SAVING LIVES
CHANGING LIVES

Strengthening Climate Risk Finance in the Caribbean for Rapid Assistance in Emergencies

In the context of climate change, Caribbean Small Island Developing States (SIDS) face increasing risks from climate-related hazards that particularly affect the livelihoods and food security of poor and vulnerable people.

Recent experience in the region shows that national social protection systems can play a crucial role in minimising the impact of disasters and securing development gains by providing targeted and rapid emergency assistance to affected people and preventing them from falling into further poverty.

One key area to make social protection systems more responsive and adaptive to such shocks is to link these systems to comprehensive climate risk financing strategies that enable rapid dispersal of funds immediately before or at the outset of an emergency.

Despite regional advancements through entities such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Munich Climate Insurance Initiative (MCII), Caribbean SIDS have limited financial resources to invest in disaster preparedness and response given their small markets and high debt burdens. Consequently, governments are generating further debt when later forced to borrow to fund disaster recovery.

In view of these challenges, more investment in holistic climate risk finance is crucial to enhancing the shock responsiveness of social protection systems and reducing the impact of disasters on vulnerable people in the Caribbean.

WFP World Food Programme

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WFP'S CARIBBEAN INTERIM MULTI-COUNTRY STRATEGIC PLAN (2020–2021)

WFP's **Interim Multi-Country Strategic Plan (IMCSP) (2020–2021)** lays out the framework for WFP's priority activities in the Caribbean.[1] The Strategic Plan focuses on improving emergency responses in the region by transferring WFP emergency capacities to the Caribbean Disaster Emergency Management Agency (CDEMA) and its Participating States. These capacity-building efforts focus on: 1. Emergency telecommunications, end-to-end management of relief supply chains, coordination and response; 2. Climate change adaptation and risk financing; 3. Social protection systems and programmes; and 4. Food security and nutrition interventions and advocacy.

[1]Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Sint Maarten, Suriname, Trinidad and Tobago, and Turks and Caicos Island

CARIBBEAN RISK FINANCING STRATEGY

WFP's Caribbean Risk Financing Strategy aims to ensure that the most vulnerable populations in the Caribbean are better protected through social protection systems that are more shock-responsive due to predictable, rapid and flexible financing. The Strategy involves working with governments to identify suitable disaster risk financing options and strengthening the connection between their social protection systems and risk finance instruments.

The activities under the strategy focus on advocacy with social protection stakeholders and public-private sector partners and technical assistance to governments for designing country strategies and implementing country-specific pilot projects.
The strategy builds on WFP's global experience in both social protection programmes (such as cash transfer and school feeding programmes) and operationalizing risk financing instruments (including sovereign risk insurance, microinsurance and forecast-based financing).

ADVOCACY

Partnering to advocate for countries to have holistic, risk-layered financing approaches in their risk financing portfolios and that consider social protection needs

PROMOTING A RISK-LAYERED APPROACH TO NATIONAL CLIMATE-RISK FINANCING PORTFOLIOS THROUGH:

- **Analysing and mapping** existing risk financing knowledge and capacities among social protection stakeholders and public-private sector partners.
- **Co-facilitating trainings** in risk finance for social protection stakeholders.
- **Conducting comparative analyses** to promote government investment in holistic risk finance for the most vulnerable.

ACTION

Technical assistance to governments to make social protection systems more shock-responsive through sustainable risk financing instruments

SUPPORTING COUNTRIES TO LINK SOCIAL PROTECTION SYSTEMS WITH CLIMATE RISK FINANCING OPTIONS THROUGH:

- **Identifying** risk financing options for social protection with country-based analyses.
- **Designing innovative models** to connect a country's social protection system with risk financing mechanisms.
- **Implementing country-specific pilots** with national governments, technical partners, donors and the private sector.

OBJECTIVE 1: Advocate for the enhancement of regional and national risk financing capacities to ensure that countries' most vulnerable populations are better protected

Rationale: Caribbean SIDS are exposed to risks of varying frequencies and magnitudes, with these best-addressed through a **holistic risk-layered financing approach** that involves an array of risk financing instruments. For example, disaster risk insurance (including parametric insurance) can be appropriate for low-frequency but high-impact events such as hurricanes. By contrast, contingency funds, reserves and budgetary allocations may be better suited for events that occur more frequently and whose impact is smaller.

Approach: Under this Strategy, Governments are encouraged to adopt a holistic, risk-layered approach involving a mix of risk financing instruments, and which also consider **social protection needs**. Enabling social protection officials to have more evidence and training on this topic aims to help them advocate in their countries for risk finance solutions that will support the most vulnerable communities affected by natural hazards.

WFP expertise: The advocacy efforts build on WFP's engagement and partnerships with Caribbean governments to promote and implement **shock-responsive social protection**. The Strategy also aligns with WFP's broader efforts under the UN Multi-Country Sustainable Development framework (UNMSDF) to support governments in the Eastern Caribbean in ensuring social protection systems address the needs of the most vulnerable.

OBJECTIVE 2: Ensure that adequate and rapid finance reaches countries' most vulnerable populations through shock-responsive social protection systems if a major event is forecast or occurs

Rationale: In the case of a climate-related disasters, large populations need to have their immediate needs met quickly and at an augmented scale. **Social protection systems that are linked to risk financing instruments** allow governments to rapidly respond with adequate resources to assist large numbers of affected people, and to do so in a cost-effective way.

Approach: Under this Strategy, countries receive **technical assistance** to make their social protection systems more shock-responsive by finding the appropriate selection of risk finance instrument options. This support includes working at the country-level with government entities and technical partners to understand the types of risks and risk finance options, before designing pilots to test the connection to social protection systems. To ensure sustainability and country ownership, it also involves looking early on at how to enable these innovations to be embedded in government systems in the longer term.

WFP expertise: WFP leverages its global experience in operationalizing **sovereign risk insurance, microinsurance and forecast-based financing** and their connection to social protection systems. This includes Africa Risk Capacity (ARC) and a new Replica initiative, the Rural Resilience (R4) initiative, and its ground- breaking work with the forecast-based financing around the world.

IMPLEMENTING THE STRATEGY

The Caribbean Risk Financing Strategy is implemented in close cooperation with Caribbean governments and technical partners in order to deliver innovations that are both robust and with the most vulnerable communities in mind.

Country-level activities are determined in consultation with governments and are based on an **analysis of country-specific risks and needs**. For example, WFP has partnered with the World Bank to support the Government of Belize to connect its social protection system to risk financing instruments. The first stage of the technical assistance partnership involves a systematic assessment to estimate the risks associated with natural hazards in the country, including the number of people that would be affected by a given disaster. This assessment will inform the design of a risk financing strategy for social protection, and help determine the **cost of implementation**. Regular engagement with government stakeholders aims to ensure that support is in line with country priorities and strengthens synergies between finance and social protection sectors.

WHY INVEST IN CLIMATE RISK FINANCE FOR SHOCK-RESPONSIVE SOCIAL PROTECTION?

While there is general acknowledgment that making social protection systems more shock-responsive is a good investment, analysis on cost, return and financing is limited. A glimpse of the potential is articulated in a **return on investment study** that WFP undertook based on the emergency cash transfer programme implemented in Dominica after Hurricane Maria in 2017. It found that investments in preparedness measures to strengthen social protection would represent savings in both time and money. **There could be a one-month faster response in providing cash transfers to already enrolled social protection beneficiaries at a cost saving of US$500,000 per year.** By investing in a national social registry, even those not enrolled in social protection could receive assistance two months faster than normal.

Investing in holistic climate risk financing strategies that are linked to social protection can enable faster response through **quick and flexible disbursement of funds**. In addition, a diversified portfolio of risk finance instruments tailored to address different risks can increase the **cost-efficiency of emergency response and recovery** by determining how to pay for loss events in the most effective way possible. Faster disbursement of funds can allow for the effective use of recovery funds to be maximised and improve management of the fiscal impacts of disasters.

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