Insurance and
Risk Finance
Facility

Inclusive insurance and risk financing in Mozambique

Snapshot and way forward 2024

Why this report?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Mozambique. The objective of this summary report is to present a high-level overview of the following information for Mozambique:

1. **Key risks**, especially climate risks
2. The current state of **inclusive insurance**
3. The current state of **disaster risk finance**
4. **Recommendations to advance** inclusive insurance, disaster risk finance and overall development.

This summary is a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and critical stakeholders, including the insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
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Key messages

1

Risks: Mozambique ranks among the top 10 countries with the highest risk of natural disasters. Key hazards include floods, drought, storms and epidemics.

2

Inclusive insurance: The regulatory environment is supportive to microinsurance development in Mozambique, with, among other interventions, a separate microinsurance line of business. However, according to recent data, microinsurance accounts for only 0.1% of total insurance business (in gross written premiums) and coverage is very low. Inclusive insurance products are primarily funeral insurance, credit life, hospital cash, crop and personal accident insurance. Funeral insurance represents almost two-thirds of people covered, playing a crucial role in driving insurance inclusion.

3

Disaster risk finance: Despite significant efforts over the last decade, as well as ongoing collaborative efforts with national and international partners, Mozambique continues to face challenges in implementing a comprehensive and sustainable disaster financing strategy. A robust, strategically integrated and risk-layered approach to managing disaster risk financing is needed. The main sources of funding include annual contingency plans, funding from the donor community, emergency loans, contingency budgets and, more recently, sovereign insurance. Funding gaps are substantial and there is an overreliance on ad hoc financial strategies and external donor support.[1] Advancements have been made recently, including the development of the Financial Disaster Protection Plan 2022–2027, which provides for the implementation of risk retention and risk transfer mechanisms such as sovereign insurance. The establishment of the Disaster Management Fund marks another step forward.

4

Key recommendations include: To support inclusive insurance development, the following interventions are proposed: refining and further developing the regulatory framework for microinsurance; creating a clear vision for inclusive insurance and integrating its development within national strategies and programmes; strengthening demand-side research, particularly within the informal sector and among women; and supporting the development of alternative distribution channels.

To improve disaster risk financing, key interventions are recommended on: establishing and overseeing a comprehensive data collection system; supporting the implementation of the National Financial Disaster Protection Plan; enhancing the Government's Disaster Risk Management (DRM) and Disaster Risk Finance (DRF) capacity; promoting Disaster Risk Reduction (DRR) and resilience-building as components of an holistic DRM and DRF strategy; and assessing the potential of additional risk transfer solutions for disaster risk.

Mozambique's development and risk profile

Key macroeconomic and development indicators

US$20.62 billion was Mozambique's gross domestic product (GDP) in 2023, with a growth rate of 5%.[2]

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33.9 million was the population in 2023,[3] with 61% residing in rural areas.[4] In 2020, 52% of the population were under the age of 18.[5]

68.2% of the population[6] lived below the national poverty line in 2020, and 64.6% earned less than $2.15 per day.[7] Unemployment peaked at 4.25% in December 2021, but dropped to 3.67% by December 2023.[8]

0.36 is the country's human capital index score, indicating extremely low levels of human capital.[15] Mozambique ranks 127th out of 162 countries on the Gender Inequality Index.[16]

26.7% of GDP was contributed by agriculture in 2022, compared with 40.6% from services and 22.8% from industry.[13] However, agriculture serves as the primary income source for over 70% of Mozambique's population and employs 80% of the workforce, with a significant majority being women. Most farmers are smallholders and depend on rainfall, making them highly exposed to climate risks.[14]

25.9% of GDP in 2020 was contributed by the informal economy, in which most of the country's population work.[9]

49% of adults aged 15+ have an account at a financial institution, of whom 39% are women and 34% are poor people.[10] Financial services are concentrated in urban areas.[11]

29% of the population had a mobile money account in 2019, up from just 3% in 2014.[12]

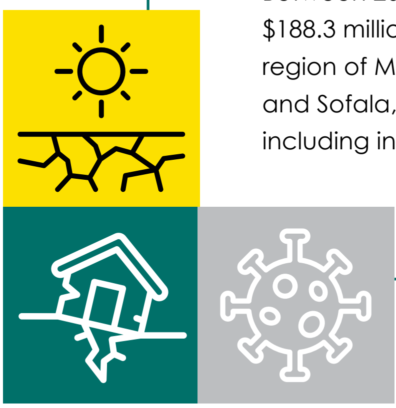
17% of people used the internet in 2021[17] and there were just 0.2 fixed broadband subscriptions per 100 people in the country,[18] but mobile broadband coverage is high at 77%.[19]

Geographic context:

Mozambique is located on Africa's south-eastern coast and shares borders with Eswatini, Malawi, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe. The country is characterized by diverse landscapes ranging from coastal plains to mountainous regions. Its 2,700-kilometre coastline provides vital access to the Indian Ocean but also poses coastal vulnerabilities. The country experiences a tropical climate along the coast and subtropical conditions inland, with distinct wet and dry seasons. The rainy season lasts from November to March. Climate change threatens rainfall patterns, impacting agriculture and increasing heat extremes.[20]

Hazard context:

Mozambique ranks seventh in the 2023 World Risk Index, with a score of 34.61, indicating very high exposure and vulnerability.[21] Between 2000 and 2014, annual disaster damages averaged $188.3 million, according to World Bank estimates.[22] The central region of Mozambique, and in particular the provinces of Manica and Sofala, face heightened challenges from climate change, including increased flooding, cyclone risk and droughts.



Key risks and hazards

Drought

Drought is a recurrent risk in Mozambique, especially in the southern and central regions, where irregular rainfall patterns exacerbate existing vulnerabilities. This adversely affects the agricultural sector and threatens water resources, leading to crop failure, food shortages and water distribution challenges. For example, the 2016 drought left many households destitute, highlighting the populations' dependence on rainfed agriculture for consumption and livelihoods.[29]

Hydrological drought (water scarcity), particularly in Inhambane Province, affects over 500,000 people annually and causes an expected loss of $65 million in agricultural income every 10 years. By 2050, over 3 million people are anticipated to be annually affected by drought.[30]

Epidemics and disease

Mozambique faces significant health challenges due to the repeated incidence of epidemics, including malaria, cholera and emerging infectious diseases, which impact both public health and economic stability. Malaria is prevalent and disproportionately affects vulnerable groups including children and pregnant women.

Cholera outbreaks often occur during the rainy season. An outbreak from September 2022 to May 2023 reported over 30,000 cases and 137 deaths across 11 provinces.[25] Other prevalent waterborne diseases include tuberculosis.

Climate change exacerbates health risks, highlighting the need for resilient healthcare systems and adaptation strategies. Rising temperatures are linked to some food and waterborne diarrheal diseases that drive high rates of childhood mortality.[26]

Mozambique also has the second-highest rate of mother-to-child transmission of HIV in the world[27] and has an adult HIV prevalence rate of 12.5%.[28] The COVID-19 pandemic placed further stresses on Mozambique's health-care system.

Flooding

Mozambique faces significant flood risks, primarily due to its low-lying coastal areas and major river systems, worsened by heavy rainfall and cyclones. Floods affect agriculture, infrastructure and communities, with heightened vulnerability during the November to March rainy season.

Flood events happen regularly, with notable incidents including the widespread flooding in central Mozambique in 2000 that caused more than 700 deaths, displaced 650,000 people and caused an estimated $500 million in property damage.[23]

Urban centres like Beira, situated on the coast, are especially prone to flooding.[24]

Storms and cyclones

The threat of tropical storms and cyclones, particularly during the cyclone season from November to April, poses a significant challenge in Mozambique. Storms and cyclones bring strong winds, heavy rainfall and storm surges, causing widespread destruction, especially along coastal areas. The provinces of Nampula, Sofala and Zambezia are particularly affected by storm surge.

On average, cyclones impact around 300,00 people annually in coastal regions, based on the period 1994 to 2012 . A once-in-a-generation event would affect approximately 500,000 buildings, resulting in damages to the national building stock totalling about $500 million.[31]

Cyclone Idai in 2019 severely affected the areas of Inhambane, Manica, Sofala, Tete and Zambezia, impacting around 1.5 million people, causing infrastructure damage and loss amounting to $796 million and generating losses in the production sector – including industry, commerce, tourism and primary sectors such as agriculture and fisheries – of an estimated $986 million.[32]

Human-wildlife conflict

Communities living near conservation areas are vulnerable to human-wildlife conflict, which leads to injuries, loss of life, livestock mortality, destruction of crops and culling of wildlife. A total of 97 people died and 66 were injured in 2020 from attacks by wild animals. During the same year, 258 domestic animals, including cattle and goats, were killed by lions, hyenas and crocodiles, and 248.81 hectares of crops were destroyed.[33]

Inclusive insurance[34]: Status

Enabling environment[35] element

Stakeholders

Insurance Supervision Institute of Mozambique (Instituto de Supervisão de Seguros de Moçambique, ISSM)

- ISSM is the regulatory authority responsible for overseeing the insurance market in the country, and was established in 2010 under Decree-Law No. 1/2010, replacing the previous insurance regulator, the General Insurance Inspection (IGS).
- ISSM operates under the supervision of the Ministry of Economy and Finance. Its Organic Statute, approved by Resolution No. 36/2021, outlines its organizational structure, functions and powers to ensure effective regulation of the insurance industry.
- ISSM has been supportive of microinsurance development in Mozambique, introducing a separate microinsurance line of business in the market and investing in consumer education initiatives to increase awareness.
- ISSM oversaw the first Regulatory Sandbox for insurance in 2018, allowing innovations to be tested within a controlled environment. The Regulatory Sandbox programme entered its fifth edition in 2024, though the approach has not yet been formalized within the country's regulations.[36]

Bank of Mozambique (Banco de Moçambique)

- The Bank of Mozambique is the central bank, responsible for governing the country's monetary policies. It is a regulatory institution, along with ISSM, striving to create favourable conditions to encourage the adoption of financial services and the development of solutions.
- In 2024, the Bank launched the fifth edition of the Regulatory Sandbox, inviting various types of financial entities to submit proposals for innovative solutions to meet needs identified in the financial sector, including for inclusive insurance.[37]

Mozambican Insurance Association (Associação Moçambicana de Seguradoras, AMS)

- Established in 2007, AMS was formed to advocate for and promote insurance and reinsurance companies.
- AMS has developed and implemented activities to achieve its objectives and is active in other initiatives and working groups related to the insurance industry.
- Although it has not promoted any specific initiatives on inclusive insurance, AMS organized the first Annual Insurance Conference in September 2023 with the motto "The Insurance Industry Solutions to the Economic and Social Challenges of Mozambique".[38]
- AMS was also invited by the Government to actively engage in financial education campaigns within the insurance sector, positioning itself as a crucial player in the national financial inclusion strategy.

Association of Actuaries of Mozambique (Associação dos Actuários de Moçambique, AAM)

- AAM has been recorded as an associate member of the International Actuarial Association and reports five actuaries as members.[39]
- It is also involved in the Project for the Integration of Lusophone Actuaries, alongside Angola, Brazil and Portugal, aimed at strengthening actuarial sciences.[40]

Regulations

Insurance Acts

Decree No. 30/2011 approves the Regulation on the Conditions of Access and Exercise of Insurance Activity and the Respective Mediation in Mozambique.

Inclusive insurance related regulations

Decree-Law 1/2010 brought about significant changes to the insurance industry, including the establishment of the microinsurance category.

- It provides a definition of microinsurance as "the undertaking of risk, primarily targeting small and medium-sized operations, with the objective of protecting the low-income population against specific risks. This is achieved through regular premium payments that are proportionate to the probability and cost of the risk involved."
- It further defines the low-income population as "a segment of individuals whose per capita income is below the national minimum wage threshold, as well as those residing in rural areas characterized by a high poverty rate".

Decree No. 30/2011, in Article 84, No. 2, outlines the insurance product lines eligible for microinsurance. These include credit life, funeral expenses, hospitalization costs for illness, personal accident coverage, fire insurance and agricultural insurance.

- However, only credit life and funeral microinsurance qualify under the life insurance category, limiting possibilities for expanding life insurance product options.

Policies / Plans

National Financial Inclusion Strategy 2016 – 2022 (Estratégia Nacional de Inclusão Financeira, ENIF)

- The ENIF 2016–2022 aimed at enlisting the financial sector's participation in implementing actions to enhance financial inclusion and promote financial consumer education and protection.
- However, by 2022, only 20 of a total of 54 outlined actions had been completed, with 19 still ongoing and others in the process of launch or yet to begin.
- Significant challenges persist, including but not limited to: the concentration of economic activity in urban areas like Maputo; profitability concerns related to banking inclusion; the lack of identification documents among low-income populations, restricting access to finance; and the continuing limited banking infrastructure in rural areas, in spite of progress made on the ENIF's One District, One Bank initiative.[41] As of June 2024, a new ENIF had not been approved.

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts[42]

19 licensed insurers are operating in Mozambique, including 3 microinsurers and 1 locally domiciled reinsurer. In addition, there are 153 insurance brokers, 5 reinsurance brokers and 31 licensed commercial society agents (agentes de seguro).[43]

1.79% was the insurance penetration rate (GWP as a percentage of GDP) in 2022, a decrease of 0.17% compared to 2021, highlighting the need for greater insurance awareness and accessibility.

78.9% of the total market share is held by the top five insurance companies.

17% of all gross premiums paid in 2020, amounting to MZN 3,156 million (~$49 million), were for climate-related policies (covering fire and natural events) and 33,895 climate-related insurance policies were sold in 2020, almost twice the number sold in 2019.[44]

MZN 21 billion (~$332 million) was total gross written premiums (GWP) in 2022,[45] around 1.2% higher than the total in 2021. Only 14.2% of premiums were for life insurance, with the remaining 85.8% allocated to non-life insurance.

Insurance in Mozambique remains a relatively limited market, predominantly focused on coverage for corporate business, a trend that has emerged over the past decade. This shift can be attributed to significant investments in coal, oil and gas exploration in the country. Insurers find it more convenient to target these large companies, which has contributed to a limited interest in serving individual clients.[46]

Inclusive insurance: Fast facts

- Microinsurance accounted for just 0.1% of total insurance business (GWP) in 2022.[47]
- Coverage is very low. Inclusive insurance products serve around 250,000 low-income individuals, equivalent to about 0.8% of the total population.[48]

Products types

Inclusive insurance products are primarily credit life, funeral, hospital cash, crop and personal accident insurance.[49]

Life insurance. Insurers have not fully explored other products that they could potentially offer under the life microinsurance category, such as non-credit term life products.

Funeral insurance is available through both personal and group policies. It plays a crucial role in driving insurance inclusion, representing 62% of inclusive insurance coverage.[50]

Crop insurance makes up 13% of inclusive insurance coverage.[51] It has gained momentum, particularly thanks to the efforts of Hollard Seguros insurance company in expanding index insurance for smallholder farmers.

- The national SUSTENTA programme, implemented by the Ministry of Agriculture and Rural Development, works to integrate family farming into productive value chains. Hollard Seguros' parametric product is delivered through the Agricultural Development Company (Empresa de Fomento Agrícola), a national agricultural development agency set up in 2017 with financing from SUSTENTA. ISSM also plays an active role.[52]
- Crop insurance is also implemented by the World Food Programme (WFP) working with Blue Marble, Hollard Seguros and the Government of Mozambique within the R4 Rural Resilience Initiative. R4 is an integrated climate risk management model comprising four key strategies: risk reduction through conservation agriculture; risk retention via village savings and loans groups; risk transfer through weather index insurance (covering drought and excess rainfall in two provinces); and prudent risk taking, which includes livelihood diversification, market access and formal credit facilitation. The initiative also offers climate information services and is active in six districts across Tete and Sofala provinces. During the 2022/2023 season, 4,240 smallholder farmers in Tete and 1,020 in Sofala were insured under this scheme, benefiting 26,300 individuals with a total insured sum of $263,000 and premiums of $68,380.[53]

Distribution

Common channels

Most insurers in Mozambique rely on agents and brokers for the distribution of inclusive insurance products. As in other markets, financial institutions in Mozambique play a significant role in offering credit life insurance to safeguard their loan portfolios.[54]

Other potential channels

Some insurers in Mozambique are starting to explore alternative distribution channels, including Mobile Network Operators (MNOs) and insurtechs.[55]

One insurer is venturing into retail channels for funeral insurance, and agro-dealer shops are being used for the distribution of agricultural insurance. Despite these efforts, financial and non-financial community-based organizations remain largely untapped and have clear potential for future insurance distribution. For example, 5,368 savings and credit groups are registered in the country, reaching 175,967 members.

Partnerships between insurance companies and agricultural development agencies such as the Agricultural Development Company could be further explored to distribute insurance products tailored to the needs of the agricultural sector in a sustainable way.

Demand

Limited data are available on demand in the market, which presents a challenge for insurers in developing customer-centric and inclusive solutions. However, the following insights can be highlighted:

Based on consumer research conducted in 2018, the top insurance needs expressed by respondents were, in order of preference: i) funeral insurance; ii) travel insurance; iii) health insurance; iv) mobile phone insurance; and v) crop insurance.[56]

In a 2023 study on climate challenges for poor households, women, including female household heads, tended to identify climate-related shocks most frequently, followed by income and business-related shocks. Men also frequently mentioned climate-related shocks, but placed greater emphasis on income and business-related shocks.[57]

Participants in the same 2023 study attempted to estimate the losses they incurred during natural disasters, primarily focusing on cyclones. Some key findings include:

- The most significant asset lost during disasters was housing
- Business stocks and assets also represented major losses
- Monthly income generally fell by between 5% and 10% of the value of the housing asset loss experienced
- Public health-care services, particularly access to medicines, are viewed as insufficient, leading families to seek private clinics or pharmacies for their healthcare needs.[58]

Mozambique's Nationally Determined Contribution (NDC) highlights the negative impacts climate shocks have across different sectors, which could be relevant to insurance solutions, including for crops, fisheries, forestry, health, infrastructure and tourism.[59]

Potential underserved target segments for inclusive insurance include:

- **The informal sector**, including traditional fishermen, fish vendors and processors (most of whom are women), small and medium-sized enterprises (SMEs) and craftspeople
- **Women**, who are actively involved in crop cultivation, livestock rearing and food processing, and often shoulder the responsibility of household food security
- **Communities residing near conservation areas** where human-wildlife conflict persists.

Disaster risk financing: Status

No comprehensive and up-to-date historical database consolidates information on the occurrence of disasters in Mozambique over a long period.[64] However, some disparate data and assessment efforts have been made:

Disaster risk data, information and assessments

The DesInventar database is one of the primary sources of consolidated historical data on disaster impacts in Mozambique. It is provided by the United Nations Office for Disaster Risk Reduction (UNDRR), with data available from 1979 up to 2022. A review and update of this database is planned in the near term.[62]

Disaster risk assessment, including hazard mapping, was carried out across Manica and Sofala provinces from 28 October to 12 November 2021 by Mozambique's National Institute for Disaster Management (INGC) together with the International Organization for Migration's (IOM) Displacement Tracking Matrix (DTM)[60] team. In this effort, detailed data collection was conducted at the localities level, the smallest administrative units in the country, and 192 localities within 56 administrative posts across 22 districts were covered. The data set is publicly available. IOM also issues frequent Movement Alert Reports in Mozambique using its Emergency Tracking Tool (ETT).[61]

Rapid post-disaster assessments and detailed mapping using drones was first conducted in 2019. When Cyclones Idai and Kenneth struck Mozambique in 2019, WFP Mozambique deployed drones for the first time in emergency response and worked alongside INGC to coordinate and ensure operational safety. This helped support the efforts of 20 humanitarian partners on the ground to reach people in need.

The Advanced Disaster Analysis and Mapping (ADAM) system[63] is a collaboration between WFP Mozambique and the National Institute for Disaster Risk Management and Reduction (INGD). ADAM is an operational system that collects, analyses and maps geospatial and socio-economic information in the aftermath of sudden-onset humanitarian emergencies. Currently operational for floods, earthquakes and tropical storms, ADAM issues alerts through live maps that are available to humanitarian organizations and the Government to enable preparedness and response. These maps aggregate evidence-based, near-real-time risk and impact information. ADAM Floods is fully operational for both early warning and response.

Existing legal, institutional and policy frameworks

Legal

Mozambique has a well-established disaster risk finance and management legal structure. The key legal instruments are:

- The **Disaster Risk Management and Reduction Law (Law No. 10/2020)**, which enhanced and expanded the previous Law No. 15/2014 by emphasizing not only disaster risk management (DRM) but also disaster risk reduction (DRR), resilience-building and climate change adaptation.
- The **Ministerial Diploma No. 96/2019**, which approved the Administrative and Financial Procedures Manual for the Disaster Management Fund (Fundo de Gestão de Calamidades, FGC). As well as ensuring a minimum annual allocation for the Fund, the Diploma defines the FGC's role in contracting sovereign insurance, with the responsibility for paying sovereign insurance premiums assigned to INGD.
- **Decree No. 62/2022**, which approved the regulations of the FGC and repealed Decree 53/2017 that established the Fund. It mandated an annual allocation of at least 0.1% of the Economic and Social Plan and State Budget (PESOE) for the Fund.

Institutional

- The **National Institute for Disaster Management and Risk Reduction (Instituto Nacional de Gestão e Redução do Risco de Desastres, INGD)** is a public institution with legal, technical, administrative and financial autonomy.[65] INGD is the primary government agency responsible for disaster prevention and mitigation, preparedness, relief and rehabilitation operations in Mozambique, including the implementation of risk financing mechanisms.
  - » INGD's responsibilities include management of the FGC, which finances DRM bodies and initiatives such as social assistance programmes, job creation for disaster-affected groups, local initiatives to strengthen DRM and sovereign insurance contracting. INGD is responsible for annually preparing the FGC's budget proposal, reporting and accounts.
  - » INGD is also the focal point institution for international disaster assistance in Mozambique. It is mandated to establish cooperation agreements with national and international institutions.
- The **Disaster Management Technical Council** is a multisectoral entity that approves all technical actions developed by INGD. It supports the INGD by assessing its annual accounting reports and budget proposals.
- The **Disaster Management Coordinating Council** is a high-level multisectoral entity headed by the Prime Minister. It is responsible for policy issues and decisions and for approving the FGC annual accounts and budget proposals.

Institutional

- The **Ministry of Economy and Finance (MEF)** plays a pivotal role in the Disaster Risk Financing (DRF) agenda. It takes the lead in overseeing and coordinating financial issues related to disaster preparedness, response and recovery. Along with the Ministry of State Administration and Public Service, it is responsible for approving additional regulations related to the FGC under Decree No. 62/2022.
- The **Technical Working Group for Drought Early Warning**, coordinated by INGD through its Division for the Development of Arid and Semi-Arid Zones, is a multisectoral group established to enhance collaboration among key stakeholders.[66]
- The **National Meteorological Institute (Instituto Nacional de Meteorologia, INAM)** is part of the Ministry of Transportation and Communications (MTC) and is responsible for monitoring and providing weather and climate information and services.
- The **National Fund for Sustainable Development (Fundo Nacional de Desenvolvimento Sustentável, FNDS**), coordinated by the Ministry of Agriculture and Rural Development (MADER), finances research, environmental management programmes and climate change adaptation and mitigation initiatives.

Policies

- The **Disaster Risk Reduction Master Plan 2017–2030 (Plano Director Para a Redução do Risco de Desastres 2017–2030, PDRRD)** is the core framework for DRM in Mozambique. It builds on the National Disaster Management Policy (Política de Gestão de Calamidades) approved in 1999. PDRRD outlines an ambitious DRM programme that is set to run from 2017 to 2030. It recognizes the need to integrate climate and disaster resilience into public investments, territorial planning and public financial management and emphasizes the importance of enhancing capacity at all levels. Its Strategic Objective 1, Understanding and Quantification of Economic and Fiscal Risks Efforts, requires the development of scenarios or models to indicate the likely financing needs for natural disasters.[67]
- The **Financial Disaster Protection Plan 2022–2027 (Plano de Protecção Financeira Contra Desastres, PPFD)** was published in August 2022 to operationalize the PDRRD. It serves as a coordination instrument between MEF and INGD towards enhancing Mozambique's financial response capacity for disasters.[68] The PPFD highlights the Government's recognition of the importance of financial protection and resilience in the face of disaster.

Disaster risk finance mechanisms and instruments

Existing ex-ante instruments:

- **Annual contingency budgets** cover only the emergency response phase. Between 2009 and 2015, government allocations ranged from 0.07% to 0.13% of the State Budget.[69]
- For 2023–2024, INGD identified 1.2 million people at risk from natural disasters and estimated that of approximately MZN 14.3 billion ($226 million) needed, there was a funding gap of about MZN 10 billion (~$158 million).[70]
- The Ministry of Public Works, Housing and Water Resources was the only ministry to report using a sector-specific contingency budget. It allocates about 10%–15% of the National Roads Administration resources to emergency recovery of roads and bridges.
- **The Disaster Management Fund (Fundo de Gestão de Calamidades, FGC)** supports the expenses of various bodies involved in DRM, including readiness and response. It is financed by an annual allocation of at least 0.1% of the Economic and Social Plan and State Budget (Plano Económico e Social e Orçamento do Estado, PESOE). Between 2019 and 2024, the World Bank has contributed $28 million as well as technical assistance to its establishment and operationalization.
- **Sovereign climate risk insurance** is purchased by the Government, with premium contributions from partners as follows:
  - » A tropical cyclone and excessive rainfall cover has been purchased by the Government of Mozambique through INGD to protect the most vulnerable populations. It was launched in 2022 and is currently in its third year. This innovative parametric wind speed and rainfall cover was designed by Pula Advisors, in collaboration with the Government and the World Bank. For the inaugural 2022/2023 season, a consortium of two local insurers (EMOSE as the lead insurer, working with Hollard Seguros) won the public tender,[71] with Africa Specialty Risks as the lead reinsurer. It provided up to $35 million of cover (with a $4 million premium). For the 2023/2024 season, the tender was awarded to a consortium of three local insurers (Fidelidade Seguros as the lead insurer, working with EMOSE and Hollard Seguros).[72] The product is being updated and restructured for the 2024/2025 season. The World Bank has disbursed $12 million for premium payments since 2022 under the 2019 Program-for-Results

    Financing (PforR) instrument.[73] Payments of about $1 million were made following Tropical Cyclone Freddy.[74]
  - A drought parametric insurance policy was purchased for the first time by the Government of Mozambique in 2023 from African Risk Capacity Insurance Company Limited (ARC Ltd.).[75]
  - WFP has purchased an ARC Replica drought policy on equal terms to the Government's own policy. WFP also purchased a tropical cyclone policy.[76] Together, the WFP support covers a sum insured of $5.7 million, protecting 207,374 people.[77]
- **Anticipatory action** was incorporated into Red Cross and WFP programming to enable the release of early financing in the event of the onset of severe climate risks.[78] In 2023, this programming was activated against drought in Mozambique, targeting five districts in the Gaza province. Under the leadership of INGD and with the support of partners from the Food Security Consortium (FSC), the plan released financing aimed to mitigate the impact of below-average rainfall expected due to El Niño and to cover 150,000 people.[79]

Potential or pipeline ex-ante instruments:

- **Insurance of public assets** is supposed to be mandatory, but its uptake is not widespread due to the resource constraints of managing units.
- The **Regional Emergency Preparedness and Access to Inclusive Recovery (REPAIR)** programme is a planned World Bank-funded initiative, which includes Mozambique in its first phase.[80] The programme will establish a Regional Climate Risk Fund (RCRF) with pre-arranged financial instruments to respond quickly to shocks.

Existing ex-post instruments:

- The Government continues to rely heavily on ex-post instruments, which include donor relief financing and loans. Overall, Mozambique's approach to budget reallocation for disaster risk financing involves a combination of strategic planning, flexible budgeting and collaboration with international and local partners. This strategy aims to ensure that the country can respond quickly and effectively to disasters, minimizing their impact on communities and the economy.

Mozambique does not have a mechanism to estimate governmental contingent liability for disasters. Moreover, data collection within the public sector remains fragmented, and government stakeholders identify the lack of an updated public infrastructure inventory as a major challenge. For this reason, it is very difficult to adequately quantify the country's funding gap in relation to disaster risk. However, interviews and published reports agree that the gap is profound, given the country's enormous exposure to a wide range of natural disasters.

Way forward for inclusive insurance and risk financing

The following recommendations support the development of inclusive insurance and disaster risk financing in Mozambique.

1 Recommendations for the development of inclusive insurance

1.1 Regulatory gaps limit the expansion of microinsurance products, enrolment and distribution options.

Refine and further develop the regulatory framework for microinsurance.

- ISSM should be supported to:
  - » Formalize the regulatory framework for the sandbox regulatory model
  - » Conduct a regulatory impact assessment of the existing microinsurance regulatory framework
  - » Update the regulatory framework to address key issues, including: rationalizing insurance premium taxes for key inclusive insurance product lines like agricultural insurance; expanding the current product definition of life microinsurance products; reducing know-your-customer (KYC) requirements; and increasing the use and reach of digital policies.
  - » Improve reports to cover inclusive insurance initiatives.
- Tax incentives should be explored for insurance companies that extend their services to rural areas or dedicate a portion of their portfolio to underserved segments.
- Regulatory capacity should be built, exploring a partnership with the Access to Insurance Initiative (A2ii), the implementation unit of the International Association of Insurance Supervisors (IAIS), which offers training, programmes and an inclusive insurance innovation lab (iii-lab) to assist supervisory authorities in expanding their knowledge, gaining experience and testing innovations.[81]

1.2

Mozambique lacks a comprehensive inclusive insurance vision to support the country's broader development goals.

Support the creation of a clear vision for inclusive insurance and integrate its development into national strategies and programmes.

- Working with ISSM and key stakeholders, awareness and understanding should be built to crowd in all relevant ministries, emphasizing that inclusive insurance cuts across policy objectives such as financial inclusion; building climate resilience; fostering socio-economic growth; and supporting agricultural development.
- Efforts should be made to ensure the new ENIF fully incorporates inclusive insurance and works to enhance the accessibility and affordability of insurance products for a broader range of people, including the rural population, fostering financial inclusion and protection for underserved communities.
- A specific strategy for agricultural insurance should be considered, which could be integrated within the programmes of relevant line ministries, as follows:
    - For bundling inputs and crop insurance: the SUSTENTA programme, managed by the Ministry of Agriculture and Rural Development (MADER), and its crop input e-voucher component, drawing on lessons from country examples like that of Zambia.
    - To mitigate human-wildlife conflict for crop and livestock producer communities living near conservation areas: programmes of the National Administration of Conservation Areas (ANAC) and the Ministry of Land and Environment (MTA). Examples in Kenya and Namibia could be considered.
    - For coastal communities and the blue economy: the Ministry of the Sea, Inland Waters and Fisheries (MIMAIP) and the National Institute for Fisheries and Aquaculture Development (IDEPA), building on pipeline plans to implement insurance within the PROPEIXE Artisanal Fisheries Resilient Development Project.[82]

1.3

A substantial gap in understanding the market hinders the development of appropriate inclusive insurance solutions.

Strengthen demand-side research, particularly within the informal sector and among women.

- Underserved segments, sectors and geographical areas should be identified and mapped to more effectively tailor interventions.
- Existing research should be updated, engaging with insurers and distribution channels to ensure the usefulness and use of the research.
- A methodology should be developed for monitoring the progress and effectiveness of inclusive insurance initiatives. Enhancing and leveraging the country's existing Financial Inclusion Indicators (RIF) will be crucial in this process.
- Demand-side data collection should be established as a standard practice among private sector stakeholders, supported by periodic technical assistance as needed.
- Capacity-building and technical assistance should be provided to the Government and private sector stakeholders to encourage demand-side data collection and to ensure the incorporation of a gender lens.[83]

1.4

Insurers in Mozambique primarily depend on traditional intermediaries like agents and brokers for distribution, which is not conducive to scaling inclusive insurance.

Support the development of alternative distribution channels.

- Community-based organizations remain underutilized and should be explored, since they offer a promising avenue for future distribution, especially for rural areas.
- The expansion of digital and technology-based distribution should be encouraged, for example by implementing an innovation challenge fund with ISSM.

2 Recommendations for the development of disaster risk financing

2.1

Data collection within the public sector remains fragmented, spread across multiple agencies without effective coordination for data analysis, utilization and policymaking.

Establish and oversee a comprehensive data collection system with INGD and in coordination with other government entities, development organizations and private sector stakeholders engaged in similar efforts.

- Agency-level ground, field and satellite data should be included to assess the frequency, severity and spatial extent of risks.
- Indicators related to population vulnerability and risk should be incorporated, including data on individuals already enrolled in social protection programmes as well as households not currently part of these programmes, but which face substantial economic and social vulnerability.
- The inventory of public infrastructure should be updated to facilitate the development of risk models and situational analyses.
- Vulnerability maps should be prepared in cooperation with entities such as INAM and academic institutions, as well as humanitarian agencies working on similar projects, such as WFP.
- Technical assistance should be provided to develop tools that promote mitigation and anticipatory actions such as forecasts and early warnings.
- The insurance sector should be facilitated to contribute to the design of data tools that allow for better identification and management of risks.
- The development of an open-source risk model should be considered, and could involve working with Global Risk Modelling Alliance, INGD and cooperation partners to provide customizable risk models for a variety of scenarios and risks to better support government decision-making.

2.2

The Government's financial capacity remains insufficient to meet the high financing needs for disaster preparedness and disaster response interventions. As a result, deficits and delays in post-disaster interventions are common, exacerbating and prolonging the negative effects of shocks.

Support the implementation of the National Financial Disaster Protection Plan with the Government.

- Support should be provided to carry out the actions identified for implementation in Strategic Objective 1 of the PPFD:
  - School and academic education strategy on DRR
  - Communication and public awareness strategy on DRR
  - Research and information management actions
  - Innovation programme and the use of information technologies
  - Train-the-trainer programme on DRR.
- In line with Strategic Objective 2, the development of a DRF plan should be supported based on a risk layering approach that considers different tools and financing sources depending on the frequency and severity of risks, alongside DRM phases from preparedness to response.

2.3

There is a gap in technical understanding among government ministries on the functioning of DRF instruments and the suitability of various options within the Mozambican context.

Support the enhancement of the Government's DRM and DRF capacity.

- A review of current governance/institutional arrangements for risk financing should be conducted to identify specific needs for strengthening institutional capacity, systems and processes.
- Regular training and follow-ups should be conducted, with a particular focus on building the capacity of MEF and INDG staff.
- Government capacity, systems and practices for the management of DRF resources should be developed, including those related to sovereign insurance and contingency planning.
- Awareness should be raised among government stakeholders and partners on the integration of DRF into development financing programmes.

2.4

DRR investments promoted by the Disaster Risk Reduction Master Plan 2017–2030 (PDRRD) are not adequately incorporated in DRF planning and budgeting. Failing to ensure that DRR interventions effectively reduce potential DRF contingent liabilities may result in underutilization of these DRR funds, as well as substantially higher DRF requirements.

Promote DRR and resilience-building as components of an holistic DRM and DRF strategy, in line with PDRRD objectives.

- Legal and strategic frameworks governing public financial management of DRR and climate-smart investments should be reviewed.
- Technical assistance should be provided, based on review recommendations, to systematically include DRR and resilience-building in sectoral and local government planning, as well as to strengthen related regulation of the private sector.
- DRR and resilience criteria should be incorporated into public expenditure planning across all sectors and levels of government, as well as in the private sector.
- A standardized and formal assessment procedure should be established at government level for DRM and climate-smart infrastructure investments, encompassing the assessment of DRR benefits and the identification of potential additional risks associated with such projects. These assessments would play a crucial role in calculating contingent liabilities and analysing the funding gap for DRM.
- A gatekeeper function should be instituted to assess and oversee the potential benefits of various DRM interventions, as well as any possible enhancements to be made.

2.5

Some regions, sectors and assets remain vulnerable to climate risks and lack appropriate solutions.

Support the assessment of the potential for additional risk transfer solutions for disasters.

- The feasibility of new or enhanced insurance solutions should be explored for forests, public infrastructure, fishing communities, private housing and business assets, and against flood risk.
- The potential for risk pooling within the country should be assessed, identifying priority regions and municipalities with diverse risks.
- International case studies should be identified and shared with key stakeholders, such as, for fishing communities, the Caribbean Ocean and Aquaculture Sustainability Facility (COAST) Pilots in Saint Lucia and Grenada implemented by the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

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Acknowledgements

Author
MicroInsurance Centre at Milliman: Letícia Gonçalves (Independent Consultant), Jemma Maclear, and Katie Biese, with inputs from Emily Coleman (Independent Consultant), and review by Mariah Mateo Sarpong.

Coordination and review
Vidal Juvenal Mahundla and Eunice Mucache (UNDP Mozambique)

Editing and peer review by UNDP IRFF
Linet Odera, Pap Talla and Lauren Carter

Copy editor
Justine Doody

Designer
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