UNDP Insurance and Risk Finance Facility

UNDP

Inclusive insurance and risk financing in Ethiopia

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 Ethiopia. The objective of this summary report is to present a high-level overview of the following information for Ethiopia:

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.

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Key messages

1

Risks: Mainly floods and droughts, with some vulnerability to earthquakes, landslides and volcanic activity. Ethiopia has moderate exposure to natural hazards, but very high vulnerability and limited adaptive and coping capacity.

2

Inclusive insurance: Inclusive insurance in Ethiopia is mainly implemented as microinsurance. Microinsurance products have existed in Ethiopia for almost 20 years, but the market is still nascent. New microinsurance regulations were introduced in 2020, but challenges to growth persist. No official statistics are collected on microinsurance, but the market is currently dominated by credit life microinsurance, underwritten by microfinance institutions themselves, and agricultural insurance as part of donor-led projects. Semi-formal and informal community-based risk sharing funds are widespread for health and for funeral costs.

3

Disaster risk finance: A Disaster Risk Financing (DRF) Strategy has been launched, but work is still needed to operationalize it. The Ministry of Finance has been working with development partners to finalize the strategy and prepare for implementation. Currently, Ethiopia is heavily reliant on humanitarian aid to finance the cost of disasters, but there is a recurring and increasing shortfall in contributions. In addition, the Government of Ethiopia conducts budgetary reallocations and funds a relatively small contingency budget as the Government's primary ex-ante instrument.

4

Key recommendations: To support inclusive insurance development, interventions should involve: working with the private insurance sector to expand market-based product offerings; leveraging existing demand information for microinsurance; enabling and developing a range of distribution channels that reach low-income populations; providing transitional support to the regulatory authority; and developing an action plan and actuarial capacity for microinsurance.

To improve the disaster risk financing landscape, key interventions recommended for inclusion include: supporting the Government to implement the new DRF strategy; strengthening systems for measuring and understanding financial impacts of risks; building, leveraging and coordinating national capacity for measuring and understanding risk; strengthening accounting and auditing of DRF expenditures; clarifying the legal structure and guidelines around DRF; linking disaster risk reduction efforts more clearly with disaster risk financing plans; and strengthening Ethiopia's prearranged financing instrument portfolio to enhance the country's disaster response capacity.

Ethiopia's development and risk profile

Key macroeconomic and development indicators

123 million people lived in Ethiopia in 2022, the second highest population in Africa,[1] with 77% of the population living in rural areas.[2]

37.6% of GDP in 2022 was accounted for by agriculture, more than twice the sub-Saharan African average. Agriculture provides 63% of employment.[5]

27% of people lived below the income poverty line in 2019, and the multidimensional poverty rate was estimated at 68.7% of the population.[3] Ethiopia is a least developed country, but it also has one of the fastest growing economies in the region, showing an estimated 6.4% growth in 2021/22.[4]

57% of the population had a mobile connection in 2022 and 56% had a mobile broadband connection, but Ethiopia's Mobile Connectivity Index score stands at just 33.8 out of 100.[8]

175 is Ethiopia's rank in the Human Development Index, out of 191 countries.[6] In the Global Gender Gap Index, Ethiopia ranks 75th of 146 countries.[7]

46% of adults (age 15+) had an account at a financial institution in 2022, including 55% of men and 38% of women. Just 5% of adults had a mobile money account.[9]

Geographic context:

Ethiopia is a landlocked country in the Horn of Africa, with great topological, meteorological and climate diversity. In the south and south-west, the country has equatorial rainforest with high rainfall and humidity; highland areas exist around the Simien and Bale Mountains; and semi-arid and arid conditions prevail in the north-east, east and south-east lowlands.[10] This diversity has many benefits, but the extremes also bring substantial challenges to the country as a whole, particularly to its vulnerable communities.

Hazard context:

Ethiopia is emerging from multiple shocks over the past three years: the COVID-19 pandemic; internal conflicts and the northern Ethiopia war; a severe continuous drought in the south, lasting five years; pest infestation, also in the south; and most recently, the Ukraine crisis and the resulting increase in global prices. Ethiopia is considered to have medium risk overall, ranking 87th of 193 countries in the 2022 WorldRiskIndex (1 being the highest risk).[11] However, the country has a high level of vulnerability and susceptibility to risks when they occur: the European Union's INFORM risk index places Ethiopia 12th of 194 countries, in the very high risk category.[12] Despite its moderate exposure to natural hazards, the country has very high vulnerability and low adaptive and coping capacity, and also has very high exposure to human-caused risks such as conflict. Climate change is increasing the intensity, severity and frequency of risks.

Key risks and hazards

Flood

Flooding is the most frequently occurring climate risk, with 55 events impacting nearly 5 million people between 1980 and 2022.[13] Highest flood risk is during the *kiremt* rainfall season in June, July and August.

Riverine floods most commonly affect lowland areas, while flash flooding happens more often in the highlands. The Ministry of Finance (MoF) and Vivid Economics' loss model estimates $170 million in agriculture losses for a 1-in-5-year flood, $111 million in business interruption losses, $69 million in education and health building losses and $19 million in humanitarian assistance needs.[14]

Drought

Drought is the costliest hazard and has the most significant impact on vulnerable populations.[15] Droughts have affected an estimated 100 million people in the last four decades, and Ethiopia was the site of 2 of the top 10 deadliest droughts globally since 1970.[16]

Drought risk is greatest in the Afar, Somali and Tigray regions, but as of 2019 the regions of Amhara and Oromia and the Southern Nations, Nationalities and Peoples' Region (SNNPR) had the greatest levels of crop losses.[17] Recently, five consecutive failed rainy seasons, from late 2021 through early 2023, have resulted in 24 million people living in drought-affected areas, 11 million people facing food insecurity and almost 7 million livestock deaths.[18]

Modelling by the World Bank estimates that 1.5 million Ethiopians are affected by drought annually, and average annual agriculture income losses are $40 million.[19] Another loss model by MoF and Vivid Economics estimates that a 1-in-5-year drought would place almost 7.5 million people in need of assistance, resulting in $800 million in humanitarian assistance needs, $236 million in imported food costs and $92 million in agriculture losses.

Earthquakes

Ethiopia is in a tectonically active region, with the Ethiopian Rift Valley running north-east to south-west across the country. Earthquake risk is highest in Afar, where three tectonic plates meet.

Damaging earthquakes are infrequent (most recently in 1961 and 1969), but it is estimated that around 90,000 people could experience at least light ground shaking at least once every 10 years, with estimated building damage from a 1-in-10-year event at $55 million.[20]

Landslides

Landslides, triggered primarily by heavy rainfall but also by earthquakes and human causes, are a very localized hazard. An estimated 1% of the land area is classified as very high hazard and 18%–30% as medium hazard or higher, with Amhara, SNNPR and Tigray the regions most at risk as of 2019.

The World Bank estimates that on average, landslides could cause damage to buildings of up to $3 million and put over 1,000 people at risk per year.[21]

Volcanic activity

The heavily populated Rift Valley has many volcanoes, 25 of which have been active or have erupted in the past 500 years. An estimated 850,000 people and $2 billion in buildings are exposed to potential ashfall from 5 key volcanoes, as assessed by the World Bank.[22]

Inclusive insurance[23]: Status

Enabling environment[24]

Highlights from the enabling environment for inclusive insurance in Ethiopia

Regulations

Insurance Acts

- The Licensing and Supervision of Insurance Business (LSIB) Proclamation No. 86/1994 currently governs all insurance activities in Ethiopia and is supported by definitions contained in the Commercial Code of 1960. New versions of both instruments are currently being drafted.
- Some local insurance executives feel that current regulations are more aimed at controlling than promoting the market, as indicated by the very limited innovation seen on the market.[28] However, ISD allows some flexibility, offering sandboxes and showing a willingness to regulate based on lessons drawn from experiences.
- No clear distribution channel directives exist, although some proclamations have been issued, mainly for credit life insurance (Insurance Business (Amendment) Proclamation No. 1163/2019 and Microfinance Business (Amendment) Proclamation 1164/2019).

Inclusive insurance related regulations

- The Directive on Licensing, License Renewal and Product Approval for Microinsurance Providers No. SMIB/3/2020 currently regulates microinsurance.[25] It sets detailed rules for insurers, MFIs and other new microinsurance providers and aims to encourage the development of microinsurance and improve access to insurance for low-income and vulnerable people.
- The Directive includes provisions for the licensing of a "microinsurance company", which is a new type of risk carrier that can be licensed by NBE. Anyone qualified and complying with the provisions can apply for such a licence (including MFIs). As of March 2023, no licensed microinsurance company existed, but some entities are expected to seek this license.[26]
- The Directive also defines important features of microinsurance business, including product types (life and non-life) and ways in which MFIs can conduct microinsurance business.[27]

Policies / Plans

National Financial Inclusion Strategy (2021–2025)

The Government's National Financial Inclusion Strategy predominantly focuses on banking services but does include as an objective to "increase the number of microinsurance policies to 500,000 by the end of 2025".[30]

Social protection programmes

Three significant social protection programmes implemented in Ethiopia are the Rural Productive Safety Net Project (RPSNP), reaching 8 million beneficiaries across 8 regional states; the Urban Productive Safety Net Project (UPSNP), implemented in 11 regional capital cities; and Humanitarian Food Assistance (HFA), which is triggered in the country when natural or non-natural disasters occur.[29]

Stakeholders

The Insurance Supervision Directorate (ISD) of the National Bank of Ethiopia (NBE)

- ISD, part of NBE, is the insurance policymaker, regulator and supervisor, and reports directly to the Prime Minister's Office.
- ISD is due to become an independent insurance regulatory and supervisory unit, separate from NBE. The structure of the new organization has yet to be determined, but the move has the potential to positively impact the enabling environment for microinsurance.

Association of Ethiopian Insurers (AEI)

- AEI, founded in 1990, has 20 member companies and is funded by members' subscriptions.
- In 2023, AEI formed a working group to work towards development of microinsurance, made up of AEI, NBE, Financial Sector Deepening Ethiopia (FSD Ethiopia) and UNDP.
- AEI has made efforts to develop actuarial capacity within Ethiopia through sponsoring professional exams, but the programme has faced challenges.

Ethiopian Institute of Financial Studies (EIFS)

EIFS is housed at NBE. It offers training courses for the financial sector, including an insurance module. Among the various courses offered, the insurance module includes basic sessions on agricultural insurance and on microinsurance.[33]

Addis Ababa University (AAU)

- AAU has developed an M.Sc. in Actuarial Statistics programme, which was offered for the first time in 2021/2022. However, the participation rate was very low. Plans are in place to either implement an Actuarial Science course or to revamp the existing M.Sc. in Actuarial Statistics course.[32]
- No Ethiopian nationals qualified as actuaries are currently working in Ethiopia; this function is currently being supported by foreign and international actuarial consultants. No local actuarial society exists, nor is there a code of conduct for the profession.

Association of Ethiopian Microfinance Institutions (AEMFI)

AEMFI has recently been working to enhance their training on microinsurance for microfinance institutions (MFIs) at its Ethiopian Inclusive Finance Research and Training Institute (EIFTRI). UNDP expects to roll out a capacity-building programme in inclusive insurance that will include a training and certification of trainers, which was developed with the support of the International Labour Organization (ILO).

Dialogue Platform for Agriculture Insurance

- In May 2022, the Japanese International Cooperation Agency (JICA), and the World Food Programme (WFP) established the Dialogue Platform for Agriculture Insurance to coordinate agricultural insurance initiatives in the country between government, private companies, NBE and international donors.
- In 2023, discussions were under way with the Ministry of Agriculture (MoA) regarding ways in which the platform could be operated and managed within the MoA.[31]

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts

18 insurance companies, 1 domestic reinsurer and 2 regional reinsurers with branch offices in the country made up the Ethiopian insurance market as of 2022.

$304 million was the total value of gross written premiums in 2022, with motor vehicle insurance accounting for 45% of total premiums.[34]

0.3% was the estimated penetration rate (insurance premiums/GDP) in 2022.

40% of GWP in 2022 went to the state insurer, Ethiopian Insurance Corporation (EIC), while Awash Insurance had 10.6%. The other 16 insurers are comparatively small, with none having more than 5.7% market share.[35]

Inclusive insurance: Fast facts

- Although microinsurance has existed in Ethiopia for almost 20 years, the market is still nascent.
- No official statistics are collected on microinsurance, so outreach in terms of policies or lives covered is unknown.
- At least six insurers have implementation experience with microinsurance (Nyala, AIC, OIC, EIC, Abay and Nib), while at least two others have expressed interest.
  No dedicated microinsurance company exists.

Products offered

- **Credit life** is underwritten almost exclusively by individual MFIs to cover repayment risk due to death or disability on their own loan portfolio.

- **Agricultural insurance** is available for smallholder crop and livestock producers, via donor-led projects. Five projects are active as of 2023.
  - **Indexed-based livestock insurance** is offered within the context of three projects: the Index-Based Livestock Insurance (IBLI) project, which is the longest running and is led by the International Livestock Research Institute (ILRI);[36] Satellite Index Insurance for Pastoralists in Ethiopia (SIIPE), led by the World Food Programme (WFP);[37] and most recently, the De-risking, Inclusion and Value Enhancement of Pastoral Economics in the Horn of Africa (HoA – DRIVE),[38] whose products protect against loss of pasture due to drought and are a form of asset protection rather than mortality cover for livestock.
  - **Index-based crop insurance** products are currently supported in two projects, which together cover the regions of Amhara, Oromia and Tigray. The R4 Rural Resilience Initiative is led by WFP and has been active since 2009.[39] The insurance product is an index-based drought insurance based on remotely sensed rainfall estimates. The Index-based Crop Insurance Promotion (ICIP) project is led by JICA and uses two products to protect against drought risk and other perils – one is based on remotely sensed vegetation indices and the other is Area Yield Index Insurance (AYII).[40]
  - Data self-reported by insurers for the diagnostic study provide an estimate of 43,000 households covered by these schemes in 2022.

- **Health insurance** for the inclusive insurance market is primarily operated through a government-sponsored, semi-formal community-based health insurance (CBHI) scheme. Premium payments are pooled into a member-managed fund and cover basic health care costs. Between 2015 and 2020, almost 32 million people were enrolled in the scheme. Most households pay a yearly premium, while just over one-fifth are sponsored by the Government.[41] A separate initiative has been spearheaded by the Addis Ababa SACCO Union, which offers maternity insurance for its members. No other private sector health insurance programmes that impact low-income communities were identified.

- **Funeral insurance** is widely offered as an informal solution through community risk management pools called *iddirs*. Members make small monthly contributions and receive financial or in-kind contributions to the funeral.[42]

- **Takaful**, sharia-compliant insurance is being initiated by four or five general insurers. This may help to expand micro-takaful offerings in the future. The DRIVE project is also planning to introduce a micro-takaful option.

Distribution

Common channels

- Agricultural microinsurance products have a variety of distribution channels, including: mobile-money linked safety net beneficiaries; MFIs; Rural Savings and Credit Cooperatives (RuSACCOs); non-governmental organizations (NGOs); community groups such as Village Savings and Loan Associations (VSLAs) and women's groups; and the Input Voucher System.
- Credit life insurance is underwritten and distributed by the MFIs.[43]

Other potential channels

- Other channels that could be used include local governments and mobile money platforms, such as TeleBirr and new entrant to the market M-Pesa.[44]
- Insurtech is becoming more widely used; for example, FSD is working with the Government to expand digitized financial transactions, and is also implementing the BimaLab Africa Accelerator Programme, which is aimed at creating an insurtech innovation ecosystem. Four insurtechs are currently participating in the programme in Ethiopia: Orbit Health, with a digital health management system; Kacha Digital Financial Service Share Company; Kifiya Financial Technology, with digitized microinsurance; and Saglan Wajee General Hospital, with health microinsurance.[45]

Demand

Recent public demand information is limited, but a 2018 World Bank study identified needs around a variety of risks, particularly agriculture. It also found some evidence of capacity to pay for insurance, and discovered that perceptions of insurance are not negative, but insurance is not well known. MFIs are positively viewed by members of inclusive insurance target segments as possible channels for insurance; RuSACCOs and their unions are less positively viewed because of their informality, but would be considered if their organization and management were improved.[46]

Disaster risk financing: Status

An **Ethiopia Climate and Disaster Risk Finance Diagnostic** was conducted by the World Bank as part of the Building Resilience in Ethiopia (BRE) project, at the request of MoF. The objective of the diagnostic was to assess Ethiopia's financial preparedness for disasters and crises at the sovereign, firm and household level. It focused on the impacts of climate shocks and analysed the historical socio-economic and fiscal impact of disasters in Ethiopia; the role of the private sector in relation to DRF; key legal and institutional arrangements relevant to DRF; and existing sources of funding and opportunities for enhancing the use of DRF instruments. It also made recommendations to the Government on ways to strengthen Ethiopia's financial preparedness for disasters and crises.[47] The study showed that Ethiopia has significant gaps in risk data availability that make it difficult for the Government to appropriately plan for shocks and negotiate humanitarian aid with development partners. However, the Fiscal Policy Directorate within MoF has committed to developing a framework to quantify disaster-related fiscal risk.

Agricultural Data Hub. Accelerating Impacts of CGIAR Climate Research for Africa (AICCRA) is assisting MoA in establishing an integrated, publicly owned Agricultural Data Hub that will host harmonized and standardized agriculture-related data sets for the country.

The National Meteorology Agency (NMA) data and forecasts. NMA conducts seasonal meetings to provide weather projections to stakeholders, but the commercial insurance sector is not yet using these projections. Data going back to 1983 are made available online at no cost for government offices and students and at a marginal cost for others. NMA provides forecasts for 100 cities in Ethiopia with a self-reported 70%–80% accuracy. However, there are only 300 automatic weather stations across the country.

Existing legal, institutional and policy frameworks

Institutional

- **The Ministry of Finance** has ultimate responsibility for the DRF Strategy, which is currently under development.[48] Line ministries will be responsible for carrying out the activities outlined in the strategy relevant to their areas of specialization and a Steering Committee and Technical Committee will support implementation.
- **Ethiopia Disaster Risk Management Commission (EDRMC)** is the main agency responsible for disaster prevention and response coordination. Under the institutional shock response system, various ministries are responsible for different shocks, with EDRMC playing a coordinating role and managing funding. EDRMC holds triannual meetings to provide early warning system announcements.[49]
- **Disaster Risk Management Council (DRMC)** is a high-level policy and oversight body. It provides policy-related guidance and is responsible for declaring disasters, as well as for making decisions on the allocation and supervision of additional resources for disaster response, although disaster response is largely carried out by EDRMC.[50]
- **Ministry of Planning and Development (MoPD)** provides coordination to line ministries for the implementation of disaster preparation and response plans. MoPD helps with evaluating plans and measuring plan progress. In addition, MoPD is responsible for appraising development projects, which allows it to steer the development of programmes to ensure disaster preparedness and include risk mitigation activities.

Policies

- **The 2013 National Policy and Strategy for Disaster Risk Management** provides for a comprehensive framework of disaster risk management (DRM) measures.[51] It includes strategies for a decentralized DRM system, early warning and risk assessment, information management, capacity-building and integration of disaster risk reduction into development plans.
- **Disaster Risk Financing Strategy (under development).** The BRE project, funded by the UK Foreign, Commonwealth and Development Office and the United States Agency for International Development, has been working with the Government to develop a DRF Strategy which in the process of being validated in 2023.[52] MoF has been working with development partners to finalize the strategy and prepare for implementation. The DRF Strategy covers 2023–2030 and focuses primarily on drought and flood risk. It proposes a risk layering approach including different tools and sources of financing for low to high frequency and high to low severity risk events. Suggested tools include contingent credit, reserve funds, budget reallocations, humanitarian aid and insurance at different levels.[53] Following finalization of the BRE project in March 2024 and approval of the DRF Strategy, the Government is expected to begin implementing the strategy. In parallel with BRE, the Government is also coordinating and designing an approach so that regional states can create their own strategies for disaster risk finance within the same structure as the Government's.

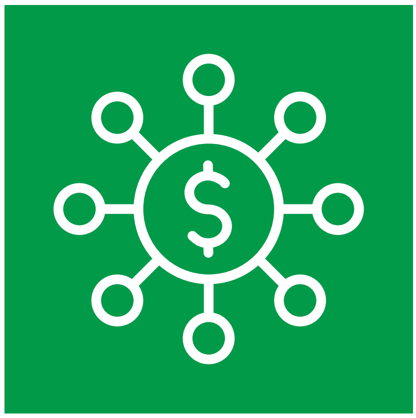
Disaster risk finance mechanisms and instruments

Existing instruments

- **Humanitarian relief** is the primary source of disaster financing. Of a cumulative $3.8 billion of humanitarian aid flows that reached Ethiopia between 2015 and 2019, $3.6 billion was for emergency response.[54] However, between 2017 and 2021, only 47%–76% of the appeal amounts were actually received in any given year and a continued downward trend of aid funding is reported.[55]
- **Budgetary reallocations** are the other main source of disaster financing, although no analysis is available on the amounts for which they account (funds moved from one line item to a disaster line item), nor on the opportunity costs of shifting those funds in light of the resulting inability to fund planned activities.[56]
- **A contingency budget** is currently the Government's primary ex-ante instrument. However, it only accounts for 2%–3% of the annual budget and is not earmarked for disaster response alone.[57]
- **Contingent credit.** Ethiopia has access to the recently reformed Rapid Financing Facility (RFF) of the International Monetary Fund, as well as the World Bank's Catastrophe Deferred Drawdown Option (Cat DDO).[58]
- **National Disaster Prevention and Preparedness Fund.** Legislation exists establishing the fund, but the fund has not been capitalized nor made operational.[59]
- **Sovereign risk insurance** has not yet been made use of by the Government. However, as of August 2023, Ethiopia was in the process of becoming an African Risk Capacity (ARC) member,[60] which would eventually give it access to ARC's risk pools, if appropriate.
- **Insurance for public assets** such as buildings and other assets is not common. However, government airplanes, ships, vehicles and earth-moving machinery are often insured.[61]
- **Forecast-based financing** based on early warning information to assist people experiencing drought and flood has recently been developed by the Ethiopian Red Cross Society in collaboration with the Netherlands Red Cross.[62]

Fiscal gap

Deficits due to a catastrophic event can be highly dynamic, depending on factors including severity, location, duration of the event, level of national catastrophic reserves, etc. MoF's Disaster Risk Financing Strategy 2023–2030 notes an average need of $1,017 million, with the deficit calculated as: "$1,017 million in needs, less $130 million from the annual budget, less $251 million from the contingency budget, less $317 million from the Cat DDO (assuming the full amount is drawn down at once)."[63] This leaves a deficit of $319 million.



Way forward for inclusive insurance and disaster risk financing

The following recommendations are provided for supporting the development of inclusive insurance and disaster risk financing in Ethiopia.

1

Recommendations for the development of inclusive insurance

1.1 The current focus on credit life and agriculture insurance does not respond to the wider needs of vulnerable communities and insurers have become reliant on donor-supported products.

Work with the private insurance sector through EIFS to provide a paradigm shift and expand market-based product offerings.

- Microinsurance business training courses should be developed to enable insurance company staff and management to understand how to make microinsurance a business in the Ethiopian context.
- A microinsurance incubator programme should be established, similar to the Insurance Client-Centric Cycle (I3C) approach used in Rwanda, to stimulate private sector product development of a range of products.[64]
- Gatekeepers to microinsurance projects (such as MoA, MoPD and MoF) should require a rational exit strategy and effective subsidy structures in providing subsidies or grants for projects, and linkages should be established between projects and the upcoming DRF Strategy.

1.2

Demand information for risk management and microinsurance exists, but needs to be used more to inform new solutions.

Leverage existing demand information for microinsurance.

- Prior studies, especially the 2018 World Bank report, should be revisited and insurers should be supported to identify areas of opportunity that potential clients will likely demand.[65]
- Additional demand research should be conducted to fill gaps and design new needs-based solutions.
- MoF, MoA and the health ministry should be assisted to roll out public promotion, incentives for insurers and flexibility in product construction, in order to promote a broader approach to risk management for vulnerable populations, including through linking microinsurance with other private sector and government efforts, such as with RPSNP and UPSNP to enhance personal and family risk management activities.
- Awareness should be built through training for local leaders.

1.3

Potential distribution channels are not being leveraged, in part due to regulatory grey areas, but also because linkages are not being made. Efforts exist to improve insurtech solutions but have not been fully leveraged for microinsurance.

Enable and develop a range of distribution channels that reach low-income populations.

- With ISD, regulations around microinsurance distribution should be clarified, including by making clear who can distribute, how they can be remunerated and how they will be supervised.
- Linkages with other alternative channels should be facilitated, such as with informal social risk sharing mechanisms (*iddirs*) and with the Government's seed and fertilizer distribution programmes, including by offering e-vouchers for inputs.[66]
- Working in synergy with other entities in this space such as FSD, the expansion of appropriate fintech and insurtech into microinsurance should be supported, with a focus on enhancing usability among the low-income markets.

1.4

Microinsurance has seen little development since the 2020 Microinsurance Directive; no microinsurance data are currently being collected, but the regulatory environment is in transition.

Provide support for the newly independent ISD.

- As part of the transition, technical assistance should be provided around microinsurance operations and legal matters.
- A Regulatory Impact Assessment should be conducted on the Microinsurance Directive of 2020 and the results should be taken into account for any new microinsurance directives.
- The regulatory authority should be assisted to develop a simple platform for auto-submission of (micro)insurance data by insurers and auto analysis of those data. ISD will need a directive requiring such provision and providing the details required.
- An action plan for microinsurance should be developed based on the Government's Financial Inclusion Strategy, with roles for insurers, government agencies and donors.

1.5

No accredited actuaries are operating in Ethiopia and the Government has no microinsurance strategy.

Develop an action plan and actuarial capacity for microinsurance.

- The UNDP-Milliman Global Actuarial Initiative (GAIN) roadmap activities for enhancing the actuarial profession should be supported, including by establishing an actuarial working group as a preliminary actuarial society. AEI and AAU should implement an actuarial student exchange programme with a foreign university.

2 Recommendations for the development of disaster risk financing

2.1

Gaps exist in measuring and understanding the financial impacts of disaster risks and disaster-related expenditures.

Strengthen systems for measuring and understanding financial impacts of risks.

- Forecasting for normal and contingency expenditures should be strengthened within the budget office of MoF, including contingency allocations. This will enhance the reliability of the Government's budget for disaster-exposed programmes.[67]
- A system or model should be created to project the cost-benefit of DRM interventions in terms of how they will impact DRF (e.g., likelihood of risk reduction and savings of DRM interventions).
- Regional state leadership and woreda (district) councils should be provided with education to improve domestic region-specific understanding of risk exposure and response systems.[68]

2.2

No aggregated source of disaster data exists that can be accessed by ministries and donors, and there is little coordination between key actors in linking DRM and DRF decisions. Technical capacity for generating and understanding data has not been leveraged.

Build, leverage and coordinate the national capacity for measuring and understanding risk.

- A unit should be created to aggregate relevant disaster data for analysis and reporting and capacity-building should be provided to ensure its mission can be fulfilled.
- A formal linkage should be created for data-sharing between EDRMC (responsible for disaster risk management) and MoF (responsible for DRF).
- The pool of local graduates in meteorological studies and climate change should be leveraged to support the generation and understanding of data, for example through linking with programmes offered by Arba Minch University.

2.3

Governance of risk financing is lacking. Controls, accounting and audits for DRF-related expenditures are weak.

Strengthen accounting and auditing of DRF-related expenditures.

- Stronger controls and oversight on DRF expenditures should be implemented through MoF and EDRMC, including policy review and structuring, assistance in developing and implementing controls to mitigate misuse of funds, and the creation of effective oversight structures (potentially through tech).
- A comprehensive disaster expenditure tracking system should be established and associated budgeting processes should be aligned across government levels, including through effective coding of expenditures and inflows to facilitate tracking.
- A unit independent from MoF should be created to set up audit policies and audit DRF usage.

2.4

Laws defining DRF-specific activities are lacking, as are guidelines for planning for the financial impacts of disaster risks.

Clarify the legal structure and guidelines around DRF.

- Legal support should be provided and coordinated across various ministries to identify and address legal gaps in the effective structuring of the DRF function and activities.
- Legal guidance should be provided around the ways in which DRM activities are linked to DRF.
- Relevant government agencies should be supported to develop or update disaster risk financing guidelines, especially for regional and local levels of government.

2.5

The new DRF strategy will require significant financing from the Government, donors and the private sector. Current financing mechanisms are inadequate and inefficient and the Government faces recurrent budget deficits.

Strengthen Ethiopia's prearranged financing instrument portfolio to enhance the country's disaster response capacity.

- Building on the funding gap analysis within the planned DRF Strategy, funding priorities, needs and mechanisms should be determined.
- The cost and benefits of potential financial tools proposed under the DRF strategy should be quantified to ensure the most appropriate options and sequencing (value for money).
- The establishment of the National Disaster Prevention and Preparedness Fund should be supported. This will require further analysis of the use of the current contingency budget.
- Working with the private sector, the Government should be assisted to obtain insurance for public assets.
- Appropriate sovereign and sub-sovereign insurance solutions should be explored through partnership with insurance initiatives such as the Insurance Development Forum.

2.3 Implementation of the DRF strategy requires significant technical assistance on establishing appropriate structuring and coordination mechanisms, as well as in building capacity.

Support MoF to implement the new DRF strategy.

- A body within MoF should be established to own the DRF strategy and its capacity should be built to ensure its effectiveness.
- A formal liaison linkage should be created between MoF and EDRMC to ensure a coordinated approach to DRM and DRF.
- Technical assistance should be provided for implementing various components of the strategy.

Endnotes

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