



21/10/24



# Overview of MSME's Climate Risk Exposure in V20 markets in Asia Pacific

Pre-Conference Workshop and Roundtable, ICII 2024  
21<sup>st</sup> October

## Structure of the Workshop

- Introduction to V20 SIF - 10 mins
- Overview on the Landscape of Climate Risk Exposure to MSMEs in V20 markets of Asia-Pacific – 30 mins
- Plenary Discussion – Climate Risk Resilient MSME Portfolios make Climate Risk Resilient MSMEs – 50 mins
- Coffee Break – 30 mins
- Roundtable on V20 SIF's strategy for building climate risk resilient MSME Credit Portfolios – 60 mins
- Q&A – 15 mins
- Summary and Close – 15 mins

# Agenda

## Introduction to the UNEP FI PSI - V20 SIF

### V20 SIF's Approach to MSME Climate Risk Resilience

### Landscape overview of MSME Climate Risk Resilience in V20 markets of Asia Pacific

### Country Profile – Sri Lanka

### Q&A

# Situating the V20 Sustainable Insurance Facility

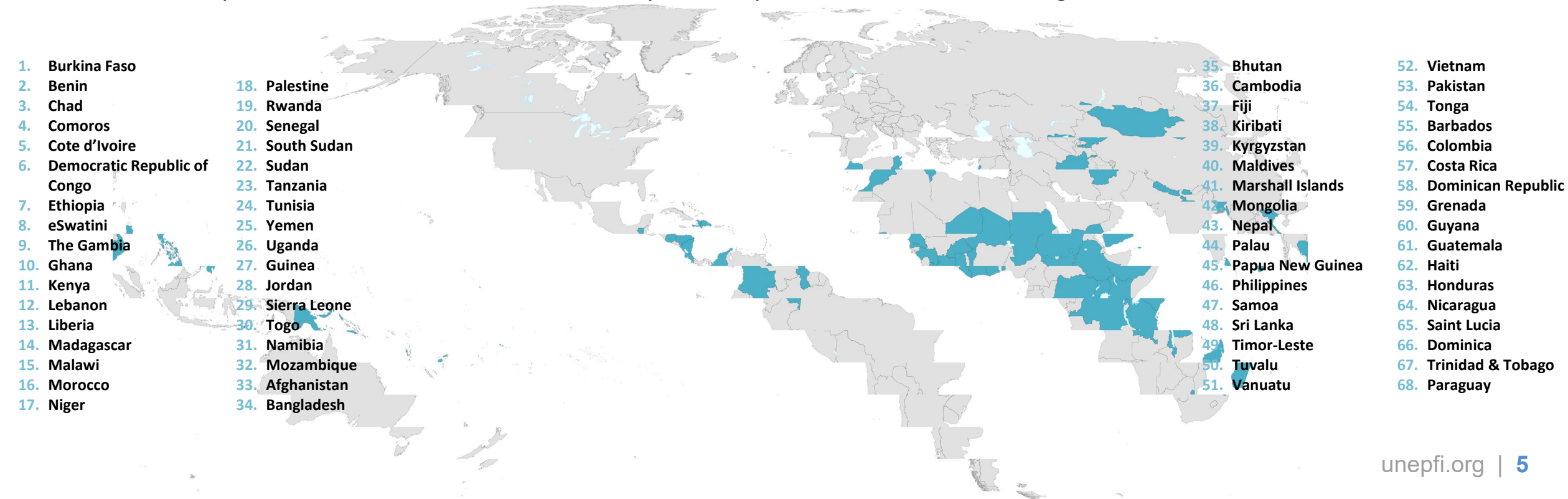




# Who are the V20

## A global network of 68 70 Finance Ministers

- The Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum is a dedicated cooperation initiative of economies
- V20 currently represents 68 70 countries across Asia Pacific, Africa & Middle East, and Latin America & the Caribbean
- Members are representatives of economies which are systemically vulnerable to climate change



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Introduction to the UNEP FI PSI - V20 SIF

## **V20 SIF's Approach to MSME Climate Risk Resilience**

Landscape overview of MSME Climate Risk Resilience in V20 markets of Asia Pacific

Country Profile – Sri Lanka

Q&A

## Climate Risk Exposure of V20 Countries in APAC

- Credible estimates suggest that **V20 countries lose 2.35% of their combined GDP annually** to the manifestations of climate change i.e. **USD 36 Billion**
- **By 2050**, the annual losses to GDP in APAC are estimated as
  - **12.7 %** of combined GDP of the Pacific countries
  - **8.8%** of combined GDP of South Asian Countries
  - **6.7 %** of combine GDP of South-East Asian Countries
- And these are estimates for economic losses, imagine the **impact in terms of lives lost, adverse health outcomes, gendered impacts, migration stresses**

## V20 SIF's Mandate and Approach

The V20 Sustainable Insurance Facility is a project pipeline development facility created to support the development and availability of climate-smart insurance solutions for micro, small, and medium-sized enterprises (MSMEs) in climate-vulnerable nations.

### Working with Local Stakeholders



**Catalyze action** – Bring together relevant stakeholders to design optimal climate risk solutions for MSMEs, securing support of finance ministries and regulators



**Technical Advisory** – Ensure access to high quality technical advisory and assistance to design demand-led products, business models, and distribution / service strategies



**Matchmake Financing** – Help match internationally available funding to identified projects to support start & scale.



## From Insurers to Banks and FIs

### Insurers insights

- Practically, no climate smart insurance solutions exist for MSMEs (excluding agriculture)
  - Limited technical capacity
  - Limited awareness and demand
  - High initial costs
- Even traditional MSMEs insurance products such as fire, theft etc. are hard to commercialize
  - Retail sales to MSMEs is commercially unviable (except for legally obligated coverages)
  - Find it hard to get to the scale needed
- ‘Climate risk insurance is not ‘credit’ that is an absolute need of the MSMEs’

**All the climate and extreme weather event related risks faced by MSMEs financed by them, sits in the MSME portfolios of Banks and MFIs, making them vulnerable as well**

### Bank’s insights

- Banks and MFIs are the best and at scale aggregators of MSMEs as a customer segment
- MSMEs will always need credit, and they need Banks and MFIs as their credit providers
- The credit portfolios of Banks and MFIs are already significant and will only grow in emerging and V20 Markets
- The IFC estimates that the MSME financing gap stands at USD 5.3 Trillion, globally.

## The Challenge

- None of the scores of banks or MFIs that we have engaged with with have assessed, or propose to assess the actual and potential impact of climate and extreme weather event risks to their MSME credit portfolio
- 'It is something we are starting to consider but still a 'nice to have' idea

### The coming climate risk induced 'Double Whammy' for the MSMEs



A substantial number of MSMEs in V20 markets may shut down leading to loss of livelihoods, GDP, government revenues

## V20 SIF's Outlook

- We are working towards developing market led solutions that would ensure climate risk resilience of MSME credit portfolios – The ‘first’ layer of climate risk resilience for MSMEs
- The ministries of finance of the V20 countries have endorsed our approach:

*‘We call on the **G7-V20 Global Shield and MDBs** to prioritise actions defined by the **V20 SIF** to the benefit of **MSMEs** through the development of **replicable template-based solutions** encouraging **local industry** [to adopt them] and supporting this through **blended financing**’*

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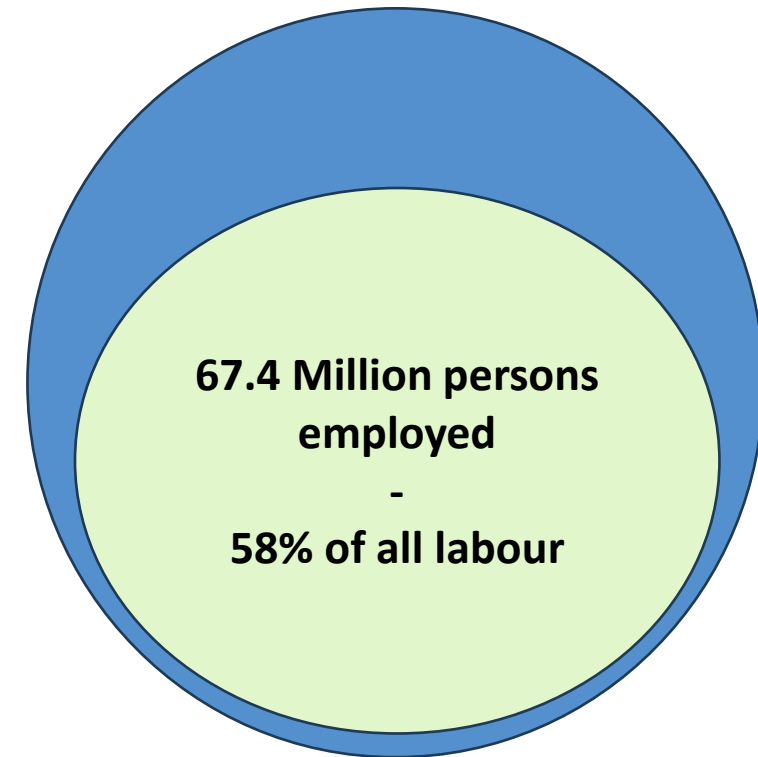
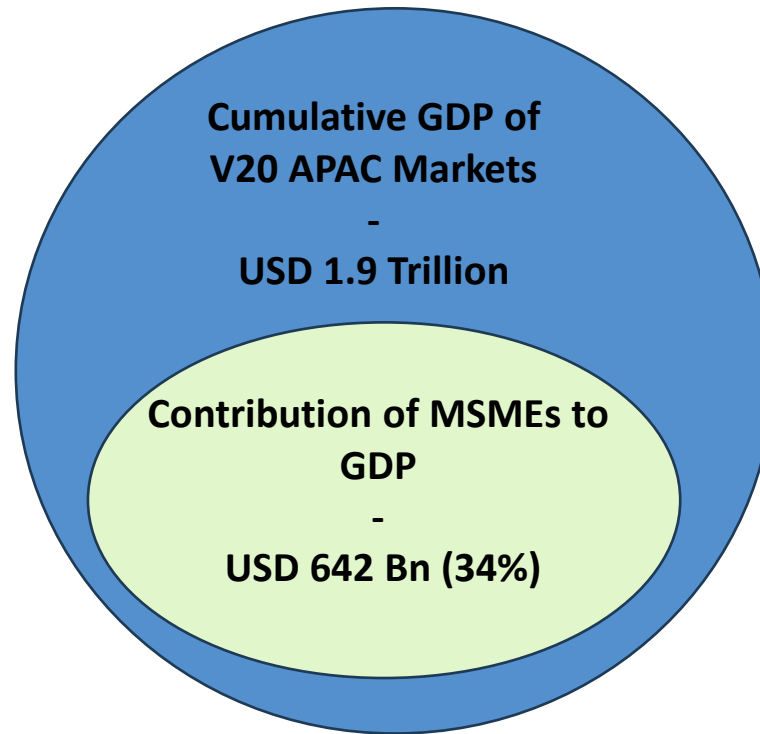
V20 SIF's Approach to MSME Climate Risk Resilience

**Landscape Overview of MSME Climate Risk Resilience in V20 markets of Asia Pacific**

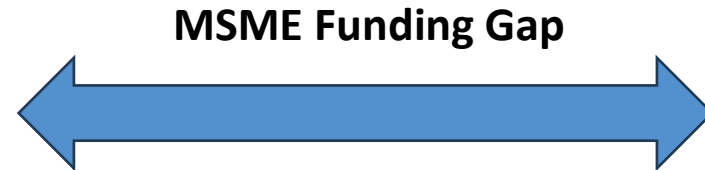
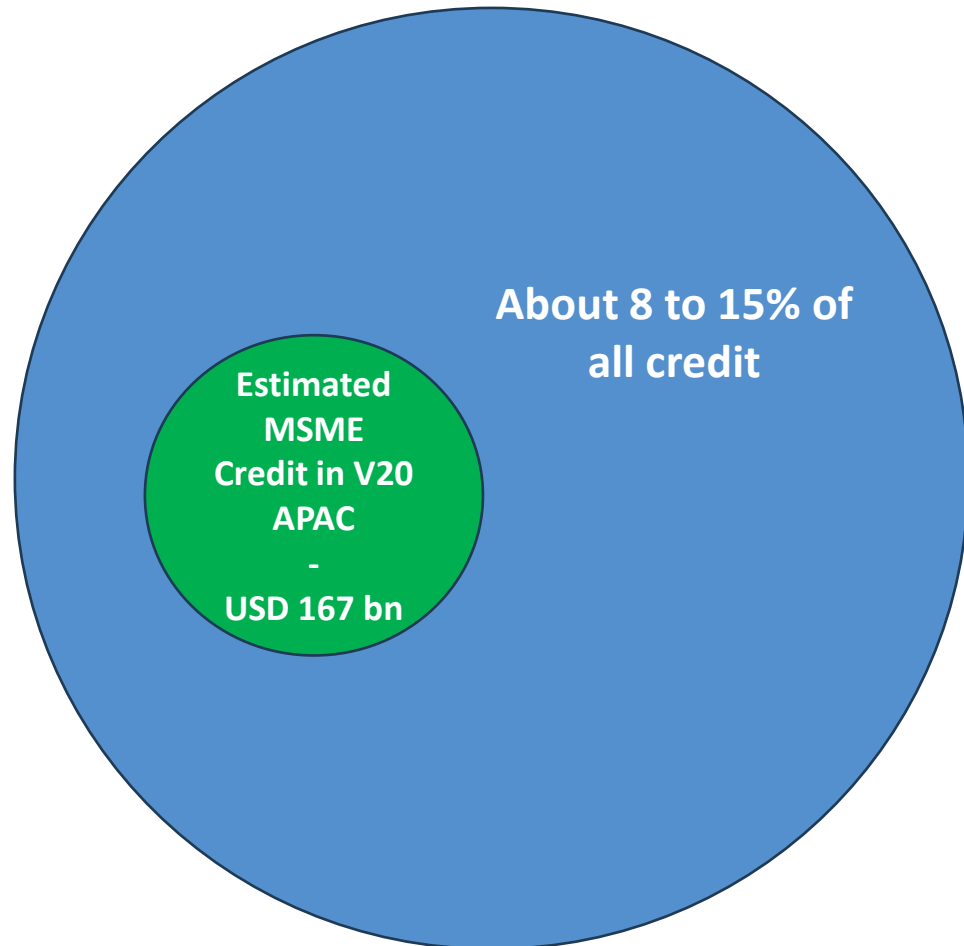
Country Profile – Sri Lanka

Q&A

## MSMEs at a glance in V20 Markets in Asia Pacific



## MSME Credit in V20 Markets in Asia Pacific



MSME Funding Gap



IFC estimates put the MSME financing/credit gap at

**USD 456 bn**

for V20 markets in APAC



## Climate Risk Vulnerability of MSMEs in APAC V20 Markets

- From an economic losses perspective – two components of assessing climate risk vulnerability of MSMEs

### Component 1 – Direct Economic Losses (GDP)

suffered due to direct exposure to extreme weather events (floods, drought etc.)

### Component 2 – MSME Credit Stress

The credit repayment stress as it is the very life-line of MSME sector ~ Repayment Risk for MSME credit

Loss of Assets and Income

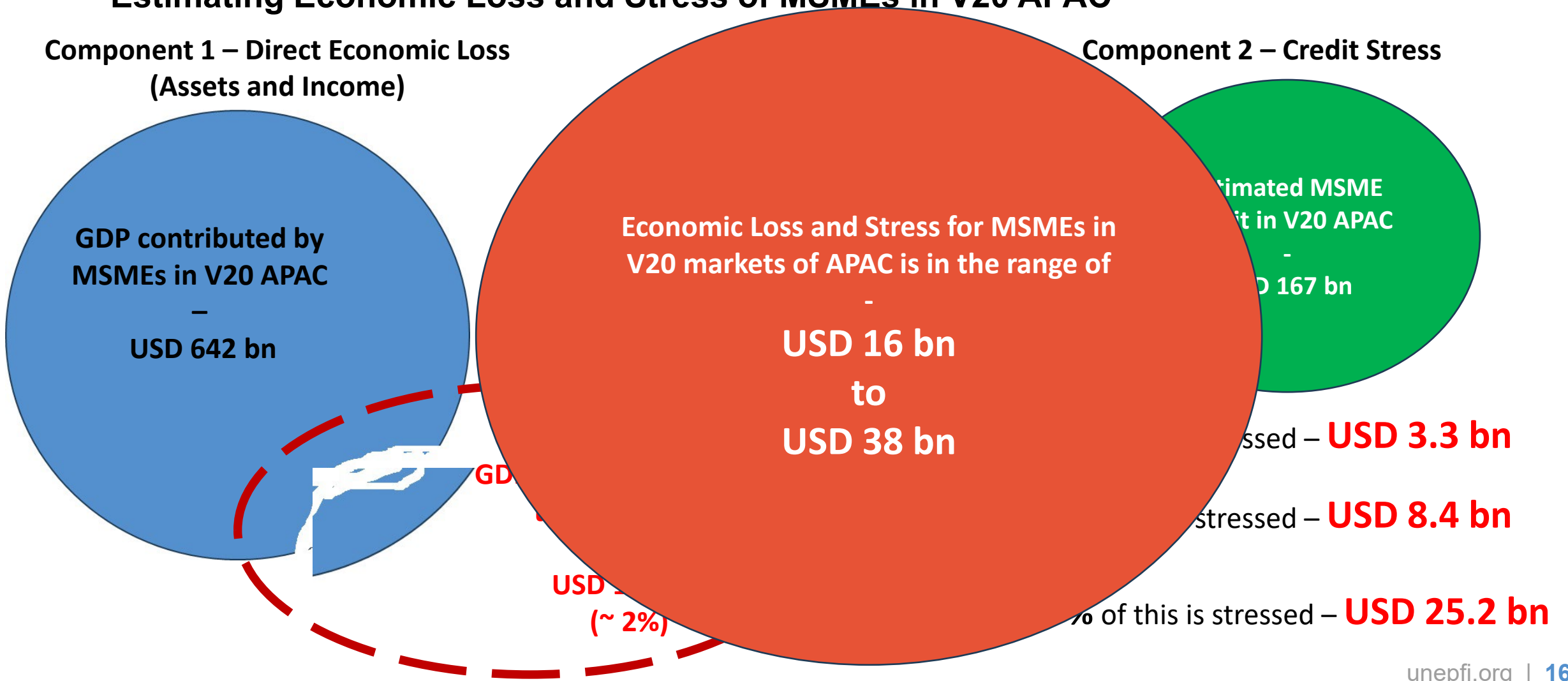


Credit Access and Repayment Stress

## Estimating Economic Loss and Stress of MSMEs in V20 APAC

Component 1 – Direct Economic Loss (Assets and Income)

Component 2 – Credit Stress



# Estimated Protection Gap of MSMEs against Climate Risks

Country	No. of MSMEs	Economic Loss to MSME sector (in USD mn)	MSME credit at risk (in USD mn)		Climate Risk Insurance Products for MSMEs
			5%	15%	
Bangladesh	7,813,315			5,161	
India	753,670			1,835	
	9,186				
	17,050				
	1,017,207				
	1,105,143				
	699,859			12,255	
<b>Total</b>	<b>17,127,024</b>			<b>25,097</b>	

Economic Loss and Stress for MSMEs in V20 markets of APAC is in the range of -  
**USD 16 bn to USD 38 bn**

**=**

Protection Gap against climate risk induced losses and stresses by MSMEs in V20 markets of APAC is in the range of -  
**USD 16 bn to USD 38 bn**

**0**

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**Country Profile – Sri Lanka**

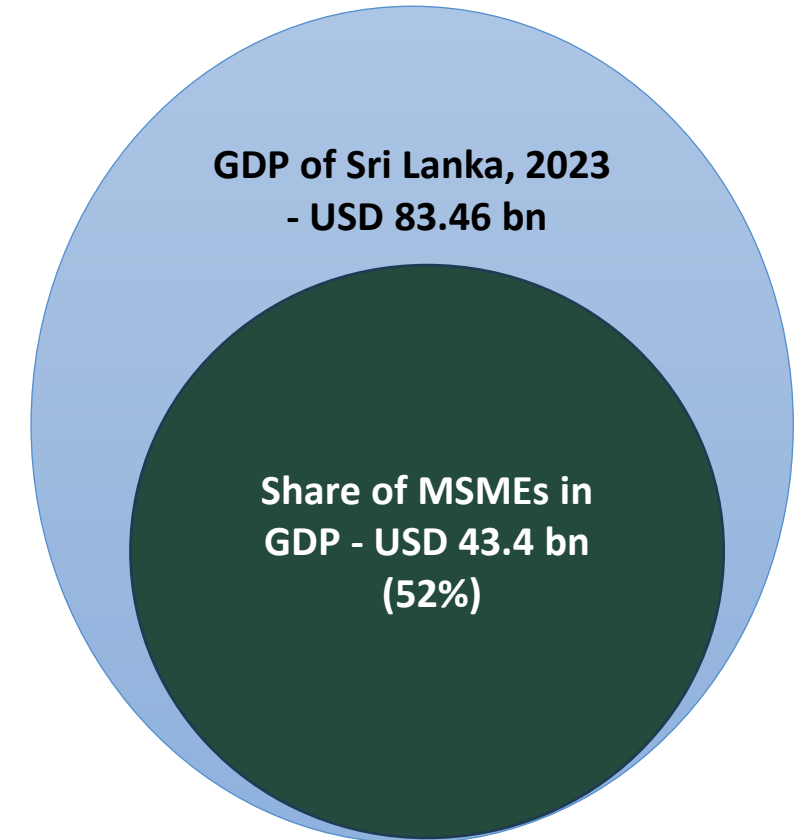
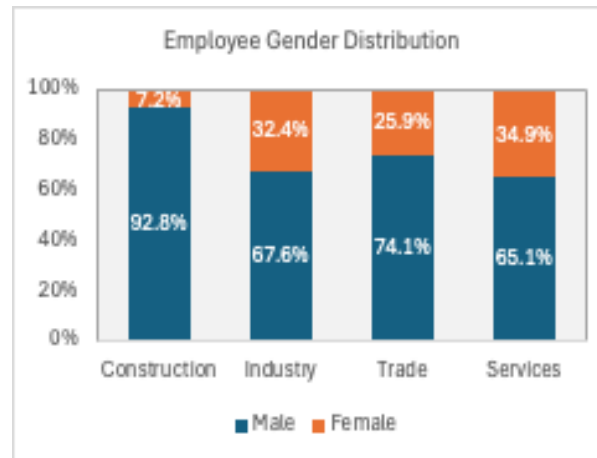
Q&A

## Country Profile – Sri Lanka

### The MSMEs Sector in Sri Lanka

Sector	Criteria	Micro	Small	Medium
Manufacturing	Annual Turnover	<LKR 15 Mn	LKR 16–250 Mn	LKR 251–750 Mn
	No. of Employees	< 10	11 – 50	51 – 300
Services	Annual Turnover	<LKR 15 Mn	LKR 16–250 Mn	LKR 251–750 Mn
	No. of Employees	< 10	11 – 50	51 – 200

Type	No. of Enterprises	No. of Employees
Small	58,688 (5.7%)	353,386 (15%)
Medium	13,719 (2.3%)	626,945 (28%)
Micro	9,44,860 (92%)	1,274,851 (57%)
<b>Total</b>	<b>1,017,267</b>	<b>2,255,182</b>



## MSME Financing in Sri Lanka

Type of Financing / Loan Provider	Total Loans Outstanding (LKR Mn)	MSME Loans Outstanding (LKR Mn)
Commercial Banks	8,289,516	670,463
Specialized Banks	802,141	72,561
<b>Bank Financing</b>	<b>9,091,656</b>	<b>743,024</b>

MSME Financing by Banks is USD 3.98 bn  
*(2020 exchange rates)* and is only 8% of all Banking loans given

ADB estimates non-banking FI loans to the MSME sector is USD 3.65 bn

Total MSME financing in Sri Lanka stands at USD 7.64 bn

IFC estimates a MSME funding gap equal to 21% of the Sri Lankan GDP, so unmet MSME credit demand in Sri Lanka is estimated to be USD 17.72 bn

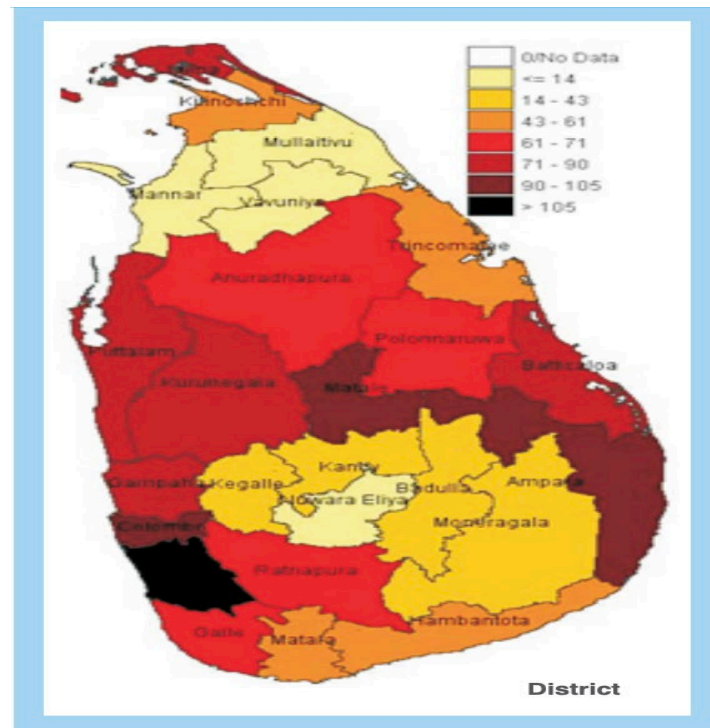
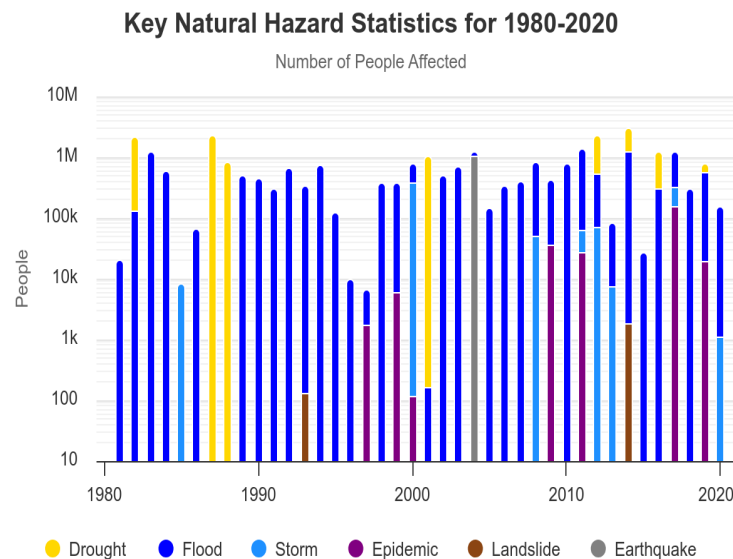


## Climate Risk Exposure for MSMEs in Sri Lanka

- Sri Lanka has been exposed to many natural disasters in the last 20 years, out of which floods and droughts have been the most significant

- Floods are possibly the biggest challenge to MSMEs in Sri Lanka as can be seen from the spatial distribution of floods

- A 2018 survey in 3 districts of Sri Lanka found floods affected 5727 MSMEs (7% of MSMEs in these districts) and estimated an on average loss of USD 1,589 per MSME.



- Overall, Sri Lanka is projected to lose 0.4% of its GDP per annum, going up to 1.2% by 2030 and to 6.5% by 2050 to 2100.
- Climate risks cause economic losses of more than USD 176 mn to MSMEs every year

## MSME's climate risk protection gap in Sri Lanka

- While some parametric solutions for agriculture exist, no parametric or traditional climate risk insurance for MSMEs were identified (some property insurance cover natural hazards but no definite estimates of coverage for MSMEs is available)
- In the absence of defined or easily accessible climate risk or extreme weather insurance or any defined risk financing, **almost all of the climate risk exposure of MSMEs in Sri Lanka is unprotected.**

Economic losses suffered by MSMEs every year  
–  
USD 176 mn

MSME Credit at Risk if MSMEs experience business interruption  
–  
5% of MSMEs: USD 383 mn  
15% of MSMEs: USD 1.15 bn

The protection gap for MSMEs in Sri Lanka is in the range of  
USD 559 mn  
to  
USD 1.33 bn

## The Landscape of Climate Risk Resilience of MSMEs in V20 markets

- Study to be published by Q1 of 2025
- Will cover all 68 V20 countries across Asia, MENA & Africa, Latin American and Caribbean markets
- Will be the first study of its kind looking at climate risk resilience for MSMEs as well as the financial ecosystem they operate in
- Will engage with a wide range of stakeholders – Ministries of finance, Central Banks, Insurance supervisors, Banks, MFIs, FIs, Insurers, Re-insurers, MSMEs, , experts, practitioners et al.
- We seek your cooperation in this pioneering effort!

# Approaching Climate Resilient MSME Credit Portfolios

## Panelists:



**Uthpala  
Gunawardana**

Deputy Manager -  
Environment &  
Sustainability,

Regional  
Development Bank,  
Sri Lanka



**Yannick  
Milev**

CEO

Chamroeun  
microfinance plc,  
Cambodia



**Pushpa  
Kunwar**

Deputy Director

Nepal Insurance  
Authority,  
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**Ny  
Lyhoung**

Business Head/CEO,  
Micro and Agri  
insurance

Forte Insurance,  
Cambodia



**Rafkat  
Kabir**

Lead – Strategy and  
Implementation,  
MSME Credit

BRAC Microfinance,  
Bangladesh

# Q&A



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# Thank you

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## Round table discussion agenda

- 1. Single customer affected by KTM flood**
- 2. Consider the scale needed**
- 3. Look at action from different points of view**
- 4. What V20 SIF is doing**

**Everything is gone.**

**If you are dead, you don't have to worry about anything. But if you survive, you have to face these problems.**

Indra Prasad Timilsina,  
peri-urban farmer after the  
recent Kathmandu flood

Never experienced a flood this severe in his 65 years

Primary income is selling milk from his three cows

Had time to take the cattle to higher ground

Lost 9 bags of animal feed, along with all possessions

Unsure how he will feed his three cows

# Timilsina Inc Financial Statements

	NPR	USD	
Total Revenue	717,225	5,517	10 litres milk per cow per day @ NPR 65.5 per litre
Feedcost	547,500	4,212	10 KG per cow per day @ NPR 50
Amortization	18,750	144	NPR 50,000 per cow / 8 year productive period
Financing			
Veterinary	9,000	69	NPR 3,000 per cow per year
Housing	18,000	138	NPR 1,500 per month for the animals
Total Cost	593,250	4,563	
<b>Income</b>	<b>123,975</b>	<b>954</b>	
3 Cows	150,000	1,154	At replacement cost
9 bags feed	22,500	173	50 KG x NPR 50 x 9
Other property	40,000	308	At estimated replacement cost
<b>Assets</b>	<b>212,500</b>	<b>1,635</b>	

# Flood effect on Timilsina Inc

	<b>NPR</b>	<b>USD</b>
Income	6,550	50
9 bags feed	22,500	173
Other property	40,000	308
<b>Actual losses</b>	<b>69,050</b>	<b>531</b>
Life	117,425	903
3 cows	150,000	1,154
<b>Avoided losses</b>	<b>267,425</b>	<b>2,057</b>
<b>Insurable Sum</b>	<b>336,475</b>	<b>2,588</b>

Plus, Timilsina owes his local cooperative for the grain he lost, plus he needs to buy feed for the next two weeks.

# Pure premium - “Savings only”

	<b>NPR</b>	<b>USD</b>
Income	123,975	954
Assets	212,500	1,635
<b>Insurable Sum</b>	<b>336,475</b>	<b>2,588</b>
<b>Frequency (flood)</b>	<b>1.54%</b>	
<b>Pure Premium</b>	<b>5,177</b>	<b>40</b>

Income plus assets

1 divided by 65 years

# You are Indra Timilsina.

You borrow money to invest in your cows to make a living.

It is August 2024, a month before the flood.



# How much will you, Mr. Timilsina, buy:

- Full coverage @ NPR 5K / USD 40
- Something, but less than full coverage
- No insurance

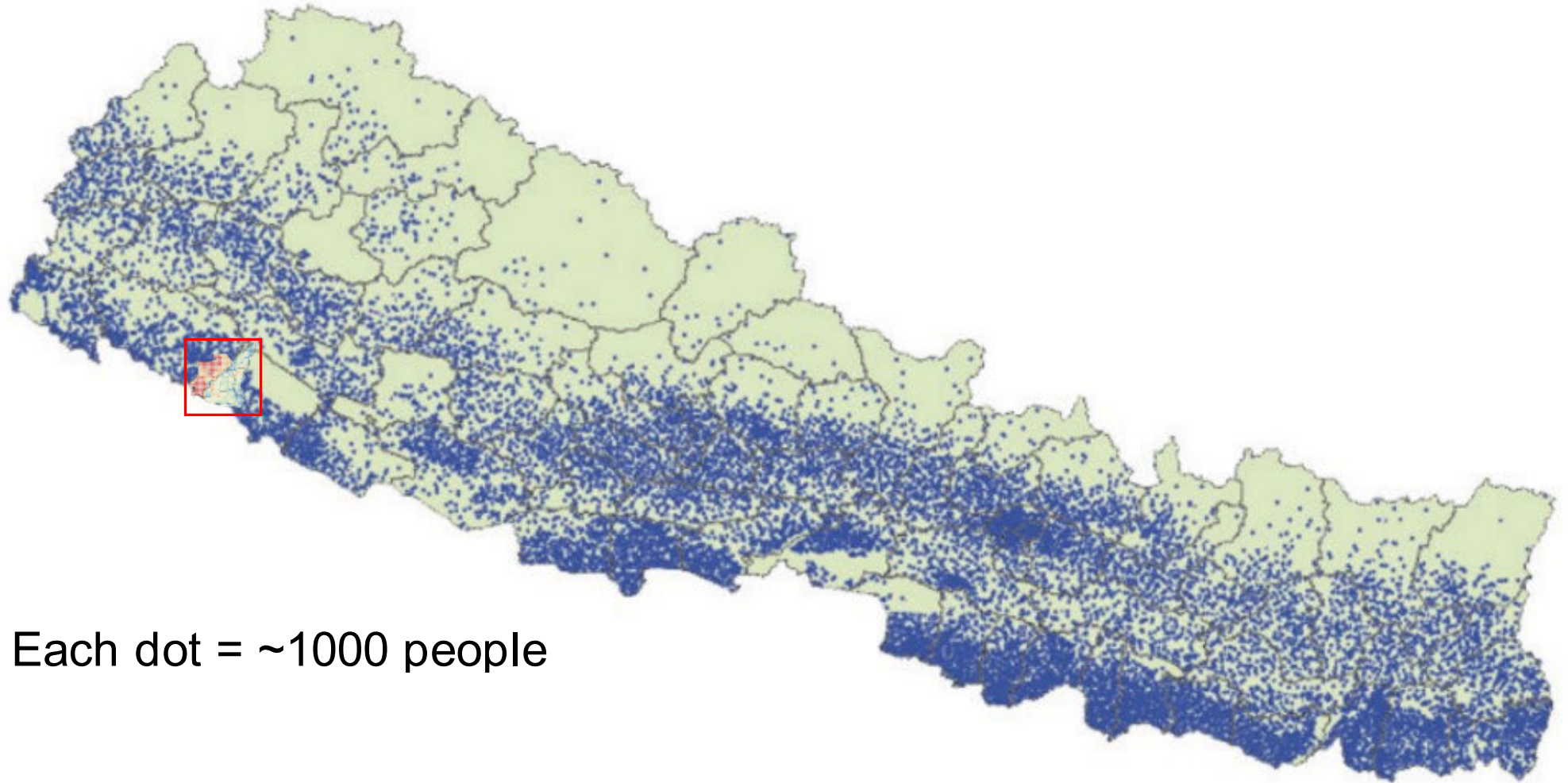






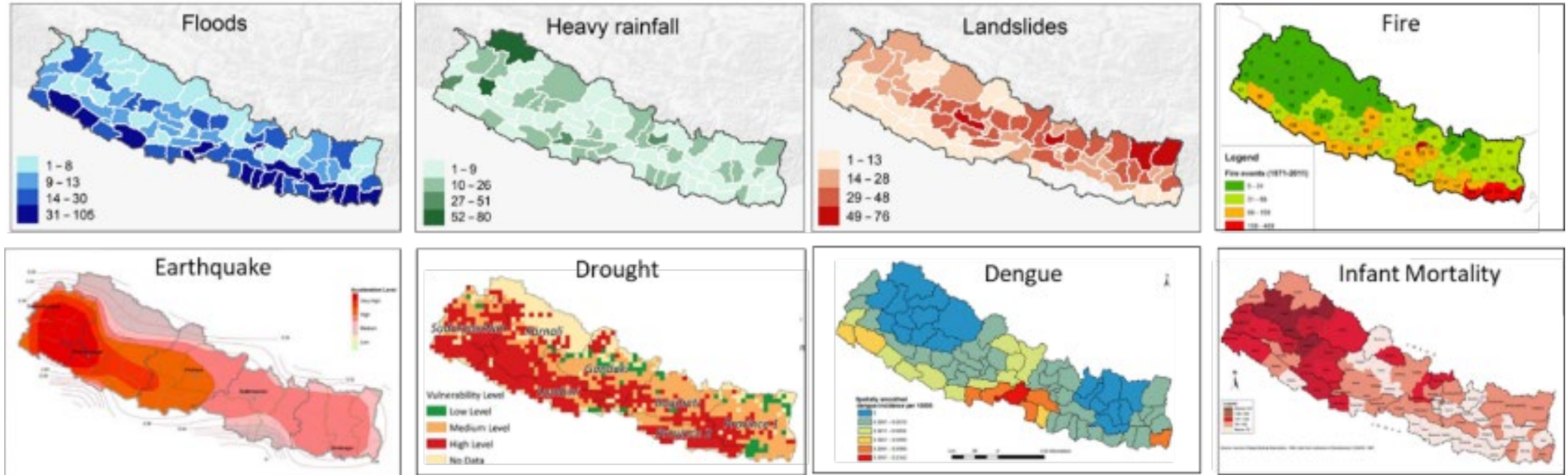


# Rapid mobilization required

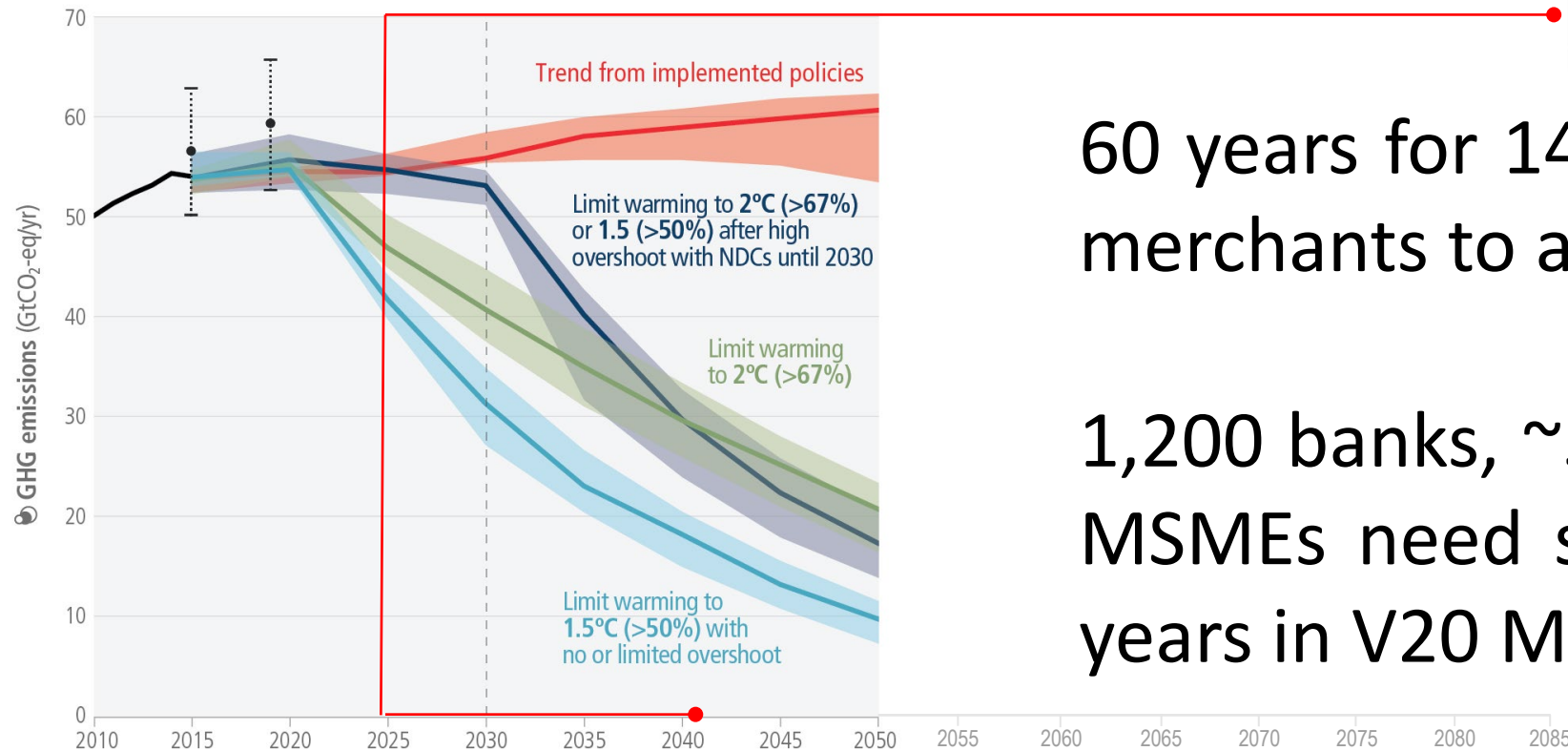


Each dot = ~1000 people

# Risks are well documented / understood



# Time is running out



60 years for 14,500 banks and 130M merchants to adopt Visa.

1,200 banks, ~5,000 MFIs, and 100M MSMEs need solutions within 10-15 years in V20 Markets



# Supply-side perspectives

- Insurance underwriter
- Insurance agent
- Bank / MFI
- Enabler – INGO, Insurtech, etc
- Impact investor / donor / government

# You are an insurance underwriter.

Your job is to accept premiums, thereby putting your company's capital at risk.



# Where do you set your price:

- Even odds with clients
- Better odds for your company
- Worse odds for your company

# You are an insurance agent.

You earn a % of what you sell and need to decide where to focus your effort.

# Where do you focus time selling?

- Mr. Timilsina and similar clients
- Wealthier households
- Households with less

# You are CEO of an MFI

Your loan portfolio is fine, not great, and you see foreign exchange risk in the short-term future.

# Do you invest your time:

- Negotiating wholesale credit terms
- Improving your core performance
- Identifying new potential risks

# You are an enabling service provider.

You are an INGO, insurtech, or other entity that aims to solve insurance problems.

# As an enabler, who do you 'sell' to?

- Mobile operators, ecommerce, etc
- Banks, MFIs, cooperatives, etc
- Supply chains, companies, and similar
- Government
- Insurers

# You are an impact investor or donor

You know that most people are not aware of their risk, nor have the means to recover.

Your organization does not have the budget to do everything, yet you need to mobilize action



## Climate risk 'Double Whammy' for MSMEs

Loss of Assets  
and Income



Credit Access and  
Repayment Stress

# V20 SIF is focused MSMEs' access to liquidity

- Banks and FIs need to have a very clear understanding of the climate risk exposure of their MSME clients and their credit portfolio

**Climate Risk Assessment**
- Banks and FIs need to decide whether their risk exposure needs a hedge or financing in place

**Factoring Climate Risk Assessment in Decision Making**
- Banks and FIs need to understand their options – what works in other markets and where can they find help, if needed

**Structured Climate Risk Financing Solution**
- Banks and FIs need to prepare their business case to invest to put their climate risk financing solution in place.

**Actualizing the solution**

## Template approach: 100 Bank initiative

### Assess Exposure

Scientific risk modelling for the MSME credit portfolio

### Fact-based Decisions

What are my options?

Or

All clear, nothing needs to be done

### Structure solutions

Assist design of FI climate risk financing strategy and first product

Or

### Actualize the solution

Assist FIs to identify and procure service providers and, where needed, investment

They can do it on their own!

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# Thank you

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