

Submission by the World Food Programme

The Standing Committee on Finance on Financial instruments that address the risks of loss and damage associated with the adverse effects of climate change

*The World Food Programme is pleased to share inputs on **forecast-based risk transfer financial mechanisms** in response to the Standing Committee on Finance’s invitation to organisations to provide inputs related to its fourth forum on “financial instruments that address the risks of loss and damage associated with the adverse effects of climate change”. This is in addition to the joint submission provided by Oxfam America and the World Food Programme, and which focuses on insurance mechanisms that address climate risks, losses and damages.*

1. Purpose and Scope of Forum:

Role of forecast-based risk transfer financial mechanisms

Despite increasing climate risks, progress in systematically linking early warning systems, climate forecasts and response actions that anticipate climate disaster has been limited. To date, responses to climate shocks have focused largely on post-disaster response rather than anticipating these events and ensuring predictable mechanisms to absorb climatic risks via insurance products and post-disaster resilience-building¹ activities. Mechanisms such as the Africa Risk Capacity, a sovereign-level risk financing instrument, have been established to address climatic risks through macro-insurance products. However, large scale climate risk insurance coverage and rapid payment to beneficiaries after a climate disaster has been a challenge.

Forecast-based risk transfer mechanisms can play an important role in supporting anticipatory responses to climate disasters, including sudden and slow-onset shocks such as floods and droughts. Governments, communities and humanitarian organisations can proactively support those exposed to climate risks before they occur, protecting vulnerable households from adopting negative coping strategies such as selling productive assets that impact incomes, nutrition, food security and health outcomes. Integration of these mechanisms into social protection and safety net programmes allows for a more sustainable approach at scale. In the advent of a climate disaster occurring, they also support rapid response, along with being able to be used to support communities in adaptation activities against future losses and damages.

The Fourth Forum of the Standing Committee on Finance provides an opportunity to bring together different actors (private sector, government, international organisations and research centres) to share experiences, approaches and tools in implementing comprehensive forecast-based risk transfer financial mechanisms that reduce climate risks that countries and vulnerable populations face, and in particular losses and damages associated to climate change. In this respect, areas of focus that the Forum could examine in relation to forecast-based risk transfer mechanisms, include:

¹ For the purpose of this document, resilience is understood to mean the capacity that ensures adverse stressors and shocks do not have long-lasting adverse development consequences (Food Security Information Network)

- The type of financial instruments and approaches that have been developed and their scope (micro- or macro-level interventions, how they work in different circumstances) and limitations
- The types of risks, losses and damages they attempt to address (whether slow or sudden-onset), and if different global warming scenarios are considered..
- The type of forecast data and information the mechanisms require to trigger action and decision making.
- How to integrate these approaches to DRR strategies, early warning systems, safety nets, social protection programmes and climate change adaptation plans (including NAPs).
- Institutional arrangements, policies and market conditions that facilitate the implementation of these approaches, including the role of the private and public sector partners
- Evidence from interventions, including impacts, cost-benefits and success stories.
- Lessons in how to go to scale and achieve long-term sustainability.

2. Case study: FoodSECuRE:

In recent years, improvements in forecast-based decision tools have made it increasingly possible to be integrated into anticipatory responses to climate disasters. Forecast information is now more dependable, with technology more readily to support advances in early warning systems, disaster risk reduction, social protection, adaptation and financial mechanisms. This makes it more feasible for the institutionalisation of climate forecasts within emergency response funding mechanisms to support community-level action that builds people’s resilience to climate risks.

WFP has developed the Food Security Climate Resilience Facility (FoodSECuRE) as a unique and institutional financing mechanism to address the challenges of increasing losses and damages from climate disasters, by building the resilience of those most food insecure. The mechanism contains three windows, by:

- i) triggering action based on climate forecasts, to reinforce community resilience **before** shocks occur;
- ii) supporting early action **during** a large-scale climate-disaster by complementing existing, government-led emergency response mechanisms through replica policies of the African Risk Capacity; and
- iii) providing predictable multi-year financing to deliver high-quality **community** resilience-building and institutional capacity building as part of **post-disaster recovery** operations.

FoodSECuRE aims also to significantly reduce humanitarian response costs for governments and donors. Growing evidence shows that investment in early response and resilience is more cost effective. A 2015 Cost Benefit Analysis (ex-ante) FoodSECuRE in Sudan and Niger suggests that early action **using a climate triggered forecast mechanism would reduce the cost of emergency response by approximately 50%.** Further, the economic argument for investment in multi-year resilience programming is unequivocal. The net cost of late response is five to seven times higher than multi-year resilience building. FoodSECuRE will enable WFP to systematically realize this kind of cost savings while achieving significant decreases in losses of life, assets, and livelihoods in food insecure communities.

Addressing loss and damage

FoodSECuRE brings cutting-edge tools from climate science and finance together, supporting action by WFP, governments and communities to reduce the impacts of losses and disasters from climate disasters at the necessary scale. This is done through systematically linking financing mechanisms, national safety net programs and traditional food assistance tools, including preparedness, early warning and community-based disaster risk reduction and resilience-building

activities. FoodSECuRE has been designed to operate in the most food insecure areas and target the most vulnerable people, leading to their improved food security and resilience against the increasing climate shocks due to climate change.

FoodSECuRE also encompasses a risk transfer element by contributing to accelerate the coverage of climate risk insurance to more people during large scale shocks through matching policies of Africa Risk Capacity (ARC). In this arrangement, ARC member countries who are insured by ARC would be able to access additional protection taken out by the World Food Programme under FoodSECuRE. When ARC matching policies are triggered, funds will be released to WFP to implement complementary response measures integrated into the national “ARC contingency plan”, thereby bolstering national response capacities in case of a large-scale losses and damages from climate that stretch normal national capacities.

El Nino response

The 2015/2016 El Nino weather event provides a window into what our future climate could look like with larger-scale climate disasters and the losses and damages that result. To test the capacity of FoodSECuRE to anticipate and respond to this significant set of climate events, the Facility is using **seasonal climate forecasts to trigger funding** for community-level resilience activities before the anticipated shock (e.g. drought) occurs and help preserve food security in its aftermath. Two pilots are currently underway.

In Zimbabwe, WFP with the Food and Agriculture Organisation (FAO) and the Ministry of Agriculture’s extension service (Agritex) is field-testing the FoodSECuRE Window I Early Action modality in five wards of Mwenezi district to bolster the resilience capacity of affected small holder farmer households through promoting the cultivation of drought tolerant small grains.

In Guatemala, WFP in coordination with Ministry of Agriculture is field-testing the FoodSECuRE Window I Early Action and Window II Early Response modalities to reinforce the resilience capacity of drought-affected smallholder farmers households in the Sinaneca community of San Jorge municipality, through implementation of soil and water conservation structures, building small rain water harvesting structures for irrigation purposes, provision of drought resistant seeds, training of leading farmers on soil water and agroforestry activities, and agriculture and water management activities.

More information about FoodSECuRE can be found here:

<http://www.wfp.org/climate-change/initiatives/foodsecure>

FoodSECuRE partnerships

FoodSECuRE is built on strong partnerships with governments and local authorities, international and regional organizations, non-governmental organizations, civil society, research institutes and academia for both the planning and implementation processes. The main partnerships through FoodSECuRE include:

The International Research Institute for Climate and Society (IRI): IRI operates under the overall objective of applying climate science in the service of society. Within FoodSECuRE, IRI is the core technical advisor on developing and tailoring forecasting systems across three of the five participating FoodSECuRE countries, developing systems and procedures for seasonal climate forecasts. More information about IRI can be found here: <http://iri.columbia.edu/>.

Africa Risk Capacity (ARC): ARC has proven to be the most innovative and scalable mechanism to expand climate risk insurance cover in Africa. ARC is allowing countries to put in place more effective early responses to drought, while pooling risk at the continental level. WFP has supported the African Union to establish ARC and continues to assist African countries to prepare for, respond to

and help support recovery from climate disasters on a large scale. A matching policy arrangement has been proposed with FoodSECuRE in order to accelerate the coverage of climate risk insurance to more people through ARC and therefore the capacity of national governments to respond to large scale climate shocks. ARC member countries who are insured by ARC would be able to access additional protection through matching policies taken out by the World Food Programme through FoodSECuRE. More information about ARC can be found here: <http://www.africanriskcapacity.org/>.

IFRC/German Red Cross: Forecast-based financing has been developed as a long-standing element of IFRC's Climate Centre work, assisting the mainstreaming of an "early warning - early action" model into IFRC's disaster management work around the world. With the German Government's support, the German Red Cross (GRC) secured flexible preparedness funds that can be drawn on for actions specified under standard operating procedures. Twice-yearly dialogue platforms under the IFRC umbrella began in Geneva in July 2015 as part of a German Federal Foreign Office Action Plan on climate, coordinated by the GRC, centring on forecast-based financing pilots by National Societies and the World Food Programme (WFP). More about forecast based financing work of IFRC and the German Red Cross is available here: <http://www.climatecentre.org/programmes-engagement/forecast-based-financing>.

3. Collaboration in the organisation of the Forum:

To facilitate further exploration of on the topic of **forecast-based risk transfer financial mechanisms** at the Fourth Forum of the Standing Committee on Finance, the World Food Programme would be willing to help organise, with interested partners and experts, possible sessions on the following topics:

a) Event title: Experiences in forecast-based finance for slow-onset and rapid-onset disasters

The session would focus on how forecast-based financing works and what are the humanitarian, economic and operation benefits and challenges of this approach across both slow-onset disasters and rapid-onset disasters. This would include experiences of WFP (slow-onset) and the German Red Cross (rapid-onset) through recent pilots each organization has undertaken. Topics in this session could include:

- The principles of forecast-based financing and comparing how it works in slow- and rapid-onset disasters.
- Type of formats to communicate forecast-based financing.
- Evidence of how forecast-based financing approaches can address loss and damage and generate savings through early action and early response.
- Experiences in flexible preparedness funds to enhance early action and early responses.
- Challenges, gaps and opportunities.

The session could involve two keynote speakers from government and the humanitarian sector to explain the concept of forecast-based financing and challenges and advantages of the approach, before breaking into either plenary or group discussions for participants to discuss information needs, gaps and solutions.

b) Event Title: Sovereign Climate Risk Insurance to address loss and damage

This session would aim to share experiences in sovereign climate risk insurance. This could include experiences of WFP and ARC and their collaboration in macro insurance schemes. A panel discussion would aim to explore the following topics:

- Advantages of early response, risk pooling and transfer mechanisms and existing evidence on how disaster risk pools can manage risk more economically, efficiently and to save lives and livelihoods.
- Types of climate and weather information and technologies used to estimate and trigger readily available funds to African countries hit by severe weather events.
- Key institutional arrangements needed to match policies between the implementation of innovative solutions that transfer climate risk away from governments, farmers and pastoralists.
- Achieving scale and sustainability through capacity building, policy and contingency planning integration.

A panel discussion could include representatives from private sector, government, research institutes, ARC and WFP, followed by an interactive discussion with audience members, arunning for approximately 1 hour and 30 minutes.