



World Food Programme

SAVING LIVES  
CHANGING LIVES

## CLIMATE AND DISASTER RISK FINANCING AND INSURANCE

# Climate Risk Protection for Vulnerable Communities and Countries

### PROVIDING FINANCIAL PROTECTION THROUGH PRE-ARRANGED FINANCE FOR EARLY ACTION

The climate crisis is no longer a glimpse into the future but the daily reality for communities around the world. Climate shocks - such as drought, heatwaves, storms and floods - are increasingly putting lives and livelihoods at risk, eroding development and driving food crises around the world. Over the last 50 years, there has been a five-fold increase in the number of weather-related disasters,<sup>1</sup> which disproportionately impact regions of the world with the most vulnerable and food insecure people. In 2022, climate extremes led to 56.8 million people being pushed into hunger crises in 12 countries.<sup>2</sup>

Each year, governments and the humanitarian sector spend billions to prepare for, respond to, and help people recover from increasingly destructive climate disasters. Humanitarian responses are typically mobilized only after an extreme weather event has resulted in catastrophic losses and damages for the most vulnerable and food-insecure people. For slow-onset events such as droughts, assistance reaches people often months after crops have failed and livestock are lost, and when many households have already resorted to negative coping strategies, such as selling critical assets or taking children out of school.

While governments have made significant progress in managing growing climate risks and building resilience through allocating more domestic

resources to disaster management, there is still a significant protection gap between the financial impacts of climate-related disasters and what governments and humanitarian partners can provide. As part of the [InsuResilience Vision 2025](#), G7 countries have committed to protecting 500 million poor and vulnerable people from climate and disaster shocks by 2025 with pre-arranged finance and insurance mechanisms. Governments and the humanitarian sector urgently need to strengthen safety nets for the most vulnerable through scaling-up climate and disaster risk finance and insurance solutions, enabling them to provide more timely financing and assistance to populations at risk.

### HOW CLIMATE RISK PROTECTION CAN ADDRESS THE GAP

Market-based disaster risk financing solutions, such as national-level insurance policies purchased by governments and humanitarian organisations from **sovereign risk pools**<sup>3</sup> to cover disaster losses, can enable faster, more cost-effective and predictable responses to climate and disaster shocks. WFP is a leader in promoting risk finance and insurance products that can offer rapid assistance to affected communities in the event of catastrophic extreme weather. By connecting climate and disaster risk financing instruments with social protection systems at regional or local levels, these schemes can better reach and target the needs of vulnerable people in response to climate shocks.

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

<sup>2</sup>GRFC 2023.

<sup>3</sup>**sovereign risk pools** aggregate risk from across multiple countries in a given region or continent each season to take advantage of the natural diversity of weather systems. The risk pool then takes on the combined risk of the group rather than the individual risk of each country which allows the group to access reinsurance at more competitive rates or maintain joint reserve funds.

## AFRICA RISK CAPACITY REPLICA INSURANCE AND CONTINGENCY FUND

The African Union's **African Risk Capacity (ARC)** Group is a ground-breaking risk pooling platform that provides financial tools and infrastructure to help African Union Member States manage climate-related disaster risk. The ARC Agency aims to improve Member State's responses to impending natural hazards by reducing the time needed for assistance to reach those affected through predictable, early and local response.

The mutual insurer and commercial affiliate of the Group, ARC Ltd., offers macro insurance products to vulnerable African countries that are prone to extreme climate risks such as drought (for agriculture or livestock), floods or tropical cyclones. The insurance policy is a parametric insurance that is adapted to the specific risks of a country and allows for quick payouts once specific thresholds trigger (e.g., the minimum availability of water during the growing season). The insurance premiums are paid by countries through national budget processes, and payouts fund responses through pre-approved contingency plans, that specify processes and interventions in case of a payout. This allows for countries to manage climate risk as a group, pooling risk through policies covering diverse climate risks across the continent.

**ARC Replica** is an insurance product that allows humanitarian partners, such as WFP, the START Network and UNHCR, to complement and/or enhance the insurance policies purchased by ARC Member States and provide technical capacity strengthening to Member States' governments. With ARC's Replica Coverage, Replica Partners can match or layer the insurance coverage of eligible ARC Member States (Replicated Countries) by purchasing a 'Replica Policy' – or, in cases where the government does not purchase insurance protection for a given season, decide to secure insurance protection independently.<sup>4</sup> Contingency plans are developed and endorsed in close consultation with the Replica counterpart government, outlining the government's as well as WFP's complementary response measures in case insurance payouts are triggered by a large-scale climate shock.

The localized contingency fund is a complementary disaster risk financing tool, layered with an ARC Replica insurance policy. It is being developed to provide liquidity to WFP when severe events occur at a localized, rather than national level and do not trigger the Replica policy. Currently, the contingency fund will be solely for drought, which might change in the future. These small-scale, localised shocks can cumulatively constrain national development,



*In Mali, Ada received cash-based transfers through an electronic card or coupon.*

causing hardship and suffering to the most vulnerable individuals and households, who are susceptible to being pushed into an acute food crisis. Combining insurance and contingency financing offers an opportunity to adapt these risk finance solutions to different levels of risk, and provide insights into the costs and benefits of these different approaches. WFP is developing this contingency fund mechanism through support from UK's Foreign, Commonwealth & Development Office (FCDO) and the United States Agency for International Development (USAID) and is being piloted in Mauritania, Madagascar, and Zimbabwe. The US\$2 million fund can provide assistance for up to 60,000 vulnerable people in impacted regions of the covered countries for 2023.

## EXPANDING ROLE OF FINANCIAL PROTECTION IN WFP'S OPERATIONS

Based on the lessons learnt from the ARC Replica experience in Africa, WFP is expanding climate and disaster risk financing to additional regions that have existing sovereign risk pools, similar to ARC. Since 2021, WFP has been partnering with Governments in Latin America and the Caribbean to provide premium top-ups for national-level insurance policies purchased from the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC) extending the coverage and in some cases WFP receiving a share of the payout for humanitarian assistance and resilience building, if a shock occurs.

In Belize, Dominica and St. Lucia, a proportion of the payouts would be distributed via the government-led social protection system. This can help social protection systems to become more shock-responsive and ensure more rapid and targeted responses for vulnerable populations in the event of a tropical cyclone or excess rainfall. In

<sup>4</sup>In 2023, ARC agreed to allow Replica partners to purchase policies for different climate shocks or frequency of events, with the government's consent, to enable a varied risk layering approach.

Nicaragua, WFP provided a premium top-up for a tropical cyclone policy that allows WFP to receive a portion of the payout to finance recovery activities.

There is further potential for WFP to partner with the Pacific Catastrophe Risk Insurance Company (PCRIC) through contributing to premiums of PCRIC drought insurance policies for up to two countries in the Pacific in 2024. The payouts will provide financing that can be channeled through national social protection systems and enable people-centered interventions. WFP will support governments with contingency planning and operational readiness activities to improve responses to extreme droughts.

### SCALING UP CLIMATE & DISASTER RISK FINANCE

WFP's Climate Risk Protection programmes are an opportunity for donors and partners to invest in transforming the current humanitarian financing

model, which is often caught in repetitive loops of under-funded crisis response, to a model that is based on forward-looking risk management and enables the sequencing of public and private sector financing for quicker and more predictable action. This will promote the commitment of the G7 and other countries to the goals of the InsuResilience Global Partnership Vision 2025 to transform how risks and disaster responses are managed and funded. To operationalize and scale up this approach in Africa and other regions, additional partnerships and resources will be required to expand climate risk protection, build institutional capacity for risk financing, and develop evidence-based guidance for government partners.

## HIGHLIGHTS OF WFP-SUPPORTED MACRO INSURANCE PROGRAMMES

In 2023, through ARC Replica, WFP purchased insurance policies to support the governments of Burkina Faso, The Gambia, Madagascar, Mali, Mauritania, Mozambique, Sudan, Zambia and Zimbabwe that:



protect **2.1 million** vulnerable people against climate risks



with up to a maximum **US\$48.7 million** of financial protection



with premium value of **US\$8.6 million**

Policies WFP purchased in 2022 to protect Burkina Faso, The Gambia and Mali enabled WFP to:



provide emergency food, cash transfers and nutritional assistance for nearly **500,000** people after an extensive drought in 2023



with payouts totalling **US\$15.4 million**.

In 2023, through CCRIF SPC, WFP has contributed premium for insurance policies that:



protect **700,000** vulnerable people against climate risks



with an additional premium top-up extended to **640,000 people**

## CLIMATE AND DISASTER RISK FINANCING AND INSURANCE

### World Food Programme

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