



World Food Programme

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LIVES

# Climate Risk Insurance:

## A key tool to achieve resilience in Nicaragua

### BACKGROUND

Nicaragua has significant disparities between urban and rural areas: 70 percent of the country's poor households live in rural areas. A lower-middle income and food-deficit country, Nicaragua is located in a hotspot for natural hazards and climate change impacts. Low incomes, the predominance of informal employment, economic and social fragility, systemic gender inequalities, and extreme weather continue to impede progress in addressing poverty and food insecurity, and undermines the livelihoods of the country's most vulnerable people and their access to nutritious food, increasing the risk of food insecurity.

As a result, approximately 300,000 people are living with insufficient food consumption and 1.4 million people are implementing food coping strategies at or above crisis level, including reducing the number of meals eaten in a day and

size of food portions consumed. The situation is particularly acute in the Dry Corridor, a geographic area exposed to prolonged droughts and one of the regions with the highest prevalence of food insecurity, where 60 percent of the municipalities face extreme poverty.

For the United Nation's World Food Programme (WFP), enabling access to climate and disaster risk financing and insurance solutions is central to fulfilling its mandate to achieve zero hunger through both saving lives and changing lives. Through its climate risk insurance programmes, WFP supports governments and communities to cope with shocks, financing early responses after catastrophic events, enabling faster recovery from climate extremes and promoting resilience-building measures that protect individuals and communities from growing climate risks.

September 2022

Over the past decade, WFP has become the UN's leading organization making climate risk insurance solutions work for food insecure populations, and WFP Nicaragua is leading the efforts in the Latin American and Caribbean (LAC) region to implement a risk-layering approach. When it comes to risk financing, there is no "one-size-fits-all" application. Multiple financial instruments are needed to address hazards of varying intensities and frequencies. On the **community and farmers' organisation level**, WFP Nicaragua promoted a microinsurance solution as one component of WFP's flagship integrated climate risk management approach, the R4 Rural Resilience Initiative (R4). R4 combines a set of integrated risk management strategies that address both the climatic as well as non-climatic drivers of vulnerability. Activities promoted by WFP Nicaragua include income-generation, asset creation, environmental rehabilitation, community governance, and nutrition, as well as social and behaviour-change communication.

Microinsurance is an effective tool for smallholder farmers to better manage climate-related risks, overcome vulnerability and achieve resilient livelihoods, while enabling risk-informed investments and growth in the rural productive sector. In 2021, WFP Nicaragua promoted a microinsurance programme and successfully implemented a pilot project, meeting the needs of smallholder farmers

and associations while providing an additional instrument for building their resilience. Now, in 2022, the pilot has began the scale up phase.

To strengthen shock-responsiveness of **government systems**, WFP Nicaragua is supporting a sovereign insurance product to provide macro-level financial protection. This solution will support the government and WFP to assist vulnerable people and communities in Nicaragua with pre-arranged funding that enables rapid responses in case of extreme climate shocks such as hurricanes.

This approach is building on innovative financing instruments in the region, such as the ones offered by the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC), which provides earthquake, tropical cyclone and excess rainfall parametric insurance policies to Caribbean and Central American governments. In the case of Nicaragua, a top up to the government's tropical cyclone policy was enabled through WFP support, and in case of a triggered event, WFP will receive the additional payout to enable the response targeting the affected populations.








## 1. PILOT PHASE 2021

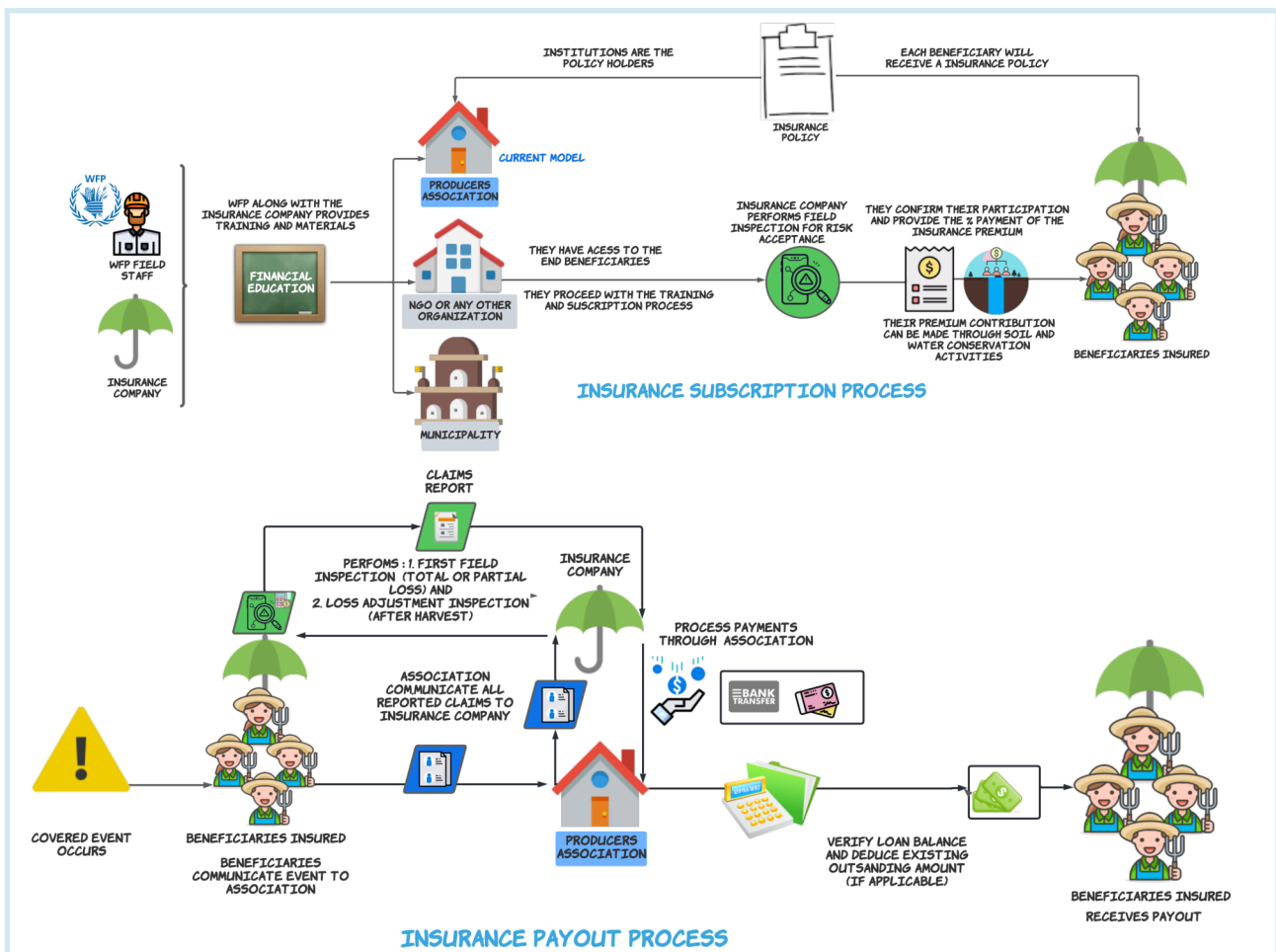
In 2021, WFP Nicaragua in coordination with INISER (local insurer), launched a traditional agricultural insurance pilot for smallholder farmers of basic grains and vegetables from nine cooperatives in four of the country's departments (Jinotega, Matagalpa, Nueva Segovia, and Madriz). The insurance product covers losses caused by weather events, including strong winds, floods, humidity, drought, hail, as well as biological risks like crop diseases and pests, among others. Under this pilot, WFP has been working with 20 smallholder farmer organizations in the north of the country to improve the production of basic grains and their access to new markets, with 439 farmers being insured in 2021, providing protective coverage for nearly 2,200 people.

Following drought, excess rainfall and crop diseases events, over US\$ 19,000 in insurance payouts were triggered, allowing participants to protect their productive investments and meet their households' needs. To build farmers' adaptive capacity and reduce their exposure to climate-related risks, the selected cooperatives provided agricultural insurance participants with technical assistance and support to implement environmental protection activities, such as soil and water conservation works and reforestation activities.

According to the post-pilot monitoring survey applied to 147 of the policy holders, **96 percent would participate in another pilot, and 86 percent would be willing to contribute to the insurance premium** (contributions varying from 5 to over 20 percent of the premium).

### KEY MICROINSURANCE INFORMATION

	2021	2022
	439 people insured (49% women)	299 people insured (first season) (61% women)
	4 departments Jinotega; Matagalpa; Nueva Segovia; Madriz;	5 departments Jinotega; Matagalpa; Nueva Segovia; Madriz; and Estelí
	US\$ 45 Average value of premiums	US\$ 75 Average value of premiums
	US\$ 417 Average value of sum insured	US\$ 648 Average value of sum insured
	Payouts of US\$ 19,700 made to 123 farmers (50% women)	-
	242 people (52% women) supported in soil and water conservation and reforestation activities	-
	European Union	Government of Canada, European Union



Subscription and indemnity process of agricultural insurance

## 2. BENEFICIARY STORY

Maria, 45, lives in Las Mercedes Community in Jalapa, located in Nueva Segovia department in Nicaragua. The region has been affected by climate variability that generates serious threats, including droughts, floods and water scarcity.

Maria has four children and one young grandchild. She is a smallholder farmer and produces maize and beans together with her family. At the cooperative, together with another 11 women, Maria is part of a group participating in a new programme that promotes women economic empowerment. They called themselves “Las Doce Rosas” or “The 12 Roses.”

Maria had access to the insurance product when she took her credit with Nuevo Horizonte Cooperative, to produce one *manzana* (1.7 acres) of beans for the *postrera* season (the second growing season). Due to lack of rain, her harvest was severely damaged. She contacted the field staff from the cooperative to notify the loss, and received the visit of the loss adjuster to formalize the claim.

For Maria, the payout of US\$ 213.55 means that she was able to survive this drought, payback her credit to the cooperative, and keep having access to credit for the next season, while meeting her household’s needs and saving

some money for the next season. Maria managed to harvest five *quintales* (500 KGs) from her damaged crops. Part of the harvest was set aside for her own household consumption, and the rest was sold in the market in order to pay the *jornaleros* (the field workers). Maria is extremely happy with the experience and believes that the farmers could see the value of the product. One of the objectives of the pilot project is to enable the producers with access to insurance, so that they can later purchase it directly through their cooperatives, as they will perceive the cost of the insurance as a critical investment in their productive activities.

**“I feel very privileged that they have taken us into account for the insurance, because this is something one thinks will be never eligible or have access to”**

Maria, 45, Jalapa



### 3. SCALE UP PHASE 2022

After successfully launching the pilot of a microinsurance project in 2021, WFP Nicaragua has begun its second year based on the scale up strategy.

During the 2022 subscription period for the first season (*primera*), 299 farmers (1,500 people covered) have been registered for insurance policies in five departments of the country. Of the total number of people insured, 70 percent are women. They are from 12 associations of farmers and are participants in the different resilience projects promoted in the country.

It is worth mentioning that this year the participation in soil and water conservation, recycling and reforestation activities will increase, as part of the sustainability strategy.

For 2022, Nicaragua will insure around 1,000 farmers from 18 associations of farmers, covering around 5,000 people with microinsurance. WFP Nicaragua has established the scale up strategy for sustainable expansion of the project. It is based on expanding coverage through engaging associations involved in WFP interventions, current implementing partners, and other scale up partners. The sustainability of the microinsurance activities also rely on the product being commercially viable. To support this, the smart subsidies strategy will be expanded in the following years with the objective of increasing premium contribution from participants.

### 4. MACRO STRATEGY

Starting in 2022, WFP Nicaragua is promoting macro-level financial protection approach through a sovereign insurance product together with the Government of Nicaragua. This solution will support the government and WFP to assist vulnerable people and communities with pre-arranged funding that enable rapid responses through Emergency Reactive Social Protection Programs to the affected population in case of extreme climate shocks.

#### World Food Programme

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[www.wfp.org/es](http://www.wfp.org/es)

Photo page 1: WFP Nicaragua / Sabrina Quezada

Photo page 3: WFP Nicaragua / Sabrina Quezada

This approach is building on the Tropical Cyclone CCRIF SPC policy contracted by the Government of Nicaragua. WFP provided a top up of US\$ 70,000 to the premium, which increased the sum insured to enable WFP to receive up to US\$ 2 million in the case of a payout. The extra payout would be reverted to WFP in order to assist in the response.

### LESSONS LEARNED

Based on the pilot phase in 2021-2022, with the suggestions of associations that participated during the pilot, WFP Nicaragua has established lessons learned to improve the project.

<b>Awareness and Communication</b>	Financial and Climate Information via SMS.
	Awareness and Communication material about the importance of insurance.
	Technical follow-up
<b>Product Enhancement</b>	Complement the agricultural insurance product with additional benefits for policy-holders and farmers. E.g. Health Insurance, Agricultural Inputs Packages
	Encourage the appropriation of the insurance through specific conditioned actions. E.g. reforestation and recycling workshops, training.
	Complement insurance with savings actions.
<b>Training</b>	Training Workshops on financial management and climate resilience at the level of cooperative's technicians and with farmers.
	Training on Agricultural Insurance

### PARTNERS

The following partners are key players in the launch and expansion of the project:



Canada