WFP

World Food Programme

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Enhancing financial protection: The five impact pathways of Inclusive Risk Financing

Background

Weather-related disasters disproportionately impact the world's most vulnerable communities, such as smallholder farmers and pastoralists. Financial services like savings, credit, insurance and digital payments are crucial in managing these risks and enhancing resilience. Over the past decade, WFP has expanded access to inclusive risk financing solutions for over 10 million people, initially building on the R4 Rural Resilience Initiative (R4). This initiative has now evolved into a streamlined Inclusive Risk Financing (IRF) approach, designed to strengthen resilient food value chains. This transformation reflects a more integrated strategy, leveraging past insights to build a robust framework that enhances the sustainability and resilience of food systems amid growing weather-related and economic shocks.

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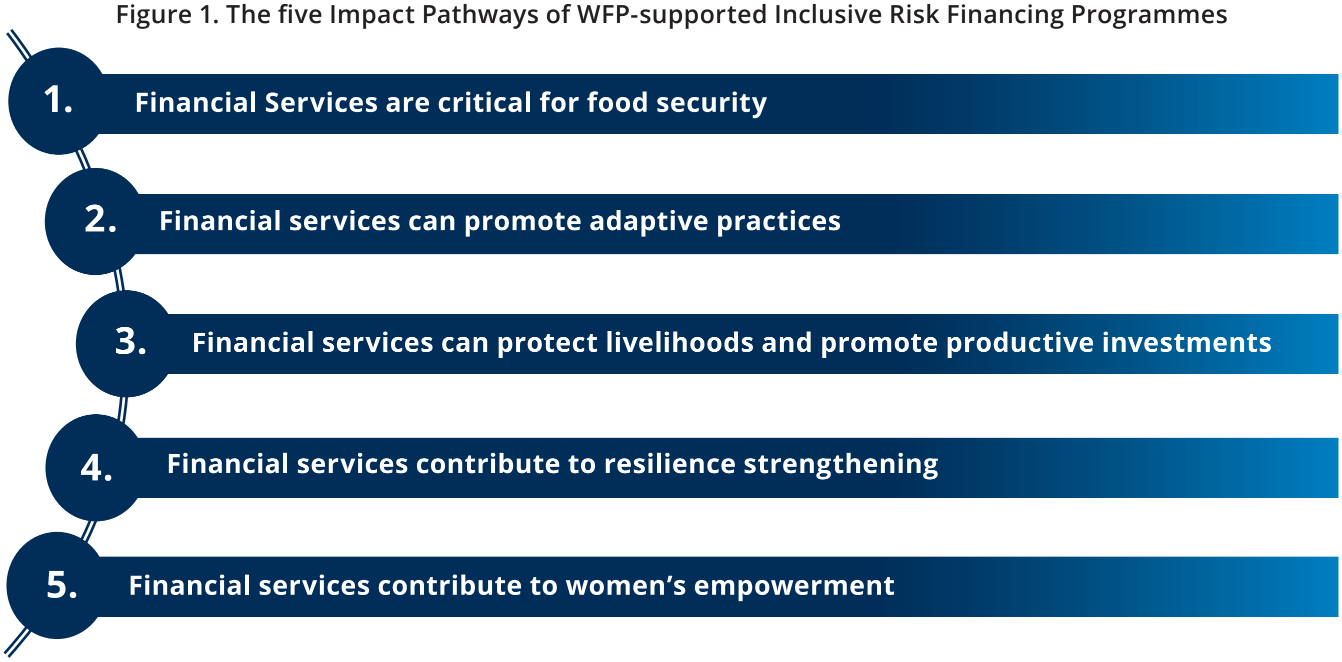
Evidence from WFP-supported Inclusive Risk Financing programmes

Over the years, WFP has gathered evidence from its global programmes that highlights the pivotal role of insurance and other financial instruments in safeguarding households' food security, livelihoods and productive activities, while also promoting greater preparedness for weather-related shocks, and contributing to women's empowerment.[1] This note outlines five Impact Pathways on Inclusive Risk Financing, each emphasizing the various ways in which insurance and financial services contribute to strengthening resilience and financial security.

FIRST IMPACT PATHWAY: INSURANCE AND OTHER FINANCIAL SERVICES ARE CRITICAL FOR FOOD SECURITY

- In **Ethiopia, Kenya, Zimbabwe, Senegal and Malawi,** insurance prevented households from reducing food consumption during weather-related shocks, leading to higher food security.
- In **Zimbabwe**, insurance payouts increased food consumption by 28 percent and reduced negative coping strategies by 46 percent. Overall, farmers with insurance were less likely to adopt negative coping responses following a shock, such as reducing food purchases, eating less, selling livestock or other assets, and taking children out of school.
- In **Mozambique**, Village Savings and Loans Associations (VSLAs) funds improved food consumption for participating households.

Figure 1. The five Impact Pathways of WFP-supported Inclusive Risk Financing Programmes



[1] For information about the impact of financial services such as credit, insurance, savings and digital payments to strengthen resilience, beyond WFP-supported programmes, refer to the GCAP Impact Pathfinder that synthesizes evidence showcasing these impact pathways.

SECOND IMPACT PATHWAY: INSURANCE AND FINANCIAL SERVICES ENABLE HOUSEHOLDS TO BETTER MANAGE WEATHER-RELATED RISKS WHILE FOSTERING ADAPTIVE PRACTICES

- In **Bangladesh**, 66 percent of participants felt more confident in managing weather risks and reported increased preparedness for natural hazards and enhanced decision-making skills.
- In **Malawi,** the Insurance-for-assets (IFA)[2] approach helped create community assets, reducing water run-off and soil erosion. The integration of various components, including climate services, asset creation, insurance and VSLAs, provided a powerful combination of knowledge and financial support available at the household level, with beneficiaries reporting positive effects at the individual, household and community levels.
- In **Zimbabwe**, integrated risk management activities significantly improved yields and reduced post-harvest losses. Additionally, the IFA approach enabled farmers to access insurance, effectively serving both risk reduction and risk transfer purposes.

THIRD IMPACT PATHWAY: INSURANCE AND FINANCIAL SERVICES PROTECT LIVELIHOODS AND PROMOTE PRODUCTIVE INVESTMENTS

- In **Bangladesh**, 78 percent of farmers used insurance payouts for productive activities, enhancing agricultural productivity.
- In **Zimbabwe**, payouts have been used for household food consumption, livelihood protection and investments, with R4 participants experiencing improved production levels.
- In **Ethiopia**, livestock insurance helped maintain herds during droughts, with 48 percent of assistance used for livestock protection. Participating households spent twice as much as non-beneficiaries on livestock-related expenses, such as feed, water, and veterinary care.

FOURTH IMPACT PATHWAY: THE INTEGRATION BETWEEN INSURANCE AND OTHER FINANCIAL SERVICES IS CRUCIAL FOR ENSURING SUSTAINABILITY AND STRENGTHENING RESILIENCE

- In **Zambia,** access to credit improved from 27 percent to 45 percent after two years through savings-credit linked products.
- In **Senegal**, savings groups grew from 665 to 1,103 in four years, boosting savings, loans and insurance uptake. Distributed through women-led economic interest groups (GIEs), insurance reached more beneficiaries. These groups also promoted productive investments and financial inclusion.
- In **Guatemala**, sustained financial education and integration into savings groups drove a substantial increase in insurance participation—rising from 1,200 to 14,737 (82 percent women) and growing premium contributions rising from 1,600 to over 9,000 participants, reflecting improved financial resilience.

FIFTH IMPACT PATHWAY: INSURANCE AND FINANCIAL SERVICES CONTRIBUTE TO WOMEN'S EMPOWERMENT

- In **Bangladesh**, 61 percent of women reported improved leadership capacity due to participation in insurance programmes.

[2] The IFA component is an optional "add-on" to the broader WFP-supported Food for Assets (FFA) programme, offering participants the opportunity to access insurance coverage by working an additional number of days to cover the cost of the premium. It is crucial to communicate clearly that these extra workdays are specifically for the insurance premium and represent an additional transfer, separate from the regular FFA transfer.

- Insurance can also empower women in managing household financial resources. In **Ethiopia**, 48 percent of households made joint decisions on insurance payout utilization. Female-headed households showed stronger asset ownership and active VSLA participation.
- In **Ethiopa, Zimbabwe** and **Malawi,** VSLAs empowered women by enhancing their capacity to save, invest and diversify livelihoods.

Lessons learned

Drawing on this evidence, WFP identified six lessons that are critical to maximize the positive impact of financial services in strengthening resilience.

1. **Context-specific interventions.** Complex barriers at the supply, demand, policy and regulation level, combined with context-specific challenges, hinder the offer of financial services and limit their positive impacts. Tailored financial services are essential to address unique challenges and opportunities in each context.
2. **Strategic integration amongst financial services with broader risk management strategies.** Combining financial services with broader risk management strategies enhances resilience. Financial services and other available disaster risk financing instruments should be carefully chosen depending on the severity and frequency of the events.[3]
3. **Appropriate targeting.** Effective targeting during the design phase is crucial, as beneficiaries' socio-economic profiles determine the most suitable financial services. This ensures long-term sustainability and proper stakeholder integration within the scheme.
4. **A vision of sustainability from the start**. Designing financial instruments for scalability and long-term sustainability is vital. Sustaining financial instruments requires committed, well-resourced stakeholders—including governments and the private sector. Incentives like premium subsidies must include clear exit strategies to promote long-term impact and self-sufficiency.
5. **Linking financial services to efforts promoting resilience and productivity.** Connecting financial services to productivity and market access efforts boosts resilience. Integrating insurance with other programmes—whether through government systems or private sector partnerships—greatly enhances its impact.
6. **Realistic expectations.** Awareness-raising interventions are necessary to ensure stakeholders understand the role of financial services in strengthening resilience.

Informed by these lessons, WFP has identified three strategic priorities for sustainable inclusive risk financing instruments, specifically:

1. **Programmatic targeting and integration with other programmes**, ensuring participants receive the right mix of financial tools, tailored to their socio-economic profiles
2. **Quality of programmatic interventions**, rebalancing the importance of access to savings and credit, while integrating insurance only where appropriate.
3. **Deliberate sustainability and exit strategy**, through integration with government programmes and strengthening local markets at the supply and demand levels.

Through enacting these modifications, WFP aims to enhance the resilience of vulnerable populations, optimize financial services, and ensure the long-term sustainability of its inclusive risk financing programmes.

[3] For instance, as part of social protection schemes, or national schemes supporting smallholder farmers with technical assistance, input provision, etc.

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