

INNOVATIVE FINANCIAL INSTRUMENTS FOR RISK MANAGEMENT

Global case studies from WFP's climate risk management programmes

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WHY RISK FINANCING IS RELEVANT FOR WFP?



- Each year, the humanitarian sector and governments **spend billions** to prepare for, respond to, and help people recover from increasingly destructive climate-related disasters.
- WFP can **reduce the number of people depending on humanitarian assistance** through investments in **disaster risk reduction activities** at the community level, **anticipatory action** before a hazard materializes and **early action** after a crisis hits.
- WFP is developing **climate risk finance** programmes that help governments and vulnerable households to anticipate, absorb and transfer the risks of climate shocks, which are currently primarily addressing **drought risks**.
- The key benefit of climate risk financing programmes is that they **provide predictable finance to manage risks through targeted action** at the moment when it is most needed.
- Climate risk financing programmes provide an opportunity for governments and disaster response agencies to invest in approaches that **transform the current humanitarian model**, which is focused on repetitive crisis response, and move it to a model which is based on **forward-looking and risk-informed responses**.

RISK FINANCING OPTIONS AS PART OF AN INTEGRATED RISK MANAGEMENT APPROACH



Invest in nature-based solutions, protective infrastructure, early warning, climate information, anticipatory actions

Support migration, transformation of livelihood strategies

Event Probability

Mitigate or Reduce the Risk	Avoid the Risk
Accept the Risk	Share or Transfer the Risk

Build contingency finance: Savings, debt, remittances, humanitarian aid

Establish micro-insurance, sovereign insurance, risk sharing schemes

Event Impact

THE BENEFITS OF AN INTEGRATED CLIMATE RISK MANAGEMENT APPROACH

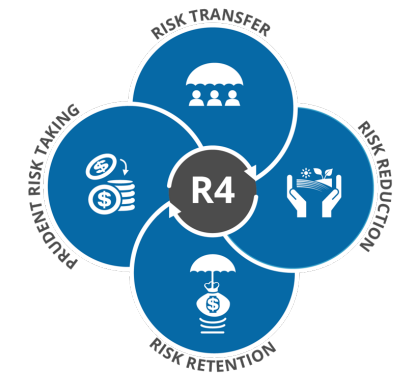


- Food-insecure people in developing countries are faced with **different types of hazards** – some recurrent, some catastrophic
- Actions to reduce exposure and vulnerability to recurrent hazards need to be complemented by **improvements in people's ability to cope with unavoidable catastrophic shocks**
- Such efforts require a **flexible, holistic risk management strategy** that uses different risk management tools for different types of hazards
- Integrated risk management can **save up to US\$100 billion a year** in wellbeing losses and **reduce global exposure to natural hazards by almost 20 percent** (World Bank 2017)
- **Benefits beyond avoided losses:** financial inclusion, stronger social protection systems that shield people against different shocks, facilitate investment and innovation, and promote development and poverty reduction

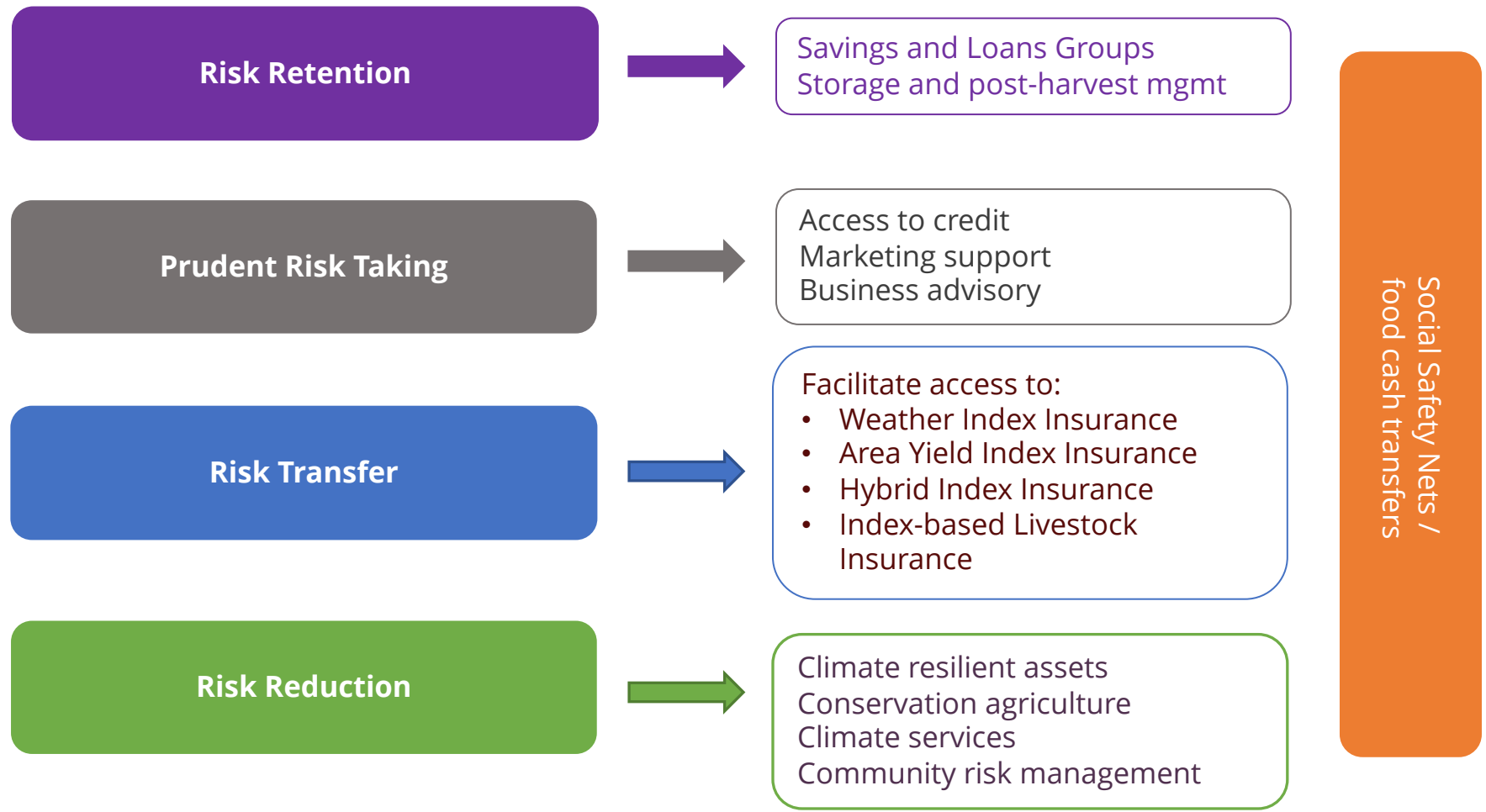
WHAT IS INSURANCE?



- Provides people with coverage against specific perils or risks
- Used to protect against events that cannot be foreseen or managed - although their likelihood can be estimated
- Where there is no doubt over the possibility that the insured risk can occur
- A contract, in return for paying a premium
- Calculated on the basis of the nature of the risk and consequential financial loss



INTEGRATED RISK MANAGEMENT WITH MICROINSURANCE





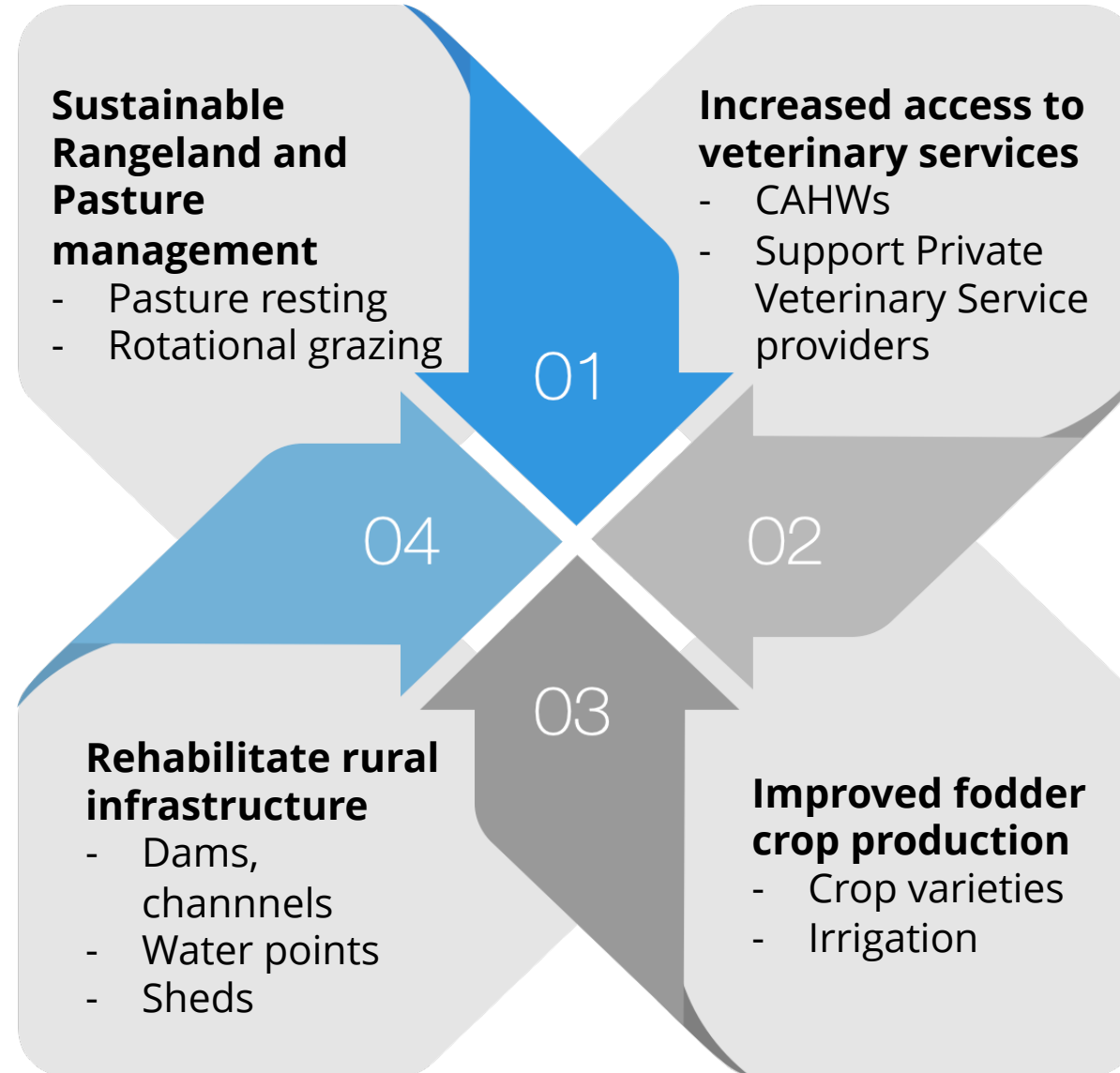
**1ST CASE STUDY:
SOMALI REGION OF
ETHIOPIA**

HORN OF AFRICA DROUGHT



- Prolonged drought conditions have continued for **four consecutive failed rain seasons**, with severe impacts on the pastoralist households in Somali region, Ethiopia
- This is driving high rates of **livestock mortality, increased food insecurity, high mobility** and widespread **socio-economic vulnerabilities from inadequate water, pasture and deteriorating animal conditions**
- To enable households to cope and adapt to drought-related risks for livestock, WFP and its partners developed a **satellite index insurance for pastoralists** that has been **providing financial protection to prevent livestock losses since March 2018.**

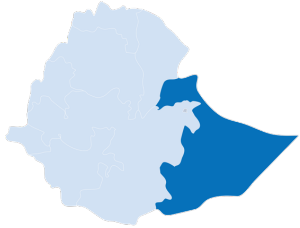
HOW WFP PROTECTS LIVESTOCK FROM DROUGHT THROUGH AN INTEGRATED RISK MANAGEMENT APPROACH



EXPERIENCE OF SATELLITE INDEX INSURANCE FOR PASTORALISTS - ETHIOPIA



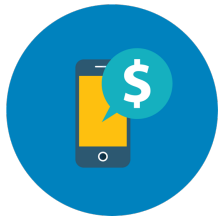
Key Achievements 2018 – 2022:



Collaborated with pool of key insurance companies and WFP's Research Assessment and Monitoring (RAM) to **establish an index-based livestock insurance product for pastoralists in the Somali region**



Engaged with the Somali Regional Government's Bureaus of Agriculture and Livestock to **subscribe insurance policies** for supporting pastoralist and agropastoral households **when drought impacts availability of pasture**



Organized **mobile payout disbursements** for eligible households through **Somali Microfinance Institution and the HelloCash platform.**



After failed rain seasons in late 2021, **two consecutive payouts were triggered**, providing **US\$1.8 M for 28,297** struggling households to ensure adequate food consumption and livestock protection.

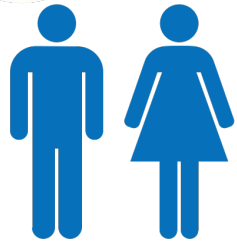
Experience of Satellite index insurance for Pastoralists - Ethiopia



Key Achievements 2018 – 2022:



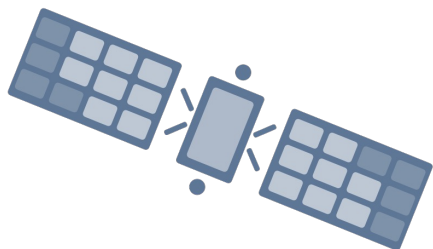
Introduced a **Normalized Difference Vegetative Index (NDVI) insurance product** in 2018 that estimates when pasture and fodder is unavailable due to **extreme drought conditions**



Supported over **28,000 vulnerable pastoralist households** with livestock insurance coverage in the 2021 season (growing from 5,000 in 2018), with the aim of providing insurance payouts before livestock death occurs



Integrated with additional risk management strategies such as **Village Economic and Social Associations (VESAs)** to strengthen resilience and increase investment capacity of participants and **trainings on participatory rangeland management**



The combination of **satellite remote sensing** and **mobile money payments** facilitates rapid support to households that **move frequently** and are **geographically dispersed**

Experience of Satellite index insurance for Pastoralists - Ethiopia



Beneficiaries Reported in March 2022:

55%

On time

55% of the households reported that the assistance came on-time to **enable them to protect the livestock** and **cope with the impacts of droughts**

71%

in 1 week

71 percent of the households reported to have used their insurance payout **within 1-7 days**.

48%

On animals

48% of the payout amount received was reportedly spent **on animal feeds [33%]** and **animal health [15%]** implying that households prioritized **the protection of their livestock**.





2ND CASE STUDY: AFRICA RISK CAPACITY (ARC)-REPLICA IN MALI

MALI HAS BEEN IMPACTED BY CONSECUTIVE DROUGHTS



- **Poor rainfall distribution** and a **reduction in farmed area due to conflict and displacement** have resulted in **low food production** recorded during the 2021 agricultural season (-15%).
- In 2021, Mali experienced **the most severe lack of rains in five years** caused by periodic dry spells and low rainfall, putting **1.9 million people** across the country **at risk of severe food insecurity** – mostly in the regions of Kayes, Gao, Mopti, Segou, and Timbuktu.
- The **African Risk Capacity (ARC) Group** is a Specialized Agency of the African Union established to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and disasters.
- ARC is a **risk pooling platform** that provides financial protection through macro insurance policies. ARC Ltd. also offers **macro insurance to humanitarian organizations** through **the ARC Replica Programme**, an innovative risk financing tool that improves the effectiveness of emergency response after climate-related disasters.

WFP'S MACRO INSURANCE PROGRAMME – ARC REPLICA PROVIDES FINANCING FOR EARLY ACTIONS



- WFP has been subscribing Replica insurance policies since 2017. WFP engages in a **technical and financial partnership with governments** to **strengthen DRF capacity** and **increase the number of people protected** in the country
- Late onset of 2021 rain season **triggered an ARC Replica insurance payout of US\$7.1 million** in Mali, the maximum sum insured, and largest WFP received from ARC to date
- This payout financed **early actions** that support households before a humanitarian response, enabling WFP to provide **cash-based assistance, nutrition support** and pilot **emergency asset creation programmes**.

EMERGENCY ASSET CREATION ACTIVITIES



Stone Bunds



Half-Moons



Protective Dikes



Pond Deepening



MALI & ARC-REPLICA IN 2022



- WFP is again receiving a payout from the ARC-Replica policy in Mali, with a confirmed amount of **US\$8 million**. The **rain failure was not as catastrophic as the maximum payout in 2021**, but **WFP purchased a policy with a higher sum insured in 2022**.
- WFP will **implement the early actions even sooner** to **reduce the impact of the drought**, complementing those of the government





BENEFITS OF ARC REPLICA

01

Provide technical input to the customization of the index model

02

Develop complementary Operational Plan: Actions are agreed and coordinated in advance among Replica partner and Government to allow operation to begin quickly

03

Increase number of people protected

04

Provide increased response capacity in the case of a payout

05

Improve advocacy in global DRF space, providing a platform for visibility of the use of insurance mechanisms to tackle vulnerability to climate change in Africa

- As a policyholder, WFP has higher levels of insight and transparency into how ARC functions and how we can support its improvement
- Since WFP has no vested interest in ARC, we are trusted by our government partners to provide independent advice on the products on offer



3RD CASE STUDY: ANTICIPATORY ACTIONS FOR DROUGHT IN MADAGASCAR



ANTICIPATORY ACTION IN SOUTHERN MADAGASCAR



- In Madagascar, up to 1.9 million people are estimated to suffer from acute hunger (IPC in April 2022). **WFP is implementing an AA program since 2019 (NORAD funded) on “Scaling-up drought anticipatory actions for food security in Africa”**
- **Target Locations:** Androy, Anosy and Atsimo Andrefana regions of **southern Madagascar**. Regions where 80% of the populations rely on small-scale agriculture and with the highest levels of food insecurity and malnutrition and highest recurrence of drought.
- **Focus:** Institutionalization and integration of AA in the national plans; strengthen and expand Forecasting system (add variables, last mile EW system building), climate services diffusion; integrate with other DRF tools and build the humanitarian-development nexus.

ACHIEVEMENTS ON AA SYSTEM STRENGTHENING



- An AA framework document was endorsed by the Government and presented to disaster risk reduction stakeholders. **Anticipation** is integrated into the **updated multi-hazard sub-national contingency plans**.
- **Anticipation** is considered in **the shock-responsive social protection manual**, which is being updated, including the government's cash transfer manual.
- A national level AA TWG was set up and is operational
- **Forecasts & Triggers** have been co-developed and **identified with the government** for **moderate and severe drought scenarios**.
- An **Anticipatory Action Plan (AAP)** has been co-developed and validated with the government counterparts, WFP and the national Anticipatory Action Technical Working Group (AATWG) members

ANTICIPATORY ACTION ACTIVATION IN 2022



- In **July and August 2022**, the government-owned AA system **triggered for a moderate drought**.
- WFP has **activated the Anticipatory Action Plan (AAP)** to support smallholder farmers' cope with a predicted moderate drought during the 2022/2023 rainfall season.
- Following this trigger **WFP prepared to deliver US\$ 1.2 million in anticipatory finance**, empowering communities to **anticipate and mitigate the impacts** of yet another **below average rainfall season** in southern Madagascar.
- **More than 62,000 smallholder farmers** are being supported **from October 2022 to March 2023**.
- Families will be provided with access to **timely early warning information and knowledge on drought risks**, and **trainings** combined with **drought-tolerant seeds** and **water harvesting systems**.



THANK YOU!