMEs 2019-2024, 15) NBSSI 2020 , 16) ITC 2016, 17) ICT 2018, 18) ITC 2019, 19) Ministry of Economy and Trade 2018, 20) GIZ 2019, 21) OMTPME 2018, 22) NISR 2018, 23) IFC 2014, 24) Statistique Tunisie 2020, 25) AdamSmith International 2013, 26) Ministry of Economy, Industry and Trade 2019, 27) UNDP 2020, 28) ICT 2018, 29) Mongolian Statistical Information Service 2020, 30) EMNES 2017, 31) UNESCAP 2020, 32) UNDP 2020

At the same time, MSMEs, including but not limited to agribusinesses, are often particularly vulnerable to extreme weather events and suffer from high electricity cost to the detriment of their productivity and growth. Low carbon technology options with deflationary costs for technologies such as rooftop solar and other, more energy efficient equipment and infrastructure, may help in addressing the latter. It is, however, difficult for MSMEs to secure upfront funds or financing options such as loan or leasing mechanisms. As a result, they are typically left with high operational costs, preventing them from investing in improving productive and operational efficiencies to increase the profitability of their business

Even MSME's ability to maintain the status-quo is threatened by the increasing frequency or intensity of natural hazards. This is because businesses often have low adaptive capacity due to 1) limited human and financial resources, 2) lack of accessible and useable information, including on climate risks, transition risks, energy efficiency and risk reduction measures, and 3) the cost of resilience and low carbon measures, including insurance. Worsening climate related natural hazards will further drag down economic productivity and resilience if the MSME sector does not have adequate insurance protection and investment capacity. These could help to absorb financial shocks from natural hazards and de-risk the implementation of cost-saving renewable energy and energy efficiency infrastructure. However, adequate insurance offerings to protect MSMEs and de-risk investments are often unavailable and so far, very few projects focus on climate-smart insurance specifically for MSMEs, and even less so on enhancing the risk management capacities of MSMEs in the process.

*Table 2: Climate impacts through capital, logistics, labor or market-related factors for MSMEs and disaster response/coping strategies*

| Country | Natural hazard | Negative effects related to capital, logistics, labor or market | Coping strategy | Response barriers |
|---|---|---|---|---|
| **Sri Lanka**[1] | Torrential rain/ Tropical storm, causing flood and landslides in 2016 | • **Capital:** Around two thirds of MSMEs completely lost their equipment; or experienced damage to buildings; leading to disrupted cash flow and loss of income.<br>• **Market:** Loss of trading income | Reliance on relief agencies' distribution of capital goods (tools, equipment, machinery) | Lack of (financial) risk management mechanisms, low levels of customer and supply diversification |
| **Philippines**[2] | Typhoons Ketsana and Parma, causing flooding in 2009 | • **Capital:** Closure of firms and home-based enterprises due to damages to property and equipment; Damaged raw material and inventory; Closure of restaurants and guest houses due to property damage; Damaged high value crops<br>• **Labor:** 170 mio. workdays lost<br>• **Logistics:** Transport disruptions | Reliance on remittances for reconstruction with around 13% of micro-entrepreneurs being able to recover lost incomes; 11% refinancing via loans; Compensation through informal economic activity | Lack of disaster risk reduction, business risk assessments and business continuity planning; Small workforce, and limited market reach |
| **Bangladesh**[3] | 29 floods and 40 storms (incl. cyclones) in 2000-2015 | • **Capital:** USD 5,6 bn in losses related to property, crops, and livestock<br>• **Labor:** 8,600 deaths | Switch to non-farm employment; Increased land rentals to intensify production | Frequent disasters reduce savings to invest in risk reduction measures and insurance |
| **Kenya** [4] | El Niño 2015-16, resulting in hydroelectric load shedding, water supply disruption and flooding | • **Capital:** Reduced annual profit from increased operational costs and acquisition of replacement equipment<br>• **Labor:** Staff absences leading to decreased productivity levels<br>• **Logistics:** Disrupted supply chains<br>• **Market:** Price fluctuations due to supply chain disruptions | Suspension of business activities to manage risks, e.g. cleaning ditches, deploying flood defenses; Reducing business hours; Diversification; Earlier order placements | Partial lack of material means, and incentives, resources, knowledge and skills to effectively respond to (partially insufficient) information, lack of credit access |
| **Ghana** [5] | Flood, storm, rainfall, drought | • **Capital:** Reduced farm revenue; Increased maintenance and operating cost; Total stock loss, reduced fish yield; Damage to ponds and tanks | n/a | n/a |
| **Caribbean**[6] | Various, including hurricane related rainfall and flooding | • **Capital:** Damaged hotel and beach facilities leading to reduction in revenue for tourism<br>• **Logistics:** Damage to infrastructure (services) | Diversification of revenue sources; Built-up of dykes, defenses and barriers along the coast | n/a |
| **Colombia**[7] | Sudden and slow onset events prior to 2008 | • **Capital:** Decreased coffee yields, resulting in decreased revenue for smallholder coffee producers<br>• **Labor:** Increased labor costs | n/a | Limited resources to address costly adaptation strategies |

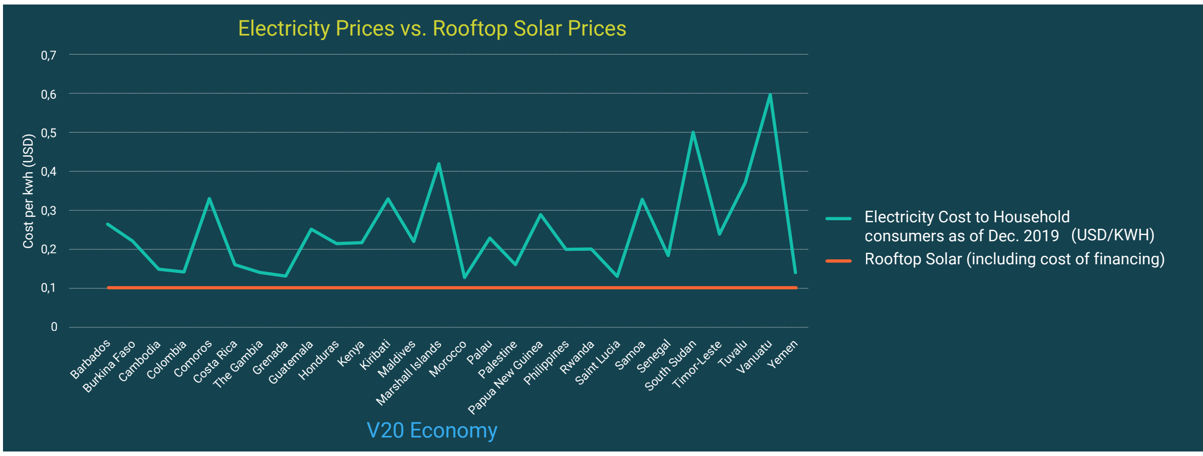
1) Samantha 2018, 2) Ballestros and Domingo 2015, 3) Eskander et al. 2016, 4) Gannon et al. 2018, 5) Asiedu et al. 2018, 6) Simpson et al. 2008, 7) Barcena et al. 2014. Categorization of negative effects for capital, logistics, labor and markets based on: Ballestros and Domingo 2015.

*Table 3: Current household electricity cost compared to electricity cost based on renewable energy in select V20 economies*

| Country | Electricity cost to household consumers as of Dec. 2019 (USD/ KWH) | Cost of rooftop solar to household consumers (USD/ KWH)* |
|---|---|---|
| Barbados | 0,266[1] | 0,1 |
| Burkina Faso | 0,221[1] | 0,1 |
| Cambodia | 0,149[1] | 0,1 |
| Colombia | 0,141[1] | 0,1 |
| Comoros | 0,33 (2017)[2] | 0,1 |
| Costa Rica | 0,16[1] | 0,1 |
| The Gambia | 0,14[1] | 0,1 |
| Grenada | 0,13 (2017)[2] | 0,1 |
| Guatemala | 0,252[1] | 0,1 |
| Honduras | 0,215[1] | 0,1 |
| Kenya | 0,217[1] | 0,1 |
| Kiribati | 0,33 (2017)[2] | 0,1 |
| Maldives | 0,22 (2017)[2] | 0,1 |
| Marshall Islands | 0,42 (2017)[2] | 0,1 |
| Morocco | 0,128[1] | 0,1 |
| Palau | 0,23 (2017)[2] | 0,1 |
| Palestine | 0,16 (2017)[2] | 0,1 |
| Papua New Guinea | 0,29 (2017)[2] | 0,1 |
| Philippines | 0,2[1] | 0,1 |
| Rwanda | 0,2 (2017)[2] | 0,1 |
| Saint Lucia | 0,13 (2017) | 0,1 |
| Samoa | 0,33 (2017)[2] | 0,1 |
| Senegal | 0,185[1] | 0,1 |
| South Sudan | 0,5 (2017)[2] | 0,1 |
| Timor-Leste | 0,24 (2017)[2] | 0,1 |
| Tuvalu | 0,37 (2017)[2] | 0,1 |
| Vanuatu | 0,6 (2017)[2] | 0,1 |
| Yemen | 0,14[1] | 0,1 |

1) Global Petrol Price 2019, 2) UNEP 2017 *Uniform estimate based on anticipated cost of solar equipment and cost of financing across the V20 countries.

*Figure 1: Current household electricity cost compared to electricity cost based on renewable energy*



Vulnerable developing countries experience an at least 90 percent protection gap for climate risks[1] and non-life insurance penetration in V20 economies, typically indicative of the degree to which the private sector is covered, often lies below or between one to two percent[2]. Yet, better insurance access and uptake among MSMEs can not only help to protect economic growth, but also reduce contingent liabilities on governments' balance sheets, thereby widening the fiscal space for development. The definition of what constitutes MSMEs varies across the V20, but micro-enterprises usually have one to five or up to ten employees, small businesses ten to 50, and medium-sized enterprises up to 300 employees.[3] As such, the livelihoods of many people depend on them: In V20 economies, MSMEs make up 30 to 90 percent of employment.

### The Vulnerable Twenty (V20) Group of Ministers of Finance

The Vulnerable Group of Twenty (V20) Ministers of Finance from 48 countries is a dedicated dialogue and action platform that works on financial responses to maintain and strengthen fiscal stability and economic resilience in the face of climate change. This includes addressing investments to enable climate-proof growth, reduce exposure to transition and climate risk, carbon pricing, and tackling increasing cost of investment capital due to climate vulnerability. Complementary to these areas, the final priority field of the V20 is to enhance systematic, climate-smart insurance for MSMEs in vulnerable countries

This puts MSMEs in a unique role, in which they aggregate large sections of the population and there by represent a policyholder group through which many people – owners, employees or small, family-owned businesses – can directly or indirectly benefit from insurance. MSMEs also offer important employment opportunities for lower-skilled workers and women[4]. They therefore support particularly vulnerable population segments and also provide an avenue for developing their human capital. Designing and developing insurance products in collaboration with MSMEs, while simultaneously building their risk management capacities, can hence represent a powerful opportunity to train and educate entrepreneurs in financial literacy, climate risk literacy and business planning skills.

### The 48 members of the V20

**V20 Asia-Pacific:** Afghanistan, Bangladesh, Bhutan, Cambodia, Fiji, Kiribati, Maldives, Marshall Islands, Mongolia, Nepal, Palau, Papua New Guinea, Philippines, Samoa, Sri Lanka, Timor Leste, Tuvalu, Vanuatu, Viet Nam.

**V20 Africa and the Middle East:** Burkina Faso, Comoros, Democratic Republic of the Congo, Ethiopia, The Gambia, Ghana, Kenya, Lebanon, Madagascar, Malawi, Morocco, Niger, Palestine, Rwanda, Senegal, South Sudan, Sudan, Tanzania, Tunisia, Yemen.

**V20 Latin America and the Caribbean:** Barbados, Colombia, Costa Rica, Dominican Republic, Grenada, Guatemala, Haiti, Honduras, Saint Lucia

Currently, several barriers still impede the development and uptake of climate risk insurance among MSMEs. These include lack of regulation, consumer protection and tailored product offerings, taxes and effective distribution channels. Equally, climate risks and their prospective financial impacts are often unknown or not well understood by MSMEs. And those MSMEs that are aware of these impacts, frequently lack the capital, including through credit access, and business planning skills to invest in risk reduction and formulate disaster response strategies. These competencies are, however, relevant for making insurance cost- effective and for enabling MSMEs to better understand why they would need insurance and for what.

1 The Geneva Association 2020. The role of insurance in mitigating social inequality. Author: Schanz, K-W.

2 Swiss Re 2020. World insurance: Regional review 2019, and outlook. Addition to sigma extra No.4/2020. OECD Finance Statistics 2020. Insurance indicators. For several countries, including e.g. the Pacific island states recent data is not available. Data from 2012 suggests non-life penetration rates between 0.9 and 2.5 per cent.

3 Where feasible, the focus on MSMEs will also include cooperatives from the agricultural, credit, electricity sector and the like.

4 World Bank 2017. Targeted SME financing and employment effects. Author: Ruchira Kumar. UNDESA 2019. Micro-, small- and medium-sized enterprises and their role in achieving the Sustainable Development Goals. Author: Sobir, R. Garcia Moritan, M. 2020. Financial inclusion for MSMEs and women'seconomic empowerment, Journal of the International Council for Small Business, 1:1, 7-9.

## Challenges in product design and implementation[5]

As part of the product design and implementation process, several challenges need addressing not only to enhance the availability but also the uptake of climate-smart insurance products by MSMEs.

***Regulation and enabling policy frameworks:***

For parametric insurance, which is preferred especially for low-income markets, regulation is often missing. Typically, parametric insurance products are designed and defined as 'derivatives', meaning financial contracts whose value is based on an agreed-upon underlying financial asset or asset groups. In the case of index-based climate risk insurance, the maximum coverage is based on the expected financial losses stemming from e.g. weather-related reductions of agricultural yields.[6] Payouts are therefore not correlated to the actual damage, but to previously agreed-upon event triggers that substantiate certainfinancial loss estimates. In contrast, indemnity-based insurance indemnifies (parts of) the actual damage based on ex-post damage assessments. Climate-risk insurance, being usually based on parametric insurance contracts and thus falling into the category of derivatives, is thus not easily accommodated within the existing regulatory systems for insurance.[7] While several countries approve parametric insurance on a case-by-case basis for specific pilots, the absence of signals for long-term regulatory changes may disincentive product development and introduction. Insurance contracts may, however, also be designed as hybrid versions, where both criteria, that is, a pre-defined event parameter and an indemnity condition, such as proof of loss, are met. This may help to accommodate existing regulatory requirements, but also come with additional transaction costs. Moreover, appropriate distribution channels to market insurance for MSMEs are often lacking and the development of new and innovative channels may fall outside existing regulations, including on consumer protection.[8] Furthermore, fiscal policies also play a role in strengthening insurance uptake. While MSMEs are a highly diverse group in themselves, many of them are constrained in their financial capacities and may run into affordability issues. The reduction of value-added taxes (VAT) applied to the insurance purchase as well as of income taxes applied to insurance payouts can thus be considered as potential levers for increasing affordability[9]

In a wider context, policy measures that enable behavioral change and the cost-effectiveness of insurance are equally important. Several studies focusing on the vulnerabilities of MSMEs, highlight low climate risk awareness levels, with many MSMEs settling in disaster-prone areas.[10] This, in turn, negatively affects their insurability and reduces the cost-effectiveness of insurance. Legislative measures, such as building or settlement codes, could help reduce such risks. Furthermore, several risks remain outside the risk mitigation space of MSMEs, such as logistics risks related to transport or climate-smart infrastructure, such as flood protection.[11] Policymakers could support the introduction of investment targets for climate-proof infrastructure, and thereby further increase the cost-effectiveness and feasibility of insurance for MSMEs.

***Constrained financial and technical capacities:***

MSMEs face significant constraints regarding their financial capacities: Access to credit, for example to invest in risk reduction or energy saving measures, is very limited due to a lack of collateral or equity (e.g savings and assets), financial records or exposure to systemic risks. Similarly, insurance price points are often too high to be considered attractive investments by MSMEs. In the absence of means to improve their risk profile and reduce their premium offerings, MSMEs may thus get stuck in a negative feedback loop, preventing any meaningful risk management.[12]Several MSMEs in developing countries are furthermore unaware of the risks

5 Based on the below references and corroborated by SIF consultations with V20 representatives and experts in 2019 as well as Seifert et al. 2020. Promoting Climate Risk Insurance for the Micro, Small and Medium Enterprise (MSME) Sectors of Vietnam, Indonesia and The Philippines: An Initial Assessment Study.
6 Vyas et al. 2019. Climate Risk Insurance Solutions: Understanding the Drivers of Cost-Effectiveness.
7 MEFIN Network and GIZ RFPI Asia 2016. Diagnostic toolkit for insurance against Natural Catastrophes for MSMEs in the agricultural and mining sectors.
8 Chatterjee, A., Wehrhahn, R. 2017. Insurance for micro-, small- and medium-sized enterprises. ADB Brief No.78.
9 MEFIN Network and GIZ RFPI Asia 2016. Diagnostic toolkit for insurance against Natural Catastrophes for MSMEs in the agricultural and mining sectors.
10 Sahler, G. Wiedmaier-Pfister, M. 2019. Insurance for micro, small and medium enterprise development. GIZ Inclusive Insurance Factsheet Series.
11 MCII 2018. Submission on the type and nature of actions to address loss and damage for which finance may be required. Authors: Kreft, S., Schaefer, L..
12 G20 Global Partnership for Financial Inclusion 2017. Climate smart financing for rural MSMEs: Enabling policy frameworks. Authors: Csaky, A. et al. and MEFIN Network and GIZ RFPI Asia 2016. Diagnostic toolkit for insurance against Natural Catastrophes for MSMEs in the agricultural and mining sectors.

they are exposed to, and even less so of potential response options: Value chain vulnerability analyses and business continuity planning are often not well known or understood.[13] Further, in misinterpreting the long term nature of climate risks as negligible, the value of adaptation and prevention measures is often not recognized.[14] Therefore, MSMEs fail to manage risks sustainably not only due to limited financial resources, but due to their incapacity to understand risks and response options.[15] Some studies, however, show that MSMEs, once aware of their risk, are increasingly willing to implement diversification strategies, input and technology upgrades, or to invest in adaptation or risk transfer.[16] Another barrier are low levels of financial literacy and trust, especially in insurance. MSMEs may over- or underestimate the size of the needed coverage or misunderstand the distinct features of their insurance contract. In effect, their claims may be deemed non-admissible and they may feel misled,[17] with negative consequences for policy renewal and hence the cost-effectiveness and sustainability of the product.

***Distinct (risk) profiles and high transaction costs:***

MSMEs may be considered an unattractive client segment for several reasons. For one, MSMEs are often too small to be of interest to larger finance institutions. Microfinance institutions (MFI), on the other hand, cater predominantly to household-level clients, while micro-enterprises, even though they may resemble household-level clients to some degree, require additional product features beyond those of personal insurance offerings.[18] Small- and medium-sized enterprises fall into the missing middle even more frequently: They are too big for MFIs, yet often also too small and too risky for the formal banking sector. In addition, MSMEs often have less formalized or very distinct cash flows and hence fall outside of a marketable client base: They may need distinct premium payment systems that accommodate their differing, and sometimes more irregular economic cycles.[19] Moreover, the distribution costs associated with marketing insurance to MSMEs represent substantial barriers. Often, there are no feasible delivery mechanisms to reach MSMEs, making the collection of premium payments and the disbursement of payouts very difficult. In some countries, insurers work with intermediaries, such as cooperatives or agricultural input providers that either bundle the insurance with the sale of other products, such as drought-resistant seeds, or buy several insurance policies for their membership. Technology and digitization, especially in the context of mobile sales, payments and services, could play an increasing role for delivering insurance to underserved market segments. Yet, the investment in both, the creation of technological platforms and the modification of existing regulations, may be considered too expensive. Apart from that, introducing technology-based distribution channels, such as mobile payment systems, comes with its own challenges, for example in the shape of high telecommunications cost for the final client.

Lastly, in addition to catering to an unknown client base, developing climate-smart insurance products also comes with assessing and pricing unknown risks. To price risks adequately, expected claims need to be quantified, and for this insurers and actuaries usually rely on historic loss and claims data. In the case of climate risks in vulnerable developing countries, this comes with two challenges. Firstly, the necessary data is often hardly available for countries with low insurance penetration or very expensive.[20] Secondly, since climate change is projected to lead to increasingly frequent and severe weather extremes, modelling techniques based on historical weather statistics may not be sufficient to accurately predict future weather-related risks.[21] This, in turn, substantiates high investment needs in data infrastructure and new modelling approaches.

13 UNESCAP 2013. Building resilience to natural disasters and major economic crises. and Ye, L., Abe, M. 2012. The impacts of natural disasters on global supply chains.
14 MCII & GIZ 2019. Roadmaps for Integrated Climate Risk Management: Flood Risk and Micro, Small and Medium Enterprises in Morocco. Report. Bonn/Eschborn: UNU-EHS/GIZ.
15 Surminski, S., Hankinson, J. 2018. MSMEs, climate change risks and insurance: reflections on the use of insurance for climate adaptation. In: Schaer, C., & Kuruppu, N. D. (Eds.). Private-sector action in adaptation: Perspectives on the role of micro, small and medium size enterprises. UNEP DTU Partnership.
16 G20 Global Partnership for Financial Inclusion 2017. Climate smart financing for rural MSMEs: Enabling policy frameworks. Authors: Csaky, A. et al.
17 Ibid and Chatterjee, A., Wehrhahn, R. 2017. Insurance for micro-, small- and medium-sized enterprises. ADB Brief No.78.
18 Chatterjee, A., Wehrhahn, R. 2017. Insurance for micro-, small- and medium-sized enterprises. ADB Brief No.78.
19 MEFIN Network and GIZ RFPI Asia 2016. Diagnostic toolkit for insurance against Natural Catastrophes for MSMEs in the agricultural and mining sectors.
20 Chatterjee, A., Wehrhahn, R. 2017. Insurance for micr, small- and medium-sized enterprises. ADB Brief No.78.o
21 UNFCCC 2018. Report of the Suva Expert Dialogue on loss and damage associated with climate change impacts.

Strengthening the capacities of MSMEs may also enable their employees to gain an understanding of insurance. MSMEs' financial management, creditworthiness and productivity may also be improved. As such, MSMEs can be seen as important aggregators, offering an entry point for leveraging progress towards achieving the InsuResilience Global Partnership's 500 million protection target, contributing to human development and realizing its gender declaration. The Sustainable Insurance Facility (SIF) promotes integrated efforts which can also foster progress on other agendas, such as MSME finance, financial inclusion and sustainable supply chain management.

## The Sustainable Insurance Facility (SIF) at a Glance:

Currently, very few insurance products or projects in V20 economies focus specifically on climate-smart insurance for MSMEs or have not moved beyond the pilot phase. This calls for a coordinated approach, which translates country-driven demand into new projects, focusing on needs-responsive product design and the building of local and regional capacities, which help to build and sustain insurance uptake.

### The Approach:

The SIF is envisaged as a **Project Pipeline Development Facility** which will assist the vulnerable developing country members of the V20 in **scoping** the financial **protection needs** of MSMEs in the context of climate change, **and facilitating concept and proposal development** for submission to funding vehicles dedicated to disaster risk finance. As such, the SIF aims to mobilize international financial and technical assistance to stimulate domestic and regional private sector insurance industries to increase the application of climate-smart insurance products for MSMEs as well as the low-income and vulnerable people that rely on them.

**Genesis of the Sustainable Insurance Facility**

The SIF builds on the demand expressed by the V20 Risk Focus Group during the V20 Asia-Pacific Regional Meetings at the Asian Development Bank in Manila in 2017. Based on an early SIF concept note by the Principles for Sustainable Insurance Initiative of UN Environment (UNEP FI PSI Initiative), the UNEP FI PSI Initiative and the Munich Climate Insurance Initiative (MCII) further developed the SIF design together with the V20 Finance Advisor. Over the course of 2019, various V20 consultations, industry stakeholder consultations, and the preparation of a high-level background assessment informed the design of the SIF. During the Climate Action Summit in New York, the V20 then officially introduced the SIF at the SIF Kick-Off Event in September 2019, supported by contributions from representatives from the Marshall Islands, Bangladesh and Fiji, as well as Germany, the Asian Development Bank, KfW, the InsuResilience Secretariat and Global Parametrics.

The primary identified funding vehicles dedicated to disaster risk finance include the Asia- Pacific Climate Finance Fund (ACLiFF), managed by the Asian Development Bank (eligibility only for V20 members from Asia-Pacific), the InsuResilience Solutions Fund (ISF), managed by KfW and the Frankfurt School, the InsuResilience Investment Fund (IIF), managed by KfW and BlueOrchard, and the Natural Disaster Fund (NDF), managed by Global Parametrics (see Annex II). For V20 members from Africa, the Middle East, Latin America, and the Caribbean, the SIF will also target feasible, existing climate finance funds of the respective regional multilateral development banks (MDBs) in the future.

In addition, the SIF may target further funding vehicles dedicated to disaster risk finance and other funding structures for proposal submission or concessional premium support based on need.

### The Objective and Target Group:

The objective of the SIF is to support the development and availability of **climate-smart insurance products for MSMEs** in 48 developing countries. The term “climate-smart” captures the need for two types of climate-related insurance products for MSMEs in vulnerable economies:

(1) Climate risk insurance products, which provide protection from climate-related risks and enhance productivity; and

(2) Insurance products which enable low carbon investments, and thereby contribute to increased efficiencies through cost-savings from cheaper low-carbon technologies.

Insurance products considered by the SIF will include index as well as indemnity-based insurance, and focus on product bundling, e.g. combinations with (non-)financial products/ services, such as production inputs, credit or savings, which offer coverage from climate risk related damages to property or business interruption; and guarantee-like insurance products which de-risk investments in low-carbon technologies, to cover, for instance, the failure to realize financial value associated with energy savings. One example for bundled insurance products is credit-linked insurance, which can protect both, the lender and the borrower against the risk of default. In the context of climate change, the insurance contract could be designed to protect the lender (typically a bank) against climate-related income losses of its client. The policy would be taken out by the financial institution and ideally work to improve the risk-profile of the borrower. Usually, credit-linked insurance increases the cost of borrowing, but it may also allow for credit access for more risky clients or even reduce the overall cost of the riskier client by not requiring collateral.

### Examples of insurance products promoted by the SIF (index-, indemnity-based or hybrid)

1) **Multi-risk (property) insurance:** Covers typically a range of risks and works to protect productive assets or collateral, such as buildings, machinery, stock, equipment and tools in the event of damages related to fire, water, theft or robbery. Such product types could be expanded to also include coverage against climate-related damage. (Could also be considered as a standalone product, solely covering climate-related damages).

2) **Business interruption insurance:** Safeguards income losses resulting from the disruption of business activities, including supply chain interruption. In this case, the risk covered is not directly related to the loss of physical assets, but to income losses from other unforeseen events: Usually business interruption insurance is added to e.g. property insurance and covers e.g. the revenue a business would have earned if not interrupted and is based on the business' previous financials, fixed costs (and sometimes extra expenses), temporary location, employee wages or loan payments. Such product types could be expanded to also include coverage against climate-related damage. (Could also be considered as a standalone product, solely covering climate-related business interruption).

3) **Personal insurance (especially for micro-entrepreneurs):** Refers to e.g. funeral, injury, health insurance. Personal insurance products, which cover both, personal as well as asset-related risks, including those related to climate impacts, could be specifically attractive to micro- entrepreneurs.

4) **Guarantee-like insurance products for low carbon investments:** Only few products exist in this context (see e.g. Colombia's Energy Savings Insurance Program). An option could be an insurance product that covers projected energy savings for a specifically defined and verifiable energy efficiency measure as agreed upon between the MSME and technology service provider. This product could compensate MSMEs in the event the promised financial flows associated with energy efficiency savings are not realized. Both, the MSME and the financier can thus have a level of predictability in the cash flows and the certainty that energy efficiency projects will generate enough (energy) savings to pay for the loans as assumed.

5) **Energy efficiency insurance:** Insurance protection for all aspects of equipment use, ranging from material damage (equipment breakdown) of the installed systems to business interruption (protecting against loss of revenue in the event of equipment failure). Energy efficiency insurance can include the insurance option listed in (4) where there is coverage for a performance shortfall in energy savings.

MSMEs are the growth engine across the 48 vulnerable developing countries of the V20. By increasing access to financial protection from climate change related risks, the SIF ultimately aims to safeguard development and encourage economic growth resulting from strengthened national productivity, fiscal and financial stability, and enhanced socio- economic development. Increased access to and uptake of climate-smart insurance products amongst MSMEs can contribute to ensuring consistent employment, better credit access, efficiency and investment security, and reduced incidence of implicit contingent liabilities and foregone tax revenues for governments.

The target group of SIF projects consists of MSMEs as per national definitions; domestic and regional insurance providers (particularly insurance cooperatives and cooperative insurance structures); regional, national, and sub-national governmental bodies (including regulators); and data providers. The direct beneficiaries of SIF projects are domestic and regional insurers, and MSME owners and employees, with indirect beneficiaries being the households and the wider group of (economic) actors dependent on MSMEs.

### *The Five SIF Action Areas*

To foster the sustainable development and implementation of above-mentioned products, the **concepts and proposals developed by the SIF will be designed to correspond to one or more of the five SIF Action Areas**. In order for insurance to work effectively and truly provide protection, elements including capacity-building, risk reduction and preparedness measures by and for MSMEs play an important role, too. The SIF Action Areas draw on these elements and aim to form an integrated approach that builds capacities on both ends, the insured and the insurer, while supporting the development of tailored and needs-responsive protection.

*Table 4: The five SIF Action Areas*

| Insurance and Service Design | Implementation Approach |
|---|---|
| 1. Develop insurance products to protectand grow MSMEs<br>2. Enhance financial and climate risk literacy of MSMEs | 3. Identify target MSME industry/sector, their needs, and build the business case for local insurers<br>4. Strengthen distribution channels to reach scale<br>5. Widen MSMEs' budgetary space and incentivize investments in resilience and insurance through engagement with public actors and reinsurers |

As reflected in the SIF Action Areas (see Annex I), key elements of the SIF implementation approach are to:

a) Bundle climate-smart insurance with other (non-) financial products or services such as production inputs, other insurance products and credit or savings instruments,

b) Address basis risk and client trust through post loss-adjustment elements,

c) Work through or strengthen regional or national (cooperative) insurance structures as well as digital platforms to build robust and scalable distribution,

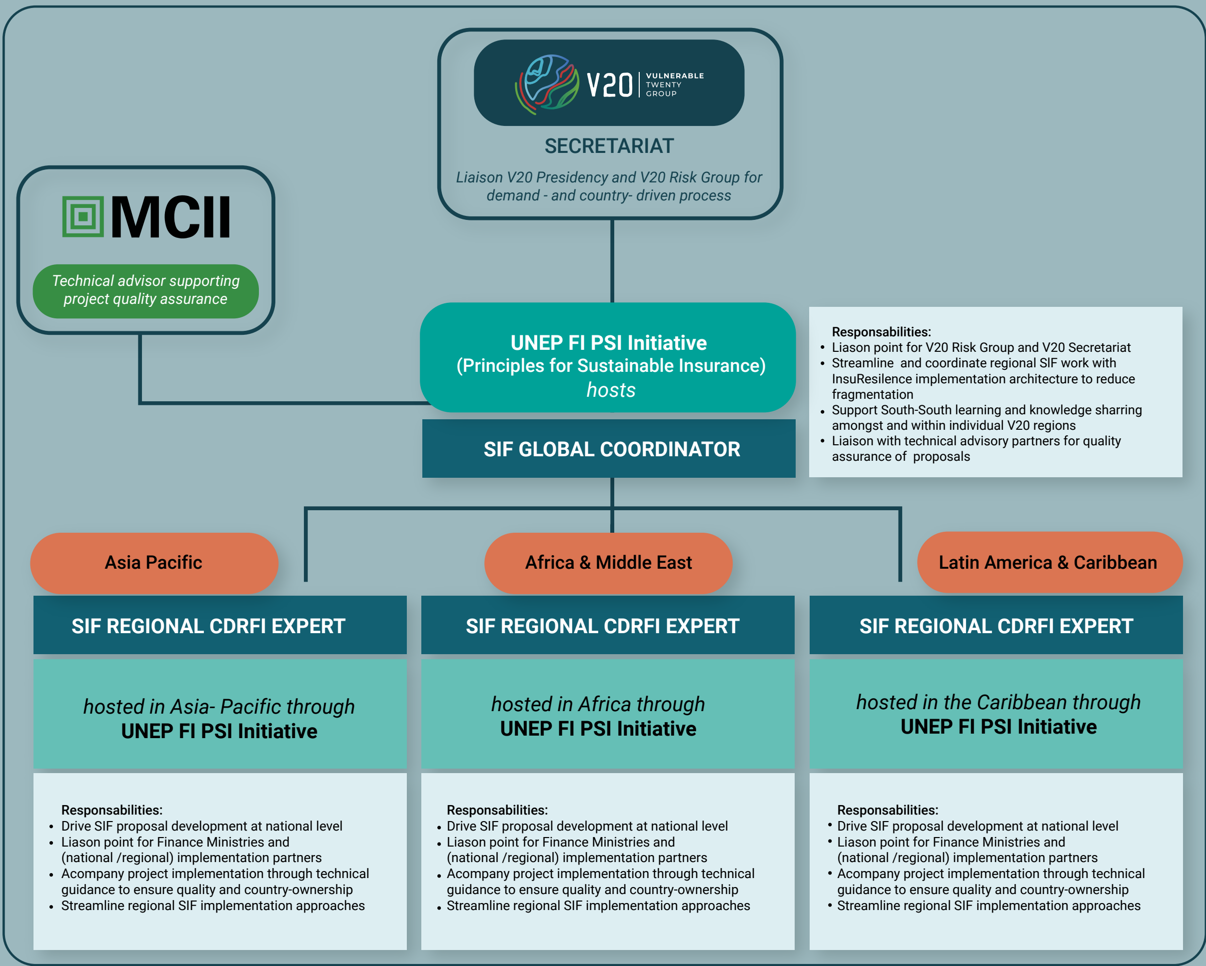
d) Enhance the financial and climate risk literacy of MSMEs and provide targeted risk management and investment advisory, and

e) Support regulatory and insurance capacities to adapt premium payment schedules to MSMEs' economic cycles and make available the use of concessional support to drive scale.

### *The Operational Set-up*

The SIF is intended to be implemented through a dedicated Project Office hosted in (a) V20 partner institution(s).

*Figure 2: Draft Operational Design of SIF Project Office. Note: The suggested hosting arrangements are yet to be discussed and determined with the respective institutions (see page 15).*




The Project Office is planned to consist of one Global Coordinator and three Regional Climate and Disaster Risk Finance and Insurance (CDRFI) Experts: One for V20 members from Asia-Pacific, one for V20 members from Africa and the Middle East, and one for V20 members from Latin America and the Caribbean. The main task of the Project Office is to develop the SIF project pipeline and facilitate implementation through linking the developed proposals with implementing entities and the funding vehicles dedicated to disaster risk finance. The implementing entities (note: not the SIF Project Office), e.g. national experts, international development organizations, civil society organizations, etc., will then carry out the project activities as set forward in the SIF proposal, that is, activities that realize the SIF Action areas. Accordingly, the tasks of the Project Office include:

(1) The development of or support to project concept notes and proposals as identified by V20 members,[22]

(2) The submission thereof to funding vehicles dedicated to disaster risk finance,

[22] Depending on feasibility, proposals may be structured on country, sub-national and/or sectoral level.

(3) The identification of interested implementing partners that are eligible to access the available funds and to translate the funding provided by the funding vehicles into in-country action as stated in the SIF project proposal, and

(4) Accompany in-country implementation and support quality assurance as an advisor to implementing organizations.

To ensure the quality and feasibility of the developed concept notes and proposals, the Project Office will furthermore draw on the advice and input of the SIF Advisory Group. The SIF Advisory Group is not employed by the Project Office, but envisioned to consist of a group of interested and independent CDRFI experts and institutions, who will be approached for feedback and input into the concept note and proposal development process.

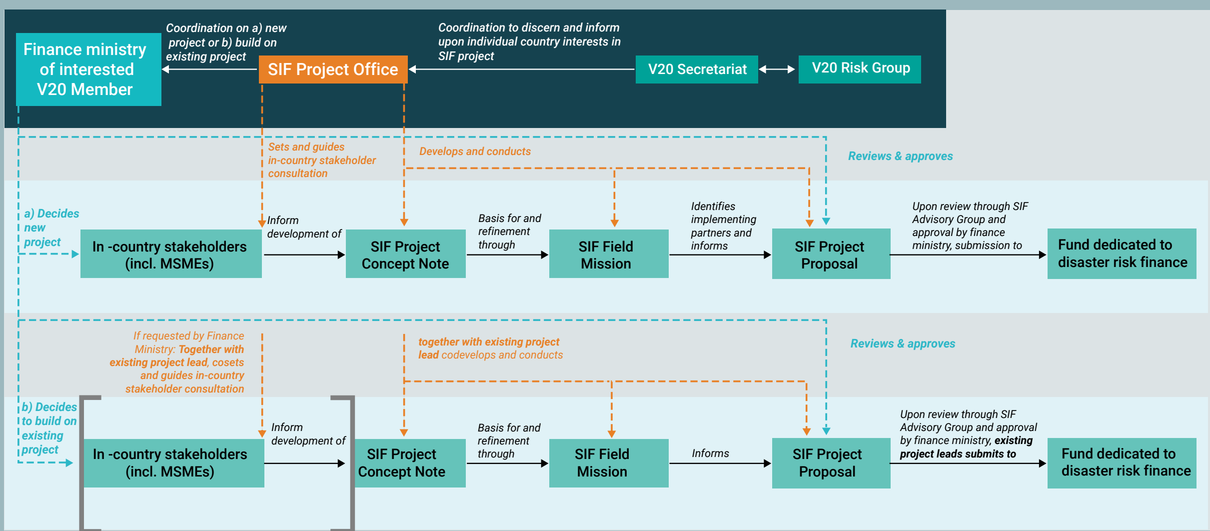
Moreover, should the application of climate-smart insurance solutions for MSMEs prove to be infeasible for individual country cases, the SIF Project Office may engage in further consultation to facilitate alternative risk finance instruments and measures, which enhance the resilience of the respective V20 economy.

## *The Process of SIF Project Pipeline Development and Engagement Opportunities*

The identification of SIF project countries is based on the expression of interest through V20 member countries. Project pipeline development is intended to commence via two tracks:

### Track 1: Internal, initiated by the SIF Project Office:

*Figure 3: SIF Project Pipeline Development, Track 1.*

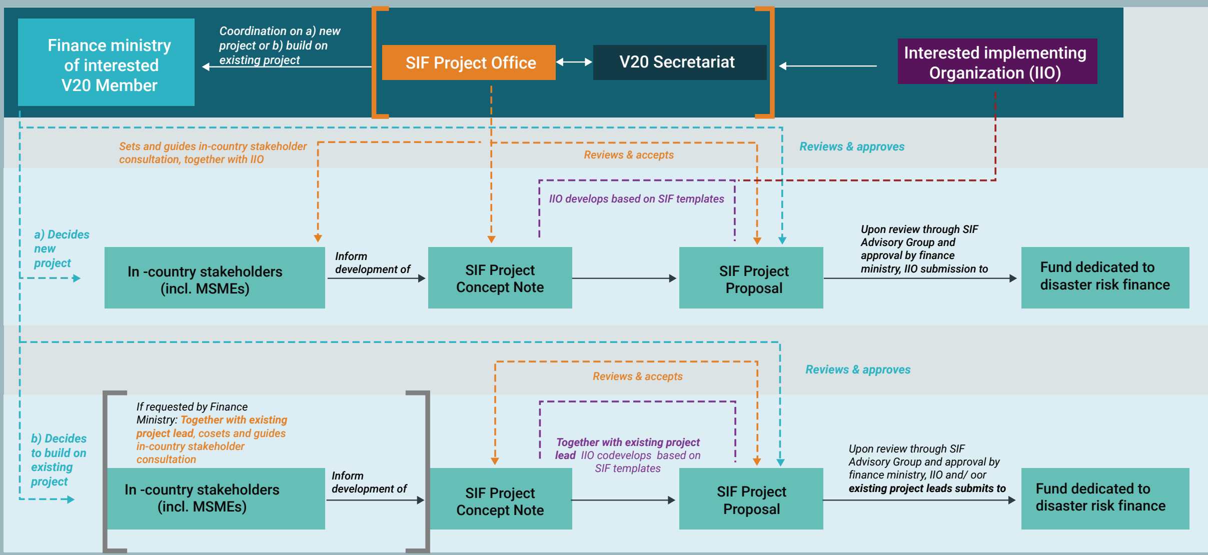



The SIF Project Office will coordinate closely with the V20 Secretariat and the Co-Chairs of the V20 Risk Group to gauge and identify national interest in SIF projects. Upon such interest expressed, the SIF Project Office will coordinate with the respective Finance Ministries to understand whether the ministry wishes to mandate the Project Office to either prepare a new, independent project proposal, or wishes for the Project Office to engage with and build on an already on-going project. As for the former, the Project Office will set up in-country consultations with relevant stakeholders and ministries to scope MSME insurance needs and extract key priority areas. Based on these consultations, a project concept note will be developed. To refine the details of the concept note and translate it into a full project proposal, the SIF Project Office will conduct a field mission, as part of which it may also identify implementing partners who may be interested in carrying out planned project activities.

Subsequently, the concept note will be developed into a fully-fledged proposal and shared with the respective Finance Ministry as well as with the SIF Advisory Group to facilitate final feedback and buy-in. Finally, the project proposal will be submitted to one of the funding vehicles (or other funding structures, if more appropriate). Depending on the funding guidelines of the respective disaster risk financing vehicles, the proposal may be tendered on behalf of the V20 or directly submitted through a previously identified implementing organization/s, endorsed and supported by the V20.

### Track 2: External, initiated by interested implementing organizations:

*Figure 4: SIF Project Pipeline Development, Track 2.*




Implementing organizations interested in or already working in V20 economies may also approach the V20 Secretariat and/or SIF Project Office with project ideas and concepts. The Project Office will then coordinate with the V20 Secretariat and the respective national Finance Ministries, including on whether the latter wishes to mandate the Project Office to coordinate the preparation of a new project proposal, or for the Project Office to engage with and build on an already on-going project. Upon expression of interest through the national Finance Ministry, the Project Office will initiate a process similar to the above, together with the interested implementing organization, if feasible. This entails in-country stakeholder consultations including the finance ministry to scope relevant insurance needs and extract key priority areas. Upon conclusion of these consultations, the interested implementing organization (IIO) will receive a SIF Concept Note and Proposal Template to elaborate planned activities, explain how they align with the SIF Action Areas and outline implementation arrangements. Upon approval by the SIF Project Office, the IIO will submit the project proposal to one of the funding vehicles (or other funding structures, if deemed more appropriate by the SIF Project Office), alongside official V20 endorsement and support.

### *Engagement opportunities with the SIF outside of Project Pipeline Development*

In addition to welcoming the development of joint implementation proposals with IIOs, organizations can also support the V20 demand by driving research and evidence aligned with the SIF Action areas. Indicative topics include regulatory challenges regarding MSME access to financial services, MSME implementation of integrated risk management approaches, and analysis and assessment of promising avenues to anchor MSME insurance in policy objectives of V20 economies, including capital market development, resilience building for households and enterprises, industry growth plans, and other relevant frameworks. Further, IIOs are also welcome to align ongoing and planned project activities more strongly with the SIF Action areas and share their knowledge and experiences with the V20 Secretariat and in support of South-South learning initiatives of the V20.

### *Current status and next steps:*

**SIF Pipeline Development and Project Implementation:** Over the course of 2020, two of the first four SIF landmark initiatives in V20 members from the Asia Pacific have been developed. For the Philippines and Fiji, a project proposal and project concept note respectively, have been submitted to ACLiFF.

The Philippines is widely regarded as one of the world's most disaster-prone countries. MSMEs make a significant contribution to the country's economy, the livelihoods of lower-income groups and account for 52 percent of employment. However, due to their limited access to coping strategies, including financial buffers and insurance products, they are disproportionately affected by disasters. This project builds on the first SIF in- country consultation held jointly with the Institute for Climate and Sustainable Cities (ICSC) in 2019 as it seeks to increase protection for MSMEs in the Philippines. The goal is to develop an insurance cooperative disaster insurance product in combination with a bundled approach incorporating credit or savings instruments. In 2021, the first phase of the project, funded through ACLiFF, will study product design options in close collaboration with MSMEs, including exploration of the options for product bundling, the adjustment of premium payment schedules to match MSMEs' differing economic cycles, the possibility of safeguarding against basic risk with the help of an in-house disaster endowment fund and options to deliver the insurance product alongside complementary capacity-building for risk reduction and response. The latter will take the form of advisory services based on a diagnostic toolkit for financial and climate risk literacy of MSMEs. The toolkit will be developed alongside work on product design options and consist of a variety of tutorials that support MSMEs in self-assessing the climate risk exposure of their business and provide training on risk-management practices, such as business continuity planning, upgrading and insurance.

For 2021, SIF in-country consultations are planned for Bangladesh and the Marshall Islands, with current preparatory work focusing on the identification of key priority areas, including sector and location.

**SIF Project Office Institutionalization:** With view to institutionalizing the SIF Project Office, MCII, the UNEP FI PSI Initiative and the V20 Secretariat are in early stage discussions regarding the design and set-up of the SIF Project Office. Next steps include the examination of hosting arrangements, reporting structures and accountability modalities, implementation plans, and resourcing needs and funding structures. Currently, MCII and the UNEP FI PSI Initiative continue to provide technical support for the SIF pipeline development activities for 2020, and in conceptualizing the institutionalization of the SIF Project Office. In 2021, the SIF Project Office will be partially institutionalized.

### *SIF Support Needs*

Donor support is needed to adequately resource the implementation of the SIF. This includes both donor support for setting up and financing the operations of the SIF Project Office (which will institutionalize the SIF) in the short term and for implementing SIF projects in the medium and long term. The latter should support the mobilization of a two-digit million amount by 2025, parts of which may be contributed through the identified funding vehicles dedicated to disaster risk finance; and further funding from additional sources to support the scale and sustainability of the developed insurance products through concessional premium support.

## ANNEX I: SIF ACTION AREAS[23]

Supporting MSMEs' resilience to natural hazards through enhanced financial protection, requires doing both simultaneously - designing and introducing climate-smart insurance products that can support MSMEs through natural hazards and low carbon investments, and addressing barriers associated with the introduction, acceptance, uptake and effectiveness of climate-smart insurance. This is of particular importance for strengthening MSMEs' capacity in financial, climate risk and transition risk literacy, including on risk reduction measures, preparedness strategies and energy efficiency investments. It furthermore also relates to MSMEs' unique characteristics as economic actors, the capacity of regional and national financial markets and insurers, and the framework conditions provided by national circumstances and international capital markets. The SIF Action Areas capture the required actions and actors necessary to design sensible products for MSMEs and an enabling ecosystem.

| SIF ACTION AREA 1:<br>IDENTIFY MSME TARGET SECTOR, THEIR NEEDS AND BUILD THE BUSINESS CASE FOR LOCAL INSURERS | | | |
|---|---|---|---|
| **Activity** | **Actors** | **Objectives** | **Metrics (Examples Only)** |
| • **Assess cross-regional and/or cross-sectoral risk in the context of climate change and the contribution of the sector/industry in question to systemic risk (e.g. supply chain risk)** | • (National) economic modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/ MSME aggregators | • Identification of key hazards, and industry sectors, including through identifying e.g. value chain interdependencies amongst the latter<br>• Identification of transition risk in the supply chain including fuel volatility or changes in availability and pricing as a result of non-financial shocks | • 3 key hazards<br>• 3 key sectors and corresponding MSMEs<br>• 1 key transition risk or associated supply chain risks |
| • **Assess climate-related portfolio risks for local insurers** | • (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives | • Identification of key hazards or transition risks and 'risky clients' from the MSME segment to support MSME target group identification and build business case for | • 3 key hazards<br>• 3 priority MSME groupings (and corresponding sectors if possible) |

23 Translation of activities outlined in the action areas can be context-specific and individual across projects.

| | | | |
|---|---|---|---|
| | | MSME insurance from the perspective of the insurer | • 1 key transition risk or associated supply chain risk |
| • **Market scoping studies, sector vulnerability studies, value chain vulnerability analyses and segmentation of diverse MSME landscape into individual target groups based on similarities** | • (National) socio-economic modelling/ research institutes, think tanks, universities together with local/national/ regional insurers and insurance cooperatives/MSME aggregators | • Identification and segmentation of MSME target groups, their climate-related and transition-related vulnerabilities and (financial) risk management needs, including risk reduction investment needs | • 1-3 market scoping studies/ sector vulnerability studies/value chain vulnerability analyses<br>• 5 MSME client segment/s |
| • **Ascertain affordability through calculation of MSMEs' cash flow and cash flow projections** | • (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/ MSME aggregators | • Identification of acceptable product price points for MSMEs<br>• [Assessment of feasibility from the perspective of an insurer] | • 1-3 product pricing ranges |
| • **Assess synergies between (i) new product lines on climate risks, (ii) MSMEs' improved financial risk management and reliability through climate risk insurance, and (iii) positive spill-over effects for insurance purchasing behavior** | • (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/ MSME aggregators | • Build business case for MSME insurance from the perspective of local/ national/regional insurer | • 1 financial model assessing the business case |
| • **Advise on internal pipeline development for local insurer in coordination with public authorities** | • (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional MSME aggregators | • Build business case for MSME insurance from the perspective of local/ national/regional insurer in line with national priorities | • Roadmap, incl. milestones and targets for insurance product development |

## SIF ACTION AREA 2:
## DEVELOP INSURANCE PRODUCTS TO PROTECT AND GROW MSMEs

| Activity | Actors | Objectives | Metrics (Examples Only) |
|---|---|---|---|
| • With view to scale and enhancing MSME productivity and growth through increased access to finance (credit/ savings), develop needs-responsive and where possible, bundled climate-smart insurance products (index or indemnity-based), including considering options of (i) climate risk insurance as a standalone product, (ii) climate risk insurance bundled with other insurance products, e.g. fire, multi-risk property, personal accident or business interruption insurance, (iii) climate risk insurance bundled with other financial and non-financial products, e.g. production inputs or credit- or savings-linked climate risk insurance, (iv) a combination of (ii) and (iii), (v) guarantee-like insurance products for low-carbon investments, (vi) energy efficiency insurance | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions, and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors | • Enhanced uptake of insurance for MSMEs through attractive and needs-responsive insurance products, supporting protection and productivity | • 1-3 CRI product/s (design/s)<br>• 1 low carbon-related product/s (design/s) |
| • Develop innovative approaches to adapt premium payment requirements to MSMEs' economic cycles, e.g. taking into account MSMEs' sales cycle, production cycle, investment/cost cycle, which often differ from those of larger enterprises | • (National) CDRFI and financial de-risking finance experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding | • Enhanced uptake of insurance for MSMEs through supporting 'just in time' affordability | • Needs responsive and flexible premium payment timeframe/s |

| | | | |
|---|---|---|---|
| | of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors<br>• (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/MSME aggregators | | |
| • **Develop innovative approaches to allow for risk-responsive pricing, including through quick reward systems (could be built on smart technology), e.g. premium reductions for risk reduction** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors<br>• (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/MSME aggregators;<br>• Digital solution providers, incl. spatial monitoring solutions | • Enhanced uptake of insurance and risk reduction (investments) by MSMEs through supporting reward for action and compliance | • (Spatial and) digital monitoring and verification tools, connecting end user and insurance provider |

| | | | |
|---|---|---|---|
| • **Develop innovative payment models supporting affordability and progressive formalization of businesses' cash flow, through e.g. group policies, staggered payments, and public-private cooperation (incl. local government support) on in-kind or contributory payments** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors<br>• (National) financial modelling/ research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/MSME aggregators | • Enhanced uptake of insurance by MSMEs through supporting affordability and business formalization | • Needs-responsive and flexible payment model/s |
| • **Build consumer confidence in insurance through the use of information and communications technology to improve service transactions delivery, e.g. for more efficient claims handling, payout notifications, etc.** | • Digital solutions providers together with local/national/ regional insurers and insurance cooperatives and MSME aggregators | • Enhanced uptake of insurance by MSMEs through strengthened (perceived) reliability and approachability of insurer/ strengthened insurer-client interface and contact | • Digital communications platform/ consumer interface |
| • **Build consumer confidence in insurance by hedging against basis risk, e.g. through (i) the use of information and communications technology for data collection and/or (ii) the creation of endowment funds and/or (iii) the creation of information systems for the demand and the supply side on MSME relevant climate risks and respective insurance products** | • (National) financial modelling/ research institutes, (national) universities and data (modelling) platforms, digital solution providers, together with local/national/regional insurers and insurance cooperatives | • Enhanced uptake of insurance by MSMEs by preventing disappointment or (perceived) betrayal in the event of basis risk | • 1-3 designs of post-loss adjustment, e.g. endowment fund<br>• Data-set/s to improve risk modelling capacity |

| SIF ACTION AREA 3: STRENGTHEN DISTRIBUTION CHANNELS TO REACH SCALE | | | |
|---|---|---|---|
| **Activity** | **Actors** | **Objectives** | **Metrics (Examples Only)** |
| • **Identify suitable distribution channels, including e.g. digital service platforms, cooperatives, business associations, local NGOs, religious communities, input providers, buyers, local government units, etc. and align product distribution with distributors' core business** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/ regional insurers, insurance cooperatives, MSME aggregators and technology providers, fintechs and mobile services | • Reaching scale through expanding outreach and/or ease of access to insurance buying process | • 1-5 distribution channels, incl. digital platforms and cooperatives |
| • **Build or strengthen (market-driven) aggregation mechanisms, including the formation of well-organized business associations, cooperatives, etc. to collect premiums and receive payouts in support of improved product distribution** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging | • Reaching scale through expanding outreach and/or ease of access to insurance buying process | • 1-5 distribution channels, incl. digital platforms and cooperatives |

| | | | |
|---|---|---|---|
| | economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/regional insurers, insurance cooperatives, MSME aggregators and technology providers, fintechs and mobile services | | |

## SIF ACTION AREA 4:
## ENHANCE FINANCIAL AND CLIMATE RISK LITERACY FOR MSMEs

| Activity | Actors | Objectives | Metrics (Examples Only) |
|---|---|---|---|
| • **Develop (and simplify) loss modelling tools to quantify and demonstrate the balance sheet and cash flow impacts of climate risks and low carbon opportunities for MSMEs** | • (National) financial modelling/research institutes, think tanks, universities together with local/national/regional insurers and insurance cooperatives/MSME aggregators | • Enhanced understanding of the financial benefits of financial protection through communicating the material/financial impacts for MSMEs<br>• Enhanced understanding of financial benefits of low carbon opportunities through communicating the material/financial impacts for MSMEs | • 1-3 loss modelling tools, easy and simple in their application independently by MSMEs<br>• 1 cost-savings modelling tool, easy and simple in their application |

| | | | |
|---|---|---|---|
| • **Calculate cash flow and cash flow projections for insurance and investments in risk reduction, low carbon opportunities, and upgraded business models to assess and demonstrate the costs and benefits of climate risk management measures for MSMEs** | • (National) financial modelling/ research institutes, think tanks, universities together with (national) disaster risk management and CDRFI and financial de-risking experts, local/national/regional insurers and insurance cooperatives and MSME aggregators | • Enhanced understanding of the financial benefits of financial protection, low carbon opportunities, and risk reduction investments through communicating the material/financial impacts for MSMEs | • 1-3 financial forecasting tools, easy and simple in their application independently by MSMEs |
| • **Develop and disseminate diagnostics toolkit and/or training and/or awareness raising campaigns for MSMEs to assess their climate and climate-related financial risks and benefits of risk management, including but not limited to insurance** | • (National) civil society organizations, together with (national) disaster risk management, CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions, and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors, and<br>• Local/national/regional (insurance) cooperatives and MSME aggregators | • Enhanced understanding of risk reduction and management options and of the financial benefits of financial protection, low carbon opportunities and risk reduction investments through training/knowledge material and awareness raising for MSMEs | • Diagnostic toolkit (Collection of knowledge material using different mediums, incl. e.g. videos, fact sheets, self-assessment tests, etc.) for dissemination either through conventional/in-person training or offered on digital platforms/ as Web-application |

| | | | |
|---|---|---|---|
| • **With view to enhancing MSME productivity and growth, develop services to incentivize risk reduction[24] and engage with the insurer to include as part of the risk transfer transaction,[25] including e.g. advisory on (i) risk reduction and management measures, (ii) climate-smart business models (incl. through supply chain and/or input diversification), (iii) technology upgrades, and (iv) business continuity planning** | • (National) civil society organizations, together with (national) disaster risk management and CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors, and<br>• Local/national/regional (insurance) cooperatives and MSME aggregators | • Enhanced understanding of risk reduction and management options and of the financial benefits of financial protection, low carbon opportunities, and risk reduction investments through easy access to training/knowledge material and awareness raising for MSMEs | • Advisory service offered e.g. by the insurer, based e.g. the loss and financial projection modelling tools, 1 cost-savings modelling tool, and diagnostic toolkit |

24 May require identification of incentive for insurers to build DRM into product delivery, i.e. the identification of mutual benefits where risk reduction measures implemented by MSMEs increase their product demand. Where such incentive is absent, feasible entities interested in developing and providing risk reduction advisory may be identified to enter into partnerships with local insurance providers. This may include using some of the aggregators identified under Action Area 3 for the dissemination of trainings/toolkits to their stakeholders/membership.
25 While mindful of maximum product standardization.

## SIF ACTION AREA 5:
## WIDEN MSMEs' BUDGETARY SPACE AND INCENTIVIZE INVESTMENTS IN RESILIENCE AND INSURANCE THROUGH ENGAGEMENT WITH PUBLIC ACTORS AND REINSURERS

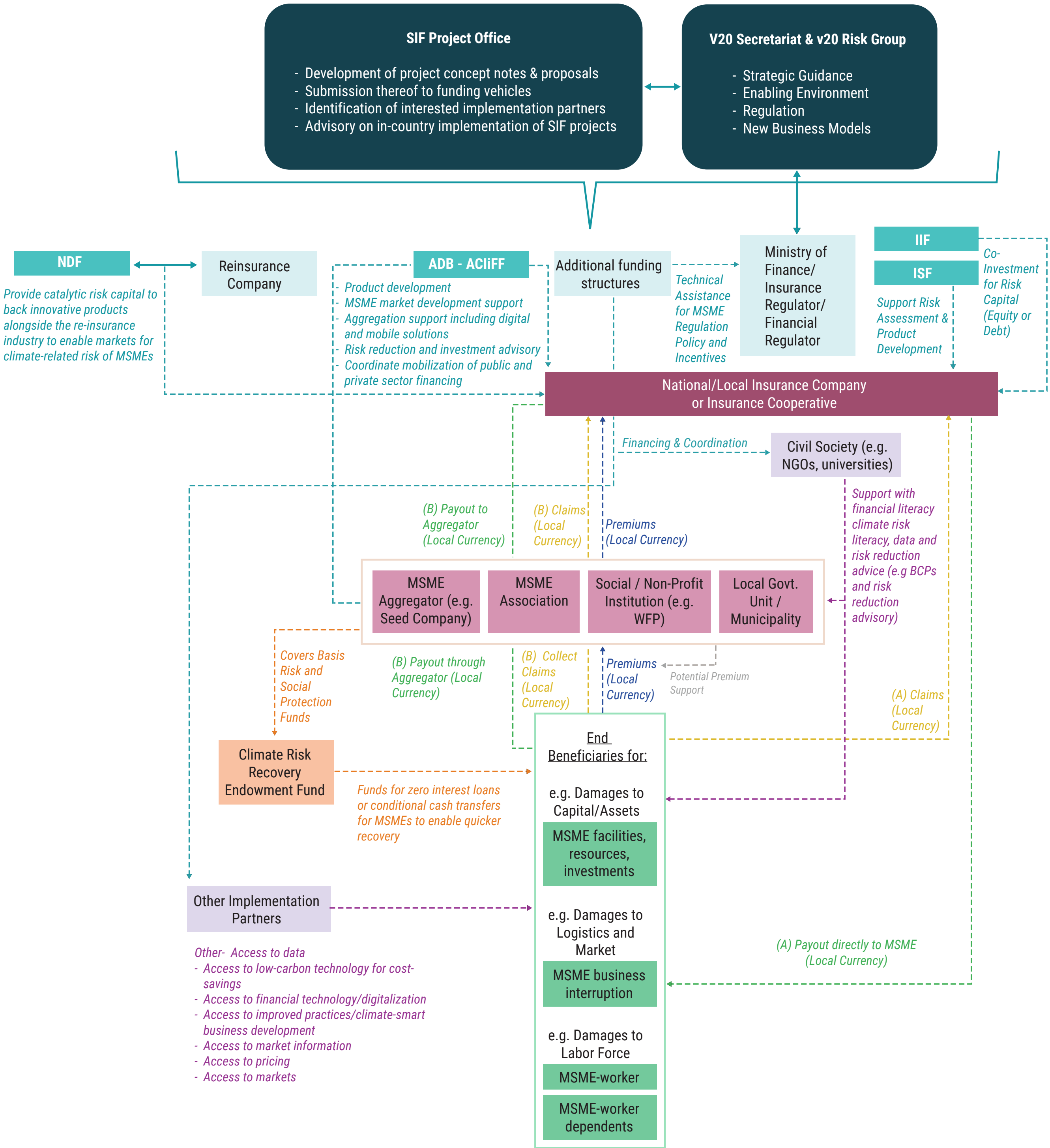
| Activity | Actors | Objectives | Metrics (Examples Only) |
|---|---|---|---|
| • **Engage with reinsurers to support reinsurance appetite to enhance affordability and strengthen local insurance capacities** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/regional insurers, insurance cooperatives and MSME aggregators | • Enhanced capacities of local/national/regional insurers to offer affordable insurance for climate risks and low carbon investment opportunities for MSMEs | • Formalized business relationship between reinsurer and insurance company |
| • **Engage with reinsurers to develop robust reinsurance structures for MSME contingency finance and strengthen local insurance capacities** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging | • Enhanced capacities of local/national/regional insurers to offer affordable insurance for climate risks and low carbon investment opportunities for MSMEs | • Formalized business relationship between reinsurer and insurance company |

| | | | |
|---|---|---|---|
| | economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/regional insurers, insurance cooperatives and MSME aggregators | | |
| • **Engage with reinsurers to adapt reinsurers' payment timeframe and reinsurance rate to match innovative premium payment requirements corresponding to MSMEs' economic cycles, which often differ from those of larger enterprises** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/regional insurers, insurance cooperatives and MSME aggregators | • Enhanced uptake of insurance for MSMEs through supporting 'just in time' affordability | • Formalized business relationship between reinsurer and insurance company |
| • **Engage with policymakers on policy potentials for fiscal and financial incentives in the context of climate risk insurance, low carbon opportunities, and risk management, e.g. through VAT exemptions and/or tax credits for MSMEs, or investment** | • (National) CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, NAT-CAT solutions, index-insurance products, low-carbon solutions | • Tangible and amplified benefits of risk reduction activities for MSMEs, incl. through complementary public risk management to protect from risks within the supply chain, e.g. logistics | • VAT exemptions and/or<br>• Tax credits for MSMEs;<br>• Investment targets for public infrastructure |

| | | | |
|---|---|---|---|
| tax credits for MSMEs, or investment targets for public infrastructure to improve MSMEs' operational and logistical efficiency | and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors together with local/national/ regional insurers, insurance cooperatives and MSME aggregators | | |
| • **Engage with policymakers on the development of country risk management strategies, (i) including quantitative investment targets for risk financing, insurance, renewable energy and energy efficiency and (ii) foster appropriate pricing of resilience benefits, and data collection and sharing for MSMEs** | • (National) disaster risk management and financial de-risking experts together with (national) financial modelling/ research institutes, and local/ national/regional insurers, insurance cooperatives and MSME aggregators | • Enabling environment for the introduction of risk finance products and investments in risk management, reduction and low carbon investment opportunities | • (Political signaling on) quantitative public investment targets for risk financing, insurance, renewable energy and energy efficiency<br>• Political signaling on pricing of resilience benefits<br>• Political support/ initiatives on data collection/sharing for MSMEs |
| • **Support the creation and promotion of collaborative forums for risk management, particularly with view to MSMEs, within governments, specifically Ministry of Finance and regulatory agencies, the insurance industry, and other relevant stakeholders** | • (National) civil society organizations, together with (national) disaster risk management, CDRFI and financial de-risking experts, with deep understanding of insurance products, including key innovations in the sector, | • Enabling environment for the introduction of risk finance products and investments in risk management, reduction and low carbon investment opportunities | • National collaborative forum for exchange on climate-smart insurance products |

| | | | |
|---|---|---|---|
| | NAT-CAT solutions, index-insurance products, low-carbon solutions and their application for low-income populations in developing and emerging economies and understanding of client value; plus knowledge and experience in working with small businesses, including good understanding of business-related and carbon-related risks, particularly for MSMEs in the retail, service and agricultural sectors, and<br>• Local/national/regional (insurance) cooperatives and MSME aggregators | | |
| • **Enable scale by ensuring the product price matches with the ability and willingness to pay through the use of sustainable concessional support** | • (National) CDRFI and financial de-risking experts, together with local/national/regional insurers, insurance cooperatives and MSME aggregators | • International concessional support for premium payments to enhance affordability | • Formalized agreements with e.g. donors and/or funding structures |

## ANNEX II: OVERVIEW OF THE PROPOSED SIF ECOSYSTEM FOR ASIA-PACIFIC



### The proposed role of the identified funding vehicles dedicated to disaster risk finance

In alignment with the SIF Action Areas and the suggested ecosystem, it is proposed that, over time and at different stages of SIF projects:

- **ACLIFF (managed by ADB) may:** Focus on providing the necessary financial and technical support for developing financial products, building distribution channels as well as for enhancing MSME demand through selecting, sub-contracting and coordinating further implementing partners, such as local universities, NGOs, and other technical assistance providers, including in the areas of data needs and climate and financial literacy. (Note: Regional partners in Africa and Latin America and the Caribbean need to be identified)
- **Other funding structures (unknown) may:** Provide technical assistance for strengthening policy- and regulatory capacities in relationship to MSME insurance and climate-proofing through sub-contracting and coordinating further implementing partners, such as local universities, NGOs, other technical assistance providers and business associations, which strengthen MSME demand, including in the areas of data needs, climate and financial literacy, and the implementation of complementary risk reduction activities and investments made by MSMEs.
- **ISF (managed by KfW & Frankfurt School) may:** Support research and analysis of risk and provide implementing organizations, including insurers with financial support for product development.
- **IIF (managed by KfW & BlueOrchards) may:** Provide the same insurer with debt or equity investments to increase its risk capital.
- **NDF (managed by Global Parametrics) may:** Complement the re-insurance industry to facilitate a market for climate-related risks of MSMEs by providing risk capital to seed innovative risk transfer products.

**Authors:**

**Viktoria Seifert**, Associate Project Manager, Munich Climate Insurance Initiative (MCII)
**Sara Jane Ahmed**, V20 Finance Advisor, V20 Secretariat hosted by the Global Center on Adaptation (GCA)

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**For more information about the V20-led Sustainable Insurance Facility, please contact:**

Sara Jane Ahmed
V20 Finance Advisor
Office of the Advisor and Representative Climate Vulnerable Forum & V20 Maison de la Paix (Bld.5), 2E Chemin Eugene-Rigot 1202 Geneva, Switzerland V20 Secretariat hosted by the Global Center on Adaptation (GCA)
Email: sara.ahmed@v-20.org

Butch Bacani
Programme Leader
UN Environment Programme's Principles for Sustainable Insurance Initiative International Environment House, 11-13 Chemin des Anemones, Geneva, Switzerland
Email: butch.bacani@un.org

Soenke Kreft
Executive Director
Munich Climate Insurance Initiative (MCII)
Platz der Vereinten Nationen 1, Bonn, Germany
Email: kreft@ehs.unu.edu

**Disign by:** Jo.R

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**Page 2**: Marcel Crozet / ILO, Carpentry workers in the city of Kisumu, Kenya

**Page 8** (cropped): Perera Y.R. / ILO, Cutting hydro link power hoses. Anuradapura District. Sri Lanka

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