



World Food Programme

SAVING LIVES
CHANGING LIVES

CLIMATE AND DISASTER RISK FINANCING AND INSURANCE

Strengthening Financial Protection to Address Climate Impacts

The worsening climate crisis is a major driver of the escalating global food crisis. In 2022 alone, climate extremes plunged 56.8 million people into a food crisis across 12 countries.¹ These shocks disproportionately impact those who bear the least responsibility for global heating, with most vulnerable countries finding themselves ill-equipped to effectively handle the mounting challenges posed by extreme weather events.

Currently, there is a considerable gap between the required scale of greenhouse gas (GHG) mitigation to limit global heating, the impacts societies can adapt to and the increasing losses and damages (L&D) they endure due to climate-related disasters in the meantime. This divide, often referred to as the 'protection gap,' has severe implications for humanitarian organizations. The World Food Programme (WFP) faces one of its largest funding shortfalls ever in 2023, with contributions under US\$10 billion despite a humanitarian appeal of US\$ 25.1 billion.²

A potential avenue to close this protection gap is the establishment of pre-arranged climate and disaster risk financing and insurance mechanisms. When WFP purchases insurance policies that are coupled with operational plans for delivering assistance after climate extremes, these approaches can facilitate a faster recovery and reduce the short- and long-term economic costs of climate-related disasters. Likewise, when smallholder farmers receive payouts from a WFP-supported insurance policy, they can feed their families, keep their children in school and prepare for the next planting season.

LINKING DISASTER RISK FINANCING MECHANISMS TO SAFETY NETS

For over 10 years, WFP has been using Climate Risk Insurance (CRI) to provide rapid support to communities following climate-related disasters and is the leading UN Agency supporting CRI globally. In 2022, WFP provided financial protection totalling up to US\$360 million for over 3.8 million people across

¹GRFC 2023.

²<https://www.wfp.org/emergencies/global-food-crisis>

21 countries in Africa, Asia, Latin America and the Caribbean. In regions affected by droughts, floods, and hurricanes, these insurance products provided US\$14.6 million in much-needed payouts to support 1.8 million people.

CRI transfers the financial burden of climate-related impacts from humanitarian organizations and vulnerable communities to insurance and reinsurance providers. Through closing a portion of the protection gap, WFP can enable communities and vulnerable people to avoid the longer-term consequences of climate-related disasters, through an influx of cash or food assistance.

At the household and community level, it's also an effective safety net that provides rapid financial protection after catastrophic weather events, aiding farmers and small business owners in recovering faster and protecting their livelihoods and food security.

In Guatemala, WFP has scaled up micro insurance coverage through a comprehensive risk finance approach. During the storm season in September and October of 2022, more than 6,000 households (benefitting over 34,000 people) received payouts for excess rain coverage, demonstrating the program's effectiveness in protecting vulnerable populations from weather related risks.



Maria S. working on a plot of farmland behind her home in the Cocop Community of Guatemala



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

Maria is a smallholder farmer and a member of the Ixil indigenous Mayan community and is one of 9,000 farmers insured by WFP's insurance scheme. "No matter how much rain or too much sun that damages our harvest, the insurance can be activated and they pay us an amount to recover from the shortages," Maria says.

At the national level, CRI can offer disaster risk financing to empower governments to protect and repair infrastructure, scale up shock-responsive social protection systems that safeguard hard-earned development gains, and provide a lifeline to the people who need it most after climate-related disasters. WFP partners with national governments and regional risk pools³ to purchase climate risk insurance policies that fund its operations or top-up insurance policies of governments to reach more people facing climate risks. Macro insurance policies that WFP purchased in 2022 enabled WFP to assist over half a million people in the aftermath of an extensive drought in **Burkina Faso, The Gambia, Mali, and Madagascar after Tropical Cyclone Freddy** in 2023, with payouts totalling US\$15.7 million.

Since the death of her husband, Ada, who made her living from agriculture, could no longer afford the small plot of land she rented in Central Mali. She received food and nutritional assistance provided through WFP's insurance payout, in collaboration with the government of Mali.

"When I was called for this assistance, I was twiddling my thumbs, wondering how to feed my family in the days to come. I only had cereals left for two days of meals," says Ada. Thanks to this support, fifty-year-old Ada says she is comforted, because "this assistance is a great relief for my children and me. I feel reassured to feed my children with dignity."

³ **Risk pooling** refers to the spreading of financial risks evenly among a large number of contributors. Through **sovereign risk pools**, "countries can pool risks in a diversified portfolio, retain some of the risk through joint reserves and capital, and transfer excess risk to the reinsurance and capital markets" (World Bank 2017). (Munich Climate Insurance Initiative)



Maria R. with her family in the fields near her home in the Pexlá Grande community of Guatemala.

BEST PRACTICES FOR EFFECTIVE SUPPORT AFTER A CLIMATE EXTREME

Insurance, however, is not a standalone tool. Effective responses to climate extremes require a multi-pronged risk-layered approach that encompasses insurance, contingency funds,⁴ catastrophe bonds,⁵ and anticipatory actions based on forecasts. Collaboration between governments and the private sector is crucial to building robust response mechanisms and facilitating linkages with national and local social protection systems. It is also critical to ensure that regional and national insurers and reinsurers play a pivotal role in developing localised solutions, as it will be critical to increase their technical and financial capacities while enhancing the share of the premium that remains within the country or region. Additionally, governments and insurers should incentivize farmers and communities to invest in climate adaptation measures that reduce their overall risk exposure through either public works programmes as well as reduced cost of insurance due to lower risk.

⁴ **Contingency budgets and reserve funds** are specific budget lines or funds created by governments and non-government actors with pre-allocated resources that can be triggered under specific circumstances.

⁵ **Catastrophe bonds** are investment securities that allow entities to transfer a portion of natural catastrophe risk to bond investors in return for interest payments. Catastrophe bonds work in a similar manner to insurance, paying out when a disaster event meets certain pre-defined criteria, with the investor losing part or all their investment.

Climate and Disaster Risk Financing and Insurance

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ENSURING A RISK-INFORMED FUTURE OF CLIMATE RISK PROTECTION FOR VULNERABLE PEOPLE

To be able to protect the increasing number of people affected by the climate crisis, WFP must expand forward-looking and risk-informed programmes. By 2025, WFP aims to expand CRI to 25 countries, with 5 million people protected by WFP-supported climate risk insurance. The pressing need for financial safeguards in the face of climate-related challenges demands innovation and collaboration. By embracing pre-arranged climate and disaster risk financing mechanisms, we not only bridge the critical funding and protection gaps but also ensure that every humanitarian dollar serves a broader mission to protect vulnerable communities, build resilience, and create a more secure future. This is not just a necessity but a transformative opportunity for a better tomorrow.

[Photo page 1: WFP/Abdul Momade](#)

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[Photo page 2 \(upper\): WFP/Mahamadou Abdourhamane](#)

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