



World Food Programme

SAVING LIVES  
CHANGING LIVES

Climate and Disaster Risk Financing and Insurance

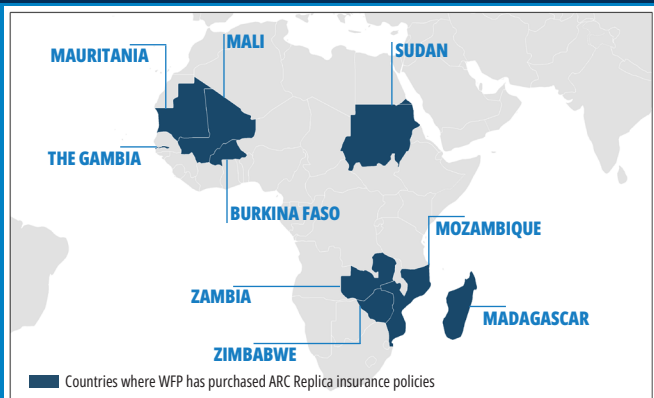
# Optimizing early action and risk financing opportunities

## Evidence from WFP's participation in the ARC Replica Initiative

Climate and Disaster Risk Financing and Insurance (CDRFI) provides a systematic and robust approach to managing risk and financing earlier humanitarian responses after communities are impacted by climate shocks. By pre-arranging financing triggered by pre-identified risk parameters, resources can be made available earlier than usual to provide humanitarian assistance, enabling early action or timely response that limit the impact of a crisis. Since 2018, the United Nations World Food Programme (WFP) has been an Africa Risk Capacity (ARC)<sup>1</sup>

Replica Partner and has purchased insurance policies in Burkina Faso, Mali, Mauritania, The Gambia, Madagascar, Mozambique, Sudan, Zambia and Zimbabwe, increasing the number of people protected against catastrophic droughts and tropical cyclones. This document summarizes Tetra Tech's assessment of the financial and operational efficiency of the ARC Replica initiative, including the impact of early action, use of insurance and financing predictability.

### THE ARC REPLICA INITIATIVE



The ARC Replica initiative is a technical and financial partnership between WFP, governments and ARC where WFP provides CDRFI capacity strengthening, as well as response preparedness support to government partners. ARC Replica is also an insurance product that allows humanitarian organizations, such as WFP, the Start Network and UNHCR, to complement and/or enhance the insurance policies purchased by ARC Member States, or as a last resort, allows to protect people when governments are unable to purchase an insurance policy. This helps increase the number of people financially protected against climate risks.

<sup>1</sup>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.



### RESPONDING EARLIER ENABLES GREATER FINANCIAL EFFICIENCY AND IMPACT

The assessment has confirmed that taking early action to prevent deterioration of food security is deemed crucial for ARC Replica country teams and partners. Providing food and nutritional assistance (through cash transfers where possible) using ARC Replica payouts closer to the time of the failed harvest could enable the purchase of food at a reduced cost and minimize food insecurity. For example, a quantitative case study conducted in Mali examined the costs of essential staple foods like maize, millet and rice. The study revealed that enabling communities to purchase essential food items earlier in the year with cash support could save up to 10-20 percent of their costs, with the most significant savings in drought years. Moreover, it prevents foregone consumption and distress coping mechanisms that may have longer-term effects and result in more costly assistance needs down the line.



### WFP CAN IMPROVE THE EFFICIENCY AND PREDICTABILITY OF ITS HUMANITARIAN RESPONSE BY OPTIMIZING RISK FINANCING APPROACHES

WFP is transitioning towards a more efficient and CDRFI-driven approach to financing humanitarian response that involves significant cultural, operational and financial transformation. The ARC Replica initiative is a positive step towards achieving efficient financial structuring. It provides evidence of the impact of earlier action and predictable financing sources. Moreover, it enables country offices and programmes to

gain real and tangible experience in dealing with new ways of thinking, operating and contracting. Due to ARC Replica, WFP and its local partners have been incentivized to better prepare and respond earlier, however, WFP has yet to use risk financing to its full potential to improve efficiency and predictability. Insurance should ideally cover the most catastrophic and infrequent risks, while other financing instruments, such as reserve funds or contingent credit, should be used for less catastrophic but more frequent risks. To address disasters efficiently and at scale, WFP needs to establish a layered disaster risk financing system, with a greater portion of its response finance being pre-arranged to maximize the benefits of insurance and other risk transfer instruments. Although ARC Replica insurance coverage on its own is insufficient for the expected annual caseload needs, it is still a crucial component as it addresses a critical early response gap, resulting in a significant positive impact for communities.



## ARC REPLICA IS NOT ONLY ABOUT FINANCIAL EFFICIENCY

Expanding the ARC Replica initiative is critical for improving preparedness and operational response while reducing food insecurity in areas with predictable risks. Furthermore, when country programmes participate in a macro-level insurance initiative, there are added benefits of technical and programmatic learning opportunities that are incorporated into the insurance policy purchase process. WFP must focus on early action and eliminating barriers to ensure its systems are more efficient and timelier. Expanding ARC Replica to new countries will play a vital role in reducing food insecurity, but to ultimately achieve greater efficiencies, WFP needs to expand and integrate its risk financing model more widely into its humanitarian financing architecture.

## LOOKING AHEAD

ARC Replica is a valuable addition to WFP's suite of tools for humanitarian response. The initiative has demonstrated its ability to improve preparedness, early response and coordination. However, to enhance this initiative further, WFP must adopt a layered approach to risk financing that complements ARC Replica and covers a larger portion of the response requirement. This includes using the right instrument according to the risk severity and frequency from a range of financial instruments, such as insurance, reserves, contingency funds and internal risk pools to manage risks associated with humanitarian crises.

Based on the assessment, there are short and medium-term recommendations for WFP to consider.

By implementing these measures, WFP can significantly improve its CDRFI strategy to generate financial resources for humanitarian assistance and to improve its operations in terms of cost-effectiveness and efficiency of response.

**TABLE 1: WFP'S 2022/23 ARC REPLICA PORTFOLIO**

COUNTRY	PREMIUM (US\$)	MAX COVERAGE	NUMBER OF PEOPLE PROTECTED	PAYOUTS (US\$)	NUMBER OF PEOPLE ASSISTED
Burkina Faso	1,117,000	7,185,705	179,642	7,185,705	137,426
The Gambia	332,245	2,744,611	49,902	187,641	6,528
Mali	2,150,000	15,742,750	781,665	8,056,409	296,774
Mauritania	1,011,616	4,263,875	71,064	No payouts triggered	
Madagascar	500,000	2,423,930	60,598	No payouts triggered	
Madagascar (tropical cyclone)	500,000	2,694,825	269,483	300,977	36,633
Zimbabwe	2,000,026	11,256,285	281,407	No payouts triggered	
<b>Total</b>	<b>7,610,887</b>	<b>46,311,981</b>	<b>1,693,763</b>	<b>15,730,732</b>	<b>477,361</b>

### SHORT-TERM (0-5 YEARS)

- ▶ Optimize the timing of the assistance, considering hazards and people's ability to address them, which are influenced by various intersecting factors such as socioeconomic status, gender, culture, etc.
- ▶ Prioritize adjusting logistics and financial systems for greater efficiency.
- ▶ Expand ARC Replica into other countries interested in testing CDRFI.
- ▶ Use country strategic planning processes for quantitative analysis of financing requirements.
- ▶ Align macroinsurance, inclusive insurance, contingency funds, forecast-based financing for anticipatory action and adaptive social protection programmes for a coherent approach.

### MEDIUM-TERM (5-10 YEARS)

- ▶ Enhance efficiency and cost-effectiveness through risk layering, leveraging WFP's internal mechanism.
- ▶ Gradually shift predictable emergency caseload into a structured risk pool.
- ▶ Invest in capital modeling support and procure larger-scale insurance that can cover more of the financing gap.
- ▶ Establish a rigorous monitoring and evaluation (M&E) framework for evaluation.

## CLIMATE AND DISASTER RISK FINANCING AND INSURANCE

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