



Extreme weather events caused by the climate crisis have a great impact on the most vulnerable families in Nicaragua, including indigenous and afro-descendant communities. Photo: WFP/Oscar Duarte.



World Food Programme

SAVING LIVES  
CHANGING LIVES

# Sovereign disaster risk financing

## Linking insurance & other disaster risk finance tools to social protection system in Central America and the Caribbean

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The climate crisis has evolved from a distant concern to a daily reality for communities globally. Climate-related disasters, such as droughts, heatwaves, hurricanes and floods, put lives and livelihoods at increasing risk, exacerbating food insecurity. There has been a five-fold increase in the number of weather-related disasters in the last 50 years,<sup>1</sup> which disproportionately affects those who are the most vulnerable and food-insecure. In 2022, the Office of the United Nations High Commissioner for Refugees reported that climate extremes resulted in the displacement of 33.6 million people.<sup>2</sup>

Climatic impacts are already visible in Latin America and the Caribbean (LAC). Central and South America are experiencing reduced water availability, increased flooding and landslides. Small island states in the Caribbean are also becoming more exposed to stronger hurricanes, losses to ecosystem services are affecting people's livelihoods, and low-lying coastal areas are at risk of sea level rise.

Every year, governments and the humanitarian sector spend billions of dollars to prepare for, respond to, and help people recover from increasingly destructive climate disasters. However, the current approach is often reactive, with humanitarian responses being mobilized only after an extreme weather event has caused significant damage and loss. For example, assistance for slow-onset events such as droughts frequently arrives months after crops have failed and livestock have been lost. By this point, households have had to resort to negative coping strategies such as selling assets or pulling children out of school.

Despite the notable progress made by governments in managing the escalating climate risks and strengthening resilience through the increasing allocation of resources for disaster management, there is a persistent financial protection gap<sup>3</sup> that requires immediate attention.

Macro-level disaster risk finance tools are a crucial way to respond swiftly, cost-effectively and reliably to climate and disaster shocks. WFP is at the forefront of advocating for sovereign insurance products that provide **rapid financial assistance** to communities affected by disasters. By integrating climate and disaster risk finance with social protection systems, vulnerable individuals can receive more effective and targeted assistance in response to climate shocks.

### WFP Macro-level risk finance support in LAC (2022-2023)

 **US\$400,000** for governments to buy additional coverage for their sovereign policies.

 **US\$8.4 million** was added to the governments' insurance coverage.

 **147,000** individuals have been safeguarded thanks to the implemented solution.

<sup>1</sup>WMO. [The Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes \(1970-2019\)](#)

<sup>2</sup>UNHCR. <https://www.unhcr.org/global-trends-report-2022>

<sup>3</sup>InsuResilience Global Partnership. [Annual Report 2020](#).

## Connecting macro disaster risk finance to social protection systems

Governments have recognised that national social protection systems are crucial in minimising disaster impacts, securing development gains, and assisting populations in meeting their essential needs. Social protection programmes and their underlying systems can provide rapid and predictable help to those affected as part of a larger governmental response effort.

Substantial analysis has been undertaken and continues to advance the link between disaster risk finance and social protection in LAC. WFP focuses on operationalising these linkages through innovative risk finance instruments while building evidence and learning. WFP's earlier experience with macro-level risk finance tools with the African Risk Capacity (ARC) Group has helped facilitate this learning.

WFP's experience has now been expanding in LAC with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC). The experience and lessons emerging for WFP in LAC highlight how macro-level disaster risk finance are particularly attuned to connecting with government social protection systems. This is especially the case for national investments in shock-responsive social protection systems, which WFP has been supporting government in LAC for many years.

The focus on strengthening system preparedness, including that of adequate and rapid financing, creates a natural link. Likewise, connecting these tools is proving key to facilitate multi-institutional engagement across emergency preparedness, climate, social protection, and finance sectors. This collaboration is invaluable in encouraging the emergence of innovative and bespoke solutions, which is increasingly needed with the realities of the climate crisis.

### About CCRIF SPC

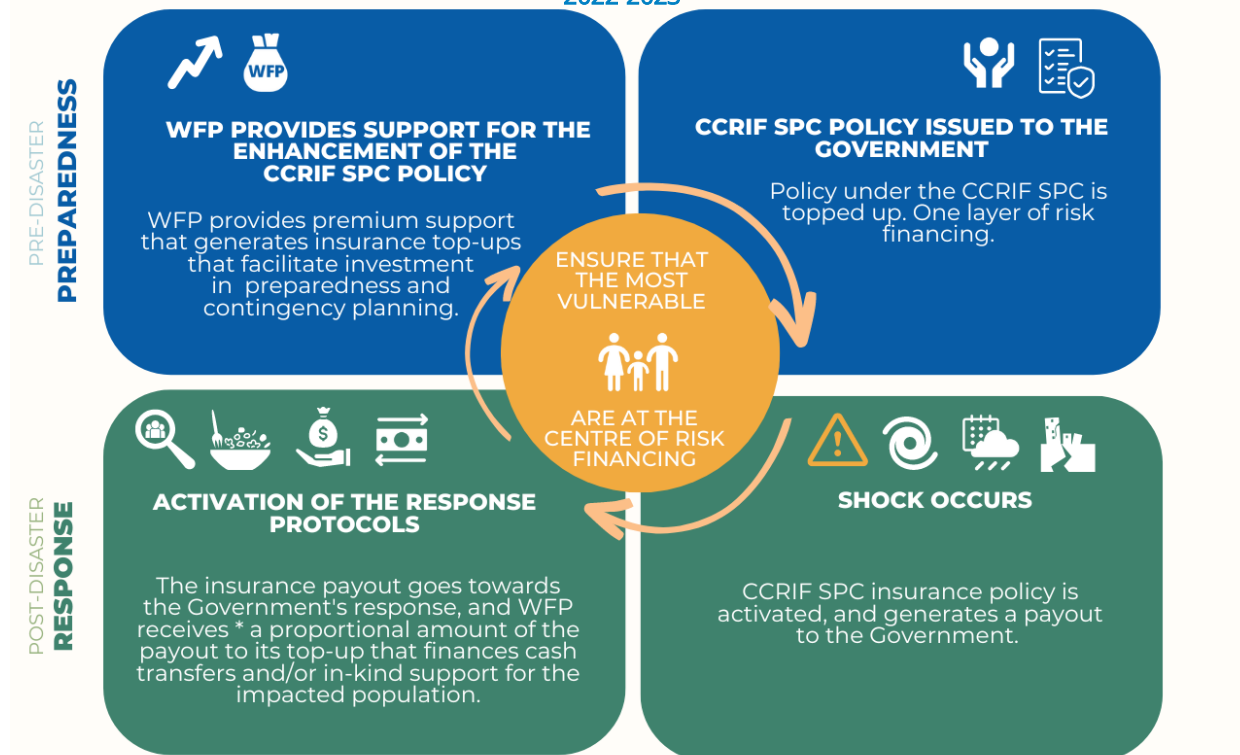
CCRIF SPC is a regional catastrophe fund for Caribbean and Central American governments to limit the financial impact of devastating tropical cyclones, earthquakes and excess rainfall events by providing quick financial liquidity when a policy is triggered. CCRIF SPC offers parametric insurance policies for tropical cyclones, earthquakes, excess rainfall and for the fisheries and electric utilities (transmission and distribution) sectors. CCRIF SPC currently has 24 members and operates as a development insurance company as the products and services that it provides are for the benefit of its members.

*"We are pleased to see the linkages between CCRIF SPC's payouts and social protection in action. We view this WFP initiative as innovative, and we are pleased to be a part of it, to enable timely and efficient assistance to those most in need following a natural disaster in keeping with the principle of leaving no one behind."*

Isaac Anthony, Chief Executive Officer of CCRIF SPC

### WFP's Macro-level disaster risk finance & social protection approach with CCRIF SPC

2022-2023



\*Protocols for response are coordinated with respective governments, with variations dependent on specific scenarios and existing agreements.



WFP facilitated cash assistance following Hurricane Maria in Dominica. Photo: WFP/Marianela Gonzalez

## The Caribbean

When it comes to risk financing, there is no “one size fits all.” To effectively address hazards of different intensities and frequencies, it’s necessary to utilize various financial instruments. [WFP’s Caribbean Risk Financing Strategy](#) advocates for governments to adopt a holistic risk-layered approach to their risk financing portfolios, considering the needs of the most vulnerable.

Experience in the Caribbean shows that national social protection systems can play a key role in minimising the impact of disasters, securing development gains, and supporting people to meet their essential needs. They can provide targeted and rapid assistance to impacted people, including cash transfers, which allow people to purchase what they require most.

In **Dominica**, WFP provides premium support to the Government’s CCRIF SPC Tropical Cyclone policy since 2021, enabling a link between parametric insurance to social protection.

“Through this pilot project, WFP has strengthened the Government of Dominica’s access to disaster risk financing. We welcome this initiative as we strive to build the financial resilience of the vulnerable against disasters and hazardous impacts.”

**Denise Edwards**, Acting Finance Secretary of the Commonwealth of Dominica

In **Belize**, WFP’s support since 2022 has augmented the Government’s CCRIF SPC Tropical Cyclone and Excess Rainfall policies. If an event triggers any of these governments policies with CCRIF SPC, a portion of the payouts are allocated to providing financial assistance to affected beneficiaries via the social protection system in their respective countries. The amount allocated for cash assistance will equal the percentage of the policy’s ‘top-up’.

“We are encouraged by the leadership shown by the Governments of Belize and the Commonwealth of Dominica, to put the needs of people first and expect this to enhance the response and recovery efforts in times of crisis. This approach is part of a wider strategy to **strengthen social protection**, which will ensure that those most affected receive the support they need in the shortest possible time. It adds an additional layer to ongoing national efforts to improve the social protection system to be more shock-responsive.”

**Regis Chapman**, Representative and Country Director, WFP Caribbean Multi-Country Office



“Weather associated natural disasters in Belize not only affect economic activity, but also compromise fiscal sustainability, as these events tend to be followed by an increase in debt-financed government spending on emergency assistance and reconstruction. Having increased CCRIF coverage and earmarking the incremental payouts particularly for relief to the most vulnerable, helps to mitigate economic derailments due to unexpected weather and other shocks.”

**Christopher Coye**, Minister of State, Belize

WFP Caribbean aims to replicate this approach with other governments of the region, drawing on the lessons learned from the experience in Dominica and Belize, complemented with a customized analysis of risk-layered options for connecting disaster risk financing to social protection preparedness and response measures. The approach puts vulnerable people at the centre of risk financing while ensuring flexibility for governments to finance other response, recovery and resilience priorities.

## Central America

**Nicaragua**, a lower-middle-income country, has significant disparities between urban and rural areas: 70 percent of the country's poor households live in rural areas. The territory is prone to natural hazards and vulnerable to the impacts of climate change. This 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 in the country.

Since 2022, WFP has collaborated with the Government of Nicaragua through a macro-insurance approach. This solution is supporting the Government and WFP to assist vulnerable people and communities with pre-arranged financing that enables rapid responses through Emergency Reactive Social Protection programmes to the affected population in case of extreme climate shocks.

The approach builds on the Tropical Cyclone CCRIF SPC policy contracted by the Government of Nicaragua. WFP provided an additional US\$70,000 to the insurance premium, which could result in an extra payout of up to US\$2 million, depending on the severity of the damages. The extra payout would be reverted to WFP to assist in the response.

It also complements the efforts of [WFP Nicaragua](#) in piloting an agricultural microinsurance with smallholder farmers of basic grains and vegetables from 20 cooperatives in five of the country's departments. The insurance product covers losses caused by weather events, including strong winds, floods, humidity, drought, and hail, as well as biological risks like crop diseases and pests.

*"The Government of the Republic of Nicaragua is committed to implementing financial protection mechanisms to mobilise resources during natural disasters. Since 2022, with the strategic collaboration of the WFP, coverage has been increased, expanding the joint response capacity to natural disasters, and ensuring rapid and targeted interventions for the most affected populations, thus reducing the vulnerability of public finances."*

Iván Acosta, Minister of State, Nicaragua

## Covered event 2022 (Hurricane Julia)

In October 2022, the Category 1 Hurricane Julia landed in Nicaragua, directly and indirectly affecting nearly 4 million people (60 percent of the population) and 60 percent of the territory. The impact of the hurricane resulted in economic losses amounting to approximately 2.4 percent of Nicaragua's GDP and triggered the sovereign insurance policy taken out by the Government with CCRIF SPC, where a US\$8.9 million payout was disbursed to Nicaragua.

## Regional Bureau for Latin America and the Caribbean

Clayton, Ciudad del Saber, Edificios 124-125  
Corregimiento de Ancon, Panama, Rep. de Panama  
[wfp.org](http://wfp.org)

"In WFP we prepared ourselves for events driven by the climate crisis by supplementing the macro insurance policy that Nicaragua holds with the CCRIF, and used the payout to support social protection programmes. We also provide microinsurance to smallholder farmers through their cooperatives. This enables them to restart their agricultural production in the wake of a disaster. In time of climate crisis, these forms of risk transfer instruments are crucial to access resources rapidly to ensure food security for the affected population, to restore their livelihoods and build their resilience."

Giorgia Testolin, Representative and Country Director WFP Nicaragua



Of this amount, WFP received US\$640,000, which was added to the basket of financial resources obtained by WFP Nicaragua to support the response operation. Nearly 290,000 people have been assisted to date, with help from the Nicaraguan Government and local authorities. Some of the actions implemented in the framework of the overall response have included early actions and immediate response, such as the provision of take-home rations to 114,813 boys and girls in 12 municipalities through their schools. This measure complemented their regular school meals and lasted for 60 days.

As part of the risk-layered approach WFP adopts in Nicaragua, the response has moved in 2023 to a recovery programme to reinforce communities' resilience to climate shocks. WFP is supporting 600 rural and urban schools with school gardens, the delivery of fruit trees to farming families, and provision of cash transfers and business training to impacted families to recover their urban, peri-urban and rural livelihoods.

## Going forward

At COP 27, WFP, Germany, and the United Kingdom announced an [agreement](#) to enable funds through the World Bank's Global Shield Financing Facility in supporting WFP's expansion of climate and disaster risk finance cover in 23 countries. Additionally, WFP is exploring linking disaster risk finance to shock-responsive social protection in other Latin American and Caribbean countries, including Haiti and Saint Lucia.

## Partners

Access to the climate risk finance tools would not be possible without the generous support of WFP's partners:



Photo page 1: WFP/Oscar Duarte.

Photo page 3: WFP/Marianela Gonzalez