

Finance ministers of world's most climate-vulnerable economies establish insurance facility with UN Environment Programme to protect MSMEs

UNEP's Principles for Sustainable Insurance Initiative to host V20 Sustainable Insurance Facility with initial funding from the German government

19 July 2021—As climate change worsens extreme weather events across the globe, the [Vulnerable Twenty Group of Ministers of Finance \(V20\)](#)—comprising 48 climate-vulnerable economies with a combined population of 1.2 billion people and a 5% share of global emissions—recently reached one of their key climate finance milestones with the establishment of the V20-led Sustainable Insurance Facility (V20-SIF). The V20-SIF was highlighted as one of the V20's key initiatives in the [Communiqué](#) issued earlier this month in relation to the [1st Climate Vulnerable's Finance Summit](#).

The V20-SIF is a project pipeline development facility that will assist V20 economies in scoping the financial protection needs of their micro, small and medium-sized enterprises (MSMEs) in order to build their resilience to climate change impacts and support the transition to net-zero economies. It will facilitate concept and proposal development for submission to funding vehicles relevant to climate and disaster risk finance and insurance, mobilising international financial and technical assistance to develop customised climate-smart insurance solutions for MSMEs and close the financial protection gap.

[“The V20-led Sustainable Insurance Facility is the kind of instrument developed by vulnerable country officials to confront a basic fact: as climate damages mount, we need to accelerate the development of domestic financial protection markets, which is the promise of the SIF,”](#) said **Minister Alfred Alfred Jr, Finance Minister of the Republic of the Marshall Islands and the V20 Co-Chair of the InsuResilience Global Partnership**. [“On behalf of the V20 Group, we would like to express our appreciation for Germany's \(BMZ\) commitment to support the implementation of the V20-led SIF over the coming years and to work in concert with BMZ across the broad climate finance agenda.”](#)

The V20's initiation and request for the creation of the SIF reflects the fundamental importance of MSMEs for V20 economies, where MSMEs contribute 20% to 80% of GDP, make up more than 70% of all businesses, and power the countries' export revenues. They are therefore critical drivers of socio-economic growth and development.

However, MSMEs are constantly threatened by the increasing frequency and severity of climate-related risks such as floods, cyclones and droughts and often have low adaptive capacity. Worsening climate risks will further drag down their economic productivity and resilience, particularly if the MSME sector does not have adequate insurance protection and investment capacity. Insurance can help enhance the risk management capacities of MSMEs, absorb financial shocks from climate-

related losses, and de-risk the implementation of cost-saving renewable energy and energy efficiency infrastructure.

“Germany is pleased to support the V20’s Sustainable Insurance Facility starting in 2021, as this will enable V20 countries to submit tailor-made project proposals to better protect small enterprises against extreme weather events,” said **Dr Maria Flachsbarth, State Secretary of the German Federal Ministry for Economic Cooperation and Development (BMZ) and the G20+ Co-Chair of the InsuResilience Global Partnership.**

The focus on MSMEs addresses a key implementation gap and aims to contribute to the ambition of the G20+ and V20-led [InsuResilience Global Partnership](#)—specifically its target to reach 150 million people through micro and meso-level insurance solutions by 2025, which is part of the overall vision of insuring an additional 500 million people by 2025.

The V20-SIF’s Project Office, with initial funding from [Germany’s Federal Ministry for Economic Cooperation and Development \(BMZ\)](#), will be operationalised this year and will be hosted by [UN Environment Programme’s Principles for Sustainable Insurance Initiative \(PSI\)](#), the largest collaboration between the UN and the insurance industry, with nearly 200 insurance and stakeholder organisations worldwide as members.

“Adaptation and mitigation are two sides of the same coin—tackling climate change. This is why the V20 Sustainable Insurance Facility will develop climate-smart insurance solutions to help micro, small and medium-sized enterprises (MSMEs)—the backbone of V20 economies—build climate resilience as well as invest in low and zero-emission technologies,” said **Butch Bacani, who leads the PSI at the UN Environment Programme and who produced the initial concept note for the V20 Sustainable Insurance Facility in 2017.** “As the world transitions to a net-zero emissions economy, adaptation must not and should not be the forgotten component of climate action.”

Based on the initial concept note prepared by Bacani after the V20 Asia-Pacific Regional Meeting in Manila in 2017, the PSI and the [Munich Climate Insurance Initiative \(MCII\)](#) further developed the SIF design together with the V20. Throughout 2019, various V20 and industry stakeholder consultations and the preparation of a high-level background assessment informed the design of the V20-SIF. During the UN Climate Action Summit in New York in 2019, the V20 officially introduced the V20-SIF at its kick-off event.

Looking ahead, the V20 plans to launch V20-SIF operations in the Asia-Pacific by the time of the UN Climate Change Conference in Glasgow this November (COP26), followed by the launch of operations in Africa and the Middle East and Latin America and the Caribbean from 2022 onwards.

The V20-SIF complements, and will benefit from, other key PSI collaborative initiatives. These include transitioning insurance and reinsurance portfolios to net-zero emissions by 2050 through the Net-Zero Insurance Alliance (NZIA), harnessing insurance solutions to support the achievement of the UN Sustainable Development Goals (“Insurance SDGs”), and implementing the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

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About UN Environment Programme's Principles for Sustainable Insurance Initiative

Endorsed by the UN Secretary-General and insurance industry CEOs, the Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance (ESG) risks and opportunities—and a global initiative to strengthen the insurance industry's contribution as risk managers, insurers and investors to building resilient, inclusive and sustainable communities and economies on a healthy planet.

Developed by UN Environment Programme's Finance Initiative, the PSI was launched at the 2012 UN Conference on Sustainable Development (Rio+20) and has led to the largest collaborative initiative between the UN and the insurance industry.

www.unepfi.org/psi

About the Vulnerable Twenty Group of Ministers of Finance

The Vulnerable Twenty Group of Ministers of Finance (V20) of the Climate Vulnerable Forum is a dedicated cooperation initiative of economies systemically vulnerable to climate change. The V20 works through dialogue and action to tackle global climate change.

www.v-20.org

About the Munich Climate Insurance Initiative

The Munich Climate Insurance Initiative (MCI) was initiated as a charitable organisation by representatives of insurers, research institutes and NGOs in April 2005 in response to the growing realization that insurance solutions can play a role in adaptation to climate change, as suggested in the UN Framework Convention on Climate Change and the Kyoto Protocol.

This initiative is hosted at the United Nations University Institute for Environment and Human Security (UNU-EHS), in Bonn (Germany). As a leading think tank on climate change and insurance, MCI is focused on developing solutions for the risks posed by climate change for the poorest and most vulnerable people in developing countries.

<https://climate-insurance.org>