UNDP & UN-OHRLLS
Building the Financial Resilience of Least Developed Countries

Introduction and Background

Least developed countries (LDCs) are on the front line of our changing climate and often face further challenges of high levels of povery, insecurity and inadaquate governance capacity. Development in LDCs remains fragile as as result of increasing shocks, rising and interconnected risks, and weak governance capacity, the combination of which locks in vulnerability and poverty, while greatly limiting economic growth. A reliance on climate-sensitive sectors for employment and economic growth, such as agriculture, locks in this fragility. In the wake of crisis, resources continue to be diverted away from sustainable development priorities towards emergency response and reconstruction efforts. The COVID-19 pandemic has only further exacerbated the vulnerability of LDCs and highlighted their fragility.

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

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

The Proposition

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

As a direct response to the Doha Programme and the increasing pressure LDCs are facing, UNDP will work with the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small-Island Developing States (UN-OHRLLS) and other partners to significantly upscale this programme.

The Enagagement Initiative will use its structure with three in-country governance components enhanced by a strong global component led by UN-OHRLLS:

1. **Fostering demand for insurance and risk financing**
2. **Enabling regulatory environment for insurance**
3. **Creating capacity and understanding for insurance and risk finance**
4. **Global and regional advocacy and south-south learning.**

To kick-off the projects, a detailed diagnostic of the current environment for insurance and risk finance will be undertaken in each LDC, across both supply and demand elements, as well as the underlying risk and development dynamics. The respective country diagnostic will form the basis for defining a tailored country programme, with the global element linking best practice and lessons learnt across all countries.

The Scale and Timeline

Given the rapidly escalating needs, this dedicated Engagement Initiative aims to move significantly beyond its current scope of three countries – Comoros, Senegal and Uganda – and scale up to 20 countries. The work programme will last five years in its first substantial phase, covering the first half of the Doha Programme of Action. It will be implemented jointly by UNDP (which will lead on country-level implementation, technical assistance to countries, and the integration of insurance and risk-financing into development and governance) and UN-OHRLLS (which will lead on global advocacy, outreach to member states, and convening across countries to learn lessons on implementation). The programme of work will be assessed and evaluated at the conclusion of this first period, with a view to determining its further possible extension to meet rising risk and rising need.

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