




World Food Programme
 SAVING LIVES
 CHANGING LIVES

Does Climate Insurance Work?

Evidence from WFP-supported microinsurance programmes

Smallholder farmers across the world are highly vulnerable to climate-related risks, such as droughts, floods and storms. They also have very limited access to the risk financing tools and services that can provide protection from the resulting financial losses. As the impacts of the climate crisis become more frequent and intense, farmers are being pushed further into food insecurity as they struggle to recover from recurrent losses. WFP helps smallholder farmers to manage these risks and reduce vulnerabilities so they can transition to sustainable food and nutrition security. WFP uses an integrated set of tools that enable an early response to climate shocks, while also reinforcing the ability of vulnerable communities to cope with future disruptions.

WFP is a leading UN agency in incorporating microinsurance solutions into broader strategies to manage climate risks in food insecure areas. The R4 Rural Resilience Initiative provides access to subsidized drought and flood risk insurance products for vulnerable households that engage in sustainable agriculture practices as well as community-led disaster risk reduction and landscape restoration activities. To ensure the sustainability of the approach, the initiative enhances participant's saving capacity and access to loans while gradually enabling farmers to pay for a portion of the insurance premium.

INDEX-BASED MICROINSURANCE

Index-based insurance compensates farmers based on changes in a pre-agreed statistical index that is associated with crop performance, rather than on-site assessments of actual damage or losses.

Insurance payouts are provided in cash, often through mobile banking systems, when available. WFP has started to design specific products to provide food assistance or agricultural inputs in countries experiencing elevated inflation to stabilize the value of the insurance claim.

MICROINSURANCE IN WFP

Since 2011 WFP has insured **2.9 million people in 10 countries**.

Insurance products have disbursed **US\$3.5 million** in payouts to **650,000 people**.

Women make up **55%** of participants who **received policies from WFP** in 2020.



The role of microinsurance under such an integrated approach is twofold:

- i) To support households with a protective safety net to cope with climatic shocks through timely payouts.
- ii) To stimulate investment in more resilient livelihoods, with insurance acting as a collateral for bank loans.

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WFP has extensive experience integrating insurance solutions as an element of financial and social protection in Bangladesh, Burkina Faso, Ethiopia, Kenya, Madagascar, Malawi, Mozambique, Senegal, Zambia, and Zimbabwe. The evidence and knowledge WFP has gained on the effectiveness of climate risk insurance is summarized below.

MICROINSURANCE AS SHOCK-RESPONSIVE FINANCIAL PROTECTION

Since 2011, WFP-supported microinsurance products delivered a total of US\$3.5 million in payouts for a quarter of the subscribed policies. For an average premium value of US\$15 per household, beneficiaries received an average payout of US\$25 per household. On average, payouts were disbursed three months after the index had triggered – enabling households to use the payouts to prepare for the next agricultural season.

Insurance payouts enabled households to **absorb the effects of failed agricultural seasons** through purchasing of food, followed by investments in agricultural or livestock inputs. The most significant payout disbursed to date – following the almost total failure of the 2017 short rains in Kenya – equaled to US\$119 per household. This enabled participants to ensure adequate food consumption, protect livestock and pay for school fees, avoiding negative coping strategies such as taking children out of school. Similar expenditure patterns have been observed in Malawi, Senegal, Zambia and Zimbabwe, with the payouts primarily spent on food consumption and livelihood protection. In Ethiopia, nearly 50 percent of those receiving a payout have invested the money back into their cropping systems, indicating a basic level of trust in the predictability of the insurance product.

INSURANCE AND RESILIENCE OF VULNERABLE HOUSEHOLDS

Microinsurance products are mostly provided through multi-year programmes and integrated with other components to address pre-existing structural challenges, such as poor access to agricultural inputs and financial services. When insurance was provided as a standalone product, payouts were beneficial to help participants absorb the immediate effects of drought events but had no effect on long-term resilience building. For example, in Kenya, two years after receiving payouts from a standalone insurance product, participants had a similar resilience capacity as households that were not insured - indicating the need for complementary services that also help people address the underlying root causes of vulnerability – in combination with the safety net function insurance products are providing.

When insurance is provided together with other risk management approaches, such as access to natural capital, information and finance, the synergies created by the different components lead to **increased resilience capacity of participants**. In Malawi, after 3 years of program implementation, the percentage of participants with acceptable food consumption has increased from 56 percent to 89 percent. The percentage of households not resorting to negative coping strategies after a shock has increased from 40 percent to 72 percent. Savings have acted as a buffer for smaller shocks, and women participants in the different countries have doubled their savings capacities. Microinsurance also plays a key role in unlocking access to financial services, acting as collateral to access loans. The number of participants accessing credit has doubled in Malawi after three years of the intervention, while farmers in Ethiopia have managed to borrow amounts five times higher than non-participants after five years. This has enabled participants to improve productive capacities with agricultural inputs, tools, and livestock. Overall, participants are learning how insurance can help manage their risks, with 29,000 farmers having paid their insurance premiums in cash to date.

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SINCE 2011, WFP-SUPPORTED MICROINSURANCE DELIVERED:



25% participants received a payout



US\$25 per household avg. payout received



Received 100 days on avg., after index triggering



60% participants purchase food



34% participants purchase agri-inputs

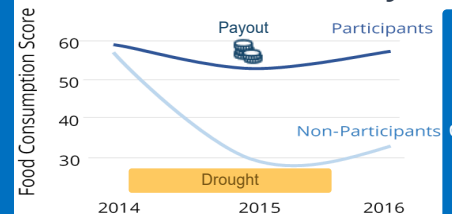


24% participants access basic services

PAYOUTS

USE OF PAYOUTS

Stabilized Food Security



CHANGES IN WELLBEING



100% increase in household savings



400% increase in loans received



75% of participants satisfied with insurance

83% participants willing to contribute to insurance premiums

PERCEPTION

"This year, I engaged in farming with a very positive mind knowing that if my crops failed because of drought, I would be supported by insurance compensation and not be desperate to find food"

Ester—Insured Farmer in Malawi.



Photo page 1: WFP/Aina Andrianalizaha
 Photo page 2: WFP/Badre Bahaji