

SAVING
LIVES
CHANGING
LIVES



Inclusive risk finance to build the resilience of the most vulnerable and food insecure in Latin America and the Caribbean

A wide range of shocks, from extreme climatic events, to financial crises and pandemics, threaten people's livelihoods, food security and nutrition across Latin America and the Caribbean (LAC). The year 2020 illustrates these challenges clearly, with countries experiencing a combined impact of the COVID-19 pandemic - a major crisis that is leading to the most severe contraction in the region's historical economic activity, compounded by major weather events including hurricanes Eta and Iota that hit Central America in November 2020. These shocks disproportionately affect poor and food insecure communities.

Risk finance is an important tool in support of the mandate of the World Food Programme (WFP), to both save lives and change lives. It helps equip governments, communities and individuals with a range of financial instruments that provide timely resources to people so they can confront the financial and food security impacts of shocks. Financial services also contribute to wider resilience outcomes when developed to be inclusive. For governments, designing these instruments

to be connected to social protection systems so that they are more shock-responsive is increasingly being seen as a cost-effective measure to channel finance to affected populations.

WFP globally has been a lead proponent of promoting risk finance as a piece of the puzzle for integrated risk management approaches. The Latin America and Caribbean region offers a series of opportunities to sustainably scale risk finance solutions to support the region's most vulnerable and food insecure.





INCLUSIVE RISK FINANCE FOR LATIN AMERICA & THE CARRIBEAN

The LAC context offers a range of challenges but also opportunities in the design of risk finance approaches. While the region is highly exposed to extreme shocks that can reverse food security and development gains, the potential benefits of risk finance remain largely untapped because vulnerable people’s access to formal financial services is still limited.

The challenges

One of the biggest challenges facing vulnerable and food insecure populations in LAC is that many still lack access to formal financial services, or the financial products that *are* available are poorly designed to meet the needs of this particular clientele. A lack of experience, trust and financial literacy can also be preventative factors to create the necessary demand for these services. This has run-on effects where such populations have a reliance on informal tools which may be appropriate for smaller level (idiosyncratic) risks within their communities, but are often insufficient to deal with large and severe (covariate) events that require widespread financial support.

A range of organisations that typically support vulnerable populations also lack risk finance instruments that can allow rapid and efficient dispersal of funds. There are few examples of such instruments within LAC that can be adopted ahead of and in the immediate aftermath of a major shock.

Financial service providers also are surrounded by numerous challenges that hinder their development of inclusive risk finance products, ranging from a lack of experience working with the most vulnerable and food insecure, to being unconvinced that the needed product development costs will produce any profitable outcomes, especially if there is uncertainty with how many clientele can be enrolled, and the regulatory environment is not conducive to innovation.

Some of these issues are reflective of a global challenge that perplexes the region, whereby there are few examples of sustainable and scalable inclusive risk finance instruments that will spur on further innovation. There are, for example, limited distribution models for these products to reach large-scale vulnerable populations, and WFP’s regional analysis suggests that more experience needs to be promoted through public-private partnerships.

The opportunities

WFP’s Risk Finance Strategy for LAC aims to learn from these challenges and shift them into opportunities. This builds from WFP’s deep understanding of vulnerable and food insecure populations, with its expertise in assessing and analysing needs being quite valuable for the design of tailored risk finance products that test pro-poor approaches and demonstrate value. WFP’s global experience in a range of inclusive and risk layered financial solutions also provides learning for the region.

A further contribution are the strong implementation entry-points that WFP offers for integrating inclusive risk finance instruments in LAC, and which includes its support to government social protection systems and its own safety net programmes, cash-based transfers and innovative climate resilience and digitisation initiatives. WFP’s established and long-standing relationships with communities and government entities can also facilitate public-private partnerships to catalyse sustainable scaling of risk finance products. Investments in evidence generation and knowledge management further support advocacy efforts to improve the enabling environment for these innovations.

All of these factors present invaluable windows for promoting the development and integration of responsible, scalable and sustainable financial instruments that will support the vulnerable and food insecure. WFP’s regional investment in augmenting the shock-responsiveness of government social protection systems has become a global model and that offers its own opportunities to connect risk finance instruments to these safety nets and cash-based programmes where possible.

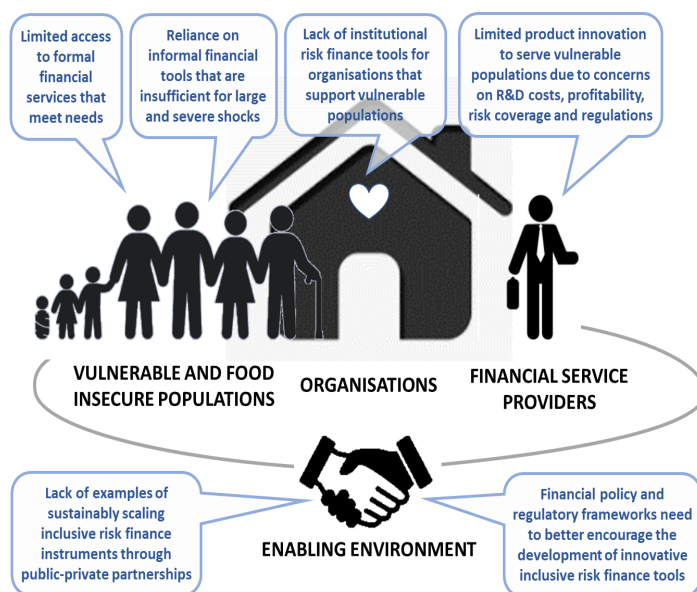


Figure 1: Challenges for inclusive risk finance in LAC

WFP'S CLIMATE ROADMAP FOR LATIN AMERICA AND THE CARIBBEAN

The Latin America and the Caribbean region is represented by several middle-income countries where the capacities of governments and the private sector are relatively strong. WFP believes this provides an unique opportunity for innovation in integrated climate risk management and climate change adaptation approaches for food insecure populations, with a core focus on how to sustainably scale these climate solutions through facilitating public-private partnerships. WFP has set this thinking in a regional roadmap for climate innovation, with four pillars focused on enabling capacities, integrated climate risk finance, advancing unscaled global climate innovations, and emphasising cross-cutting synergies with areas including gender, conflict, behaviour change and evidence generation.

WFP'S RISK FINANCE STRATEGY FOR LATIN AMERICA & THE CARIBBEAN

WFP's Risk Financing Strategy for LAC aims to enhance the resilience of the most vulnerable and food insecure in the region against major shocks, through the integration of risk finance into sustainable climate resilience policies, programmes and partnerships through two objectives.

WFP's Risk Finance Strategy for Latin America and the Caribbean

Enhancing the resilience of the region's most vulnerable and food insecure through integrating risk finance into sustainable and scalable policies, programmes and partnerships

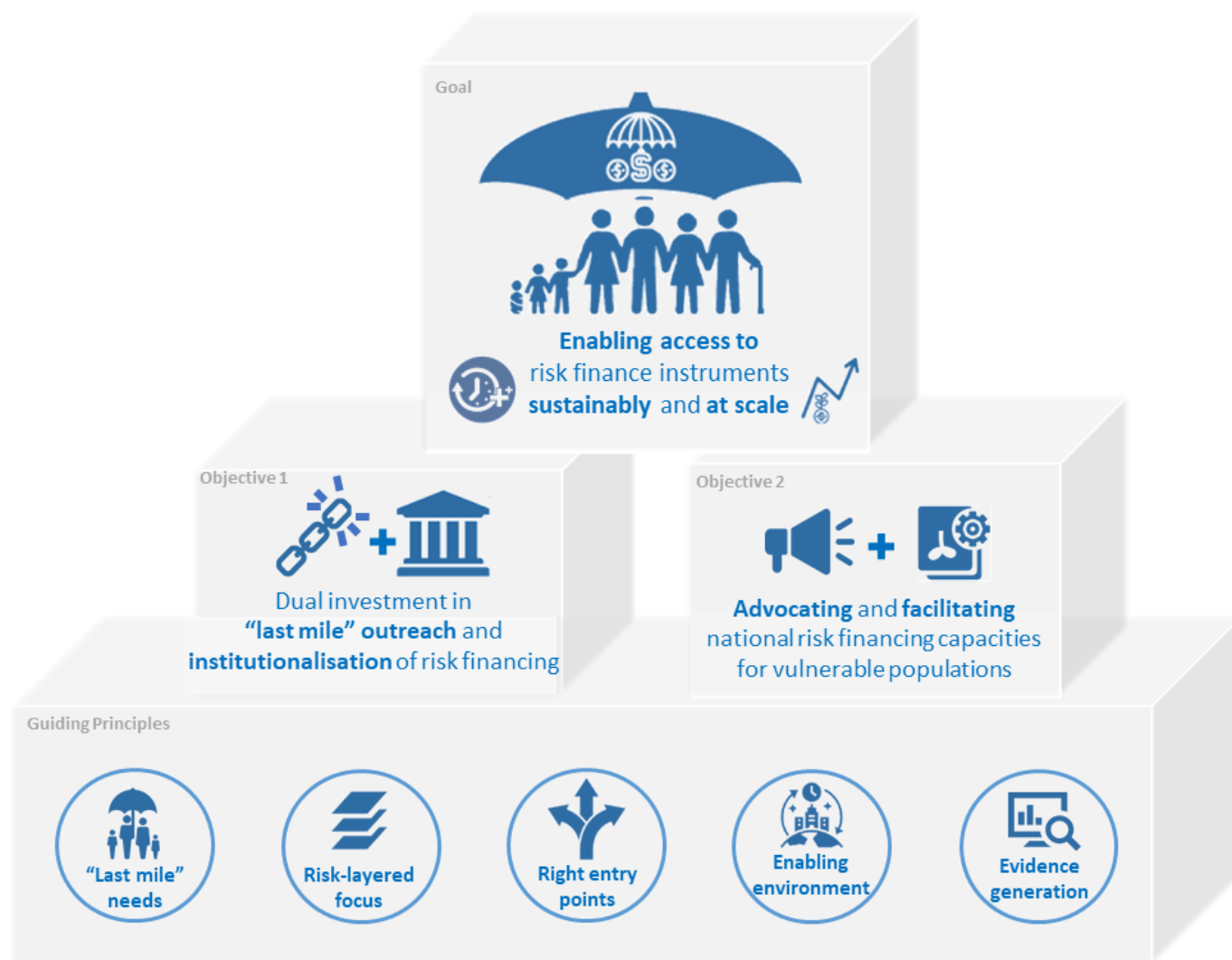


Figure 2: WFP's Risk Finance Strategy for Latin America and the Caribbean

Objective 1 focuses on enabling the offer of risk finance instruments to vulnerable and food insecure populations that do not have access to these financial services. WFP aims to actively design and implement instruments to support these populations in LAC, but with a concurrent emphasis on creating the enabling environment through testing all avenues to institutionalise products and services within public- and private-sector programmes.

Objective 2 speaks to the role WFP can play as an advocate for governments and private sector players to invest in inclusive risk finance approaches that ensure the most vulnerable and food insecure populations are considered. This advocacy also focuses on WFP's role as a partner in enabling holistic risk finance endeavours that promote integrated approaches towards disaster risk management, resilience, climate change adaptation and social protection.



PRINCIPLES

WFP's Risk Finance Strategy for LAC is guided by five guiding principles that ensure a common vision across the region for risk finance design that also allows flexibility for innovation.



1. Define “last mile” target populations to ensure risk finance instruments best suit their needs

WFP sees it as essential to understand the vulnerabilities, needs and preferences of “last mile” populations whom are typically not able to access market-based financial services (including women and indigenous people). A consumer centric approach helps define the most suitable risk finance instruments to be promoted, with attention also to how to scale these to benefit wider populations (or clientele). WFP's in-depth experience working with these communities and its range of analysis tools offer particular advantages to financial service providers developing new & inclusive risk finance products.



2. Consider risk-layered approaches to address the risk financing needs of vulnerable populations

Risk-layered approaches ensure more cost-effective ways for risk finance instruments to address the different types and levels of risk that people face. No single financial instrument is optimal to respond to all shocks, thus interventions should consider a diverse portfolio of instruments to appropriately address the frequency and severity of events. Meso-and macro-level instruments can support vulnerable populations indirectly by rapidly getting needed resources to government and other entities. Integrating these instruments more holistically into wider disaster risk management, resilience and climate change adaptation enables further success. WFP has analysis tools to help identify the most appropriate options.



3. Find the best entry points for integrating risk financing instruments into programme activities and initiatives

Risk finance instruments are most effectively provided to WFP beneficiaries already participating in existing activities, given the trust

and understanding that has developed between communities, WFP and partners. These activities can involve support to government social protection systems alongside a range of safety nets that WFP implements, include cash-based transfers, smallholder farmer support, community-based asset creation and innovative climate resilience initiatives. These activities can serve as platforms to test how such instruments can be scaled through programmes led by government and private sector actors.



4. Encourage and advocate for an enabling environment and strong public-private partnerships

There are a wide number of actors involved in risk finance at the local to global scales, and WFP is a willing supporter of efforts to ensure that it can encourage and advocate governments and organisations to adopt robust risk finance approaches, with the emphasis on ensuring that the most vulnerable and food insecure have access to such services. WFP often has a unique voice in this arena, given its understanding of the “last mile” and its work with different public-private actors supporting vulnerable populations. It also has experience working with governments and which can help in advocacy to create the enabling environment for inclusive risk finance policies, regulatory frameworks and public programmes, along with facilitating public-private synergies.



5. Generate robust evidence and knowledge that will support advocacy and investment by governments, the private sector and donors

Evidence on how sustainable models for risk finance can contribute to building resilience and climate change adaptation is a growing request from the international community. Governments especially need such evidence to ensure continued investment that will enable greater chances for such initiatives to be sustainably continued - and replicated - into the future. WFP in LAC has been investing in establishing a robust set of monitoring and evaluation tools to ensure such evidence is generated, alongside establishing knowledge management approaches that support sharing of information between practitioners, governments and other partners.

WFP'S GLOBAL EXPERIENCE IN INNOVATIVE RISK FINANCE

WFP has developed a global reputation in supporting communities and governments with a range of risk financing tools, from macro- to micro-levels, anticipatory finance, and integrated risk management approaches:

- WFP was a key supporter to the set-up of Africa Risk Capacity (ARC) and which is allowing sovereign risk insurance to support African countries prone to climate risks. The ARC Replica initiative is expanding such coverage to improve the effectiveness of humanitarian response.
- WFP's Rural Resilience (R4) initiative combines improved natural resource management (risk reduction), microinsurance (risk transfer), livelihood investment (prudent risk taking) and savings (risk reserves).
- WFP's work on forecast-based financing (FbF) is helping people and governments manage climate risks by acting in anticipation of a severe weather event, based on weather forecasts and with pre-positioned finance.

WFP'S INITIATIVES IN LATIN AMERICA & THE CARIBBEAN

There is an array of examples of WFP's risk finance work with governments and partners in LAC, including:

Guatemala: A robust country strategy with risk-layered approaches

A holistic strategy has been adopted in Guatemala, with activities involving microinsurance and microfinance, and the connection of forecast-based financing to social protection programmes, all embedded in a broader resilience-building intervention. Community credit and savings groups are supporting the empowerment of smallholder farmers to increase investments in agricultural production and thus opening up commercialisation opportunities such as through WFP's Home-Grown School Feeding programme. The goal in the longer-term will be to enable smallholder farmers to take on payments of the microinsurance premium so they are covering themselves against drought and excess rain. The product is being designed to be scaled up at the national level, ensuring government engagement and private sector adoption, and considering all demand and supply factors. WFP is assessing potential synergies with macro and meso insurance opportunities.

additional protection from future climate shocks. The product focuses on excessive rains and droughts and is linked to saving groups and remittances, piggy backing on an existing product.



The Caribbean: Risk financing as a key component of a shock-responsive approach to social protection

The Caribbean is heavily exposed to a range of climate-related disasters, and which led to WFP opening an office in Barbados in 2017 to augment governments' emergency preparedness and response mechanisms and social protection systems. WFP's risk finance work fits well as a major component of the financial pillar of shock-responsive social protection systems, with its aim to enable rapid and adequate finance to reach social protection beneficiaries after a major shock. WFP is looking at how to mirror existing risk financing instruments so that social protection needs can be met, primarily at the meso- and macro-levels. WFP's Caribbean risk finance strategy also emphasises close partnerships and advocacy for holistic risk-layered approaches with national governments, technical partners, donors and the private sector.



El Salvador: Innovative pathways to enhance access to microinsurance, savings, credits and remittances

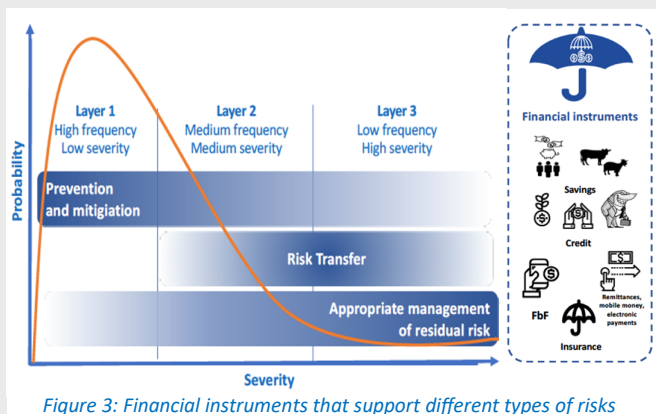
Most farmers in El Salvador do not have access to agricultural insurance products to protect their productive investments. This is especially the case for the most vulnerable smallholder farmers for whom affordable and conventional insurance products do not exist or are not accessible. This general lack of financial inclusion contributes to further reducing the ability of families to protect themselves from extreme climatic events and other shocks. WFP is working on the design of a tailored weather-index microinsurance product for the most vulnerable smallholder farmers, providing them



LESSONS IN DESIGN:

Risk-layering for inclusive risk finance

There are different financial instruments at the micro-level that more suitably address various types of disaster risks, their severity and frequency. Generally, for high probability and low impact events, financial instruments that promote smart risk reserves for risk retention are cost effective - such as savings and contingent credit. These types of tools can also be used to encourage anticipatory action, such as with forecast-based financing and goal-based savings and credits. Events that are larger but less frequent require risk finance tools aimed at transferring and sharing the risk, such as insurance, jointly with instruments that can retain residual risk, such



as the integration of contingency funds.

Vulnerable and food insecure populations generally do not have access to a robust portfolio of formal financial instruments and therefore rely on informal financial instruments such as savings and loans groups, as well as depending on familial relationships and kinship risk sharing practices. A key problem however, is that despite the availability and importance of these informal services, and the fact that they actually can be a gateway for enabling people's access to formal financial services, such tools can be limited to address major (covariate) risks that a community as a whole can face.

Meso- and macro- level risk financing instruments can be important risk finance solutions that will support vulnerable and food insecure populations indirectly. Establishing mechanisms to allow for the rapid

dispersal of finance to governments supporting these populations can be effective ways for the public and private sector actors (government and insurance companies) to come together to offer inclusive risk finance for the most vulnerable. Meso-level instruments can also help protect aggregators, such as microfinance institutions, farmers cooperatives, community-based organisations, NGOs and international organisations so that they can provide rapid finance in the event of a major shock. These efforts can also allow for more advocacy in the creation of the enabling environment to support much-needed innovation in inclusive risk finance approaches.

WFP's work on shock-responsive social protection (SRSP) has also highlighted the important synergies it offers for risk finance, given the SRSP model embeds financing as one of its six pillars. WFP believes the SRSP model offers unique benefits for inclusive risk finance considerations, given the integration of all six pillars will also support in the management and distribution of risk finance to social protection beneficiaries, from targeting, information management, coordination and institutional arrangements, along with delivery mechanisms. On the latter, WFP's experience in establishing cash-based transfer mechanisms for government and WFP safety nets also offers many opportunities for risk finance, including in the mainstreaming of financial assessment tools to consider financial inclusion, to digitise solutions, and to overall enable more rapid dispersal of funds before and in the aftermath of a shock.

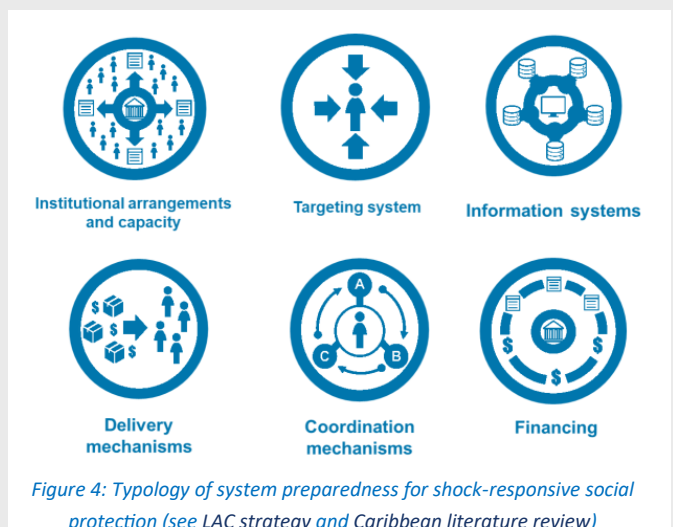


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