

Joint Submission by the World Food Programme and Oxfam America

*In relation 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”, the World Food Programme and Oxfam America are pleased to provide the following inputs and suggestions in relation to the **role of micro insurance mechanisms that address climate risks, losses and damages.***

A. Purpose and Scope of Forum

Role of micro insurance in integrated risk management framework

There has been a growing shift towards climate risk financing and insurance mechanisms that are provided before a natural disaster occurs, helping communities better respond to, manage, and reduce climate risks and losses and damages that may result. Rather than providing post-disaster support for relief and recovery, governments, donors and private sector actors are beginning to support the development of ex-ante financing mechanisms. These proactive mechanisms have the potential to provide vulnerable households and communities with immediate access to limited financing following a catastrophe, whereas ex-post support usually involves a time lag of several months.

Climate risk financing mechanisms, particularly in the form of weather index insurance, can play an important role in supporting robust, community-based adaptation. Weather index insurance is a promising tool for facilitating adaptation to climate risk. By enabling access to new resources, index insurance is part of an integrated risk management approach that may be used to enhance peoples’ economic and livelihood resilience to help buffer them against the direct impacts of the climate and other shocks.

Areas of focus that the Fourth Forum of the Standing Committee on Finance could thus consider, to feed into the work of the Executive Committee of the Warsaw International Mechanism for Loss and Damage, include to:

- Explore how to analyze and structure risks associated with climate change along a risk continuum.
- Examine how to design appropriate financing approaches to reduce, avert and address those risks and consequential losses and damages, as part of a comprehensive disaster risk reduction (DRR) and climate adaptation strategy.
- Review the scope and limitations of different tools and approaches related to risk transfer mechanisms, impacts, costs, and lessons learnt.
- In relation to insurance-related interventions, provide insights into the role of weather index-insurance as part of larger integrated risk management approaches in addressing the risks of loss and damage associated with the adverse consequences of climate change.

B. Case Study: The R4 Rural Resilience Initiative

Background

During the last two decades, 200 million have been lifted out of hunger and the prevalence of chronic malnutrition in children has decreased from 40 to 26 percent. In spite of this progress, according to the World Bank, 702 million people still live in extreme poverty and, according to this year's report on the State of Food Insecurity in the World (SOFI), 793 million people are undernourished.

Vulnerability to climate-related shocks is a constant threat to food security and wellbeing of these families. As climate change increases the frequency and intensity of shocks, the challenges faced by food insecure farmers also increase. The World Food Programme (WFP) and Oxfam America (OA) have developed and combined innovative tools and strategies to reduce and mitigate risks to overcome hunger, achieve food security and enhance resilience.

The R4 model

WFP and OA launched the R4 Rural Resilience Initiative (R4) in 2011 to enable vulnerable rural households to increase their food and income security in the face of increasing climate risks. R4 builds on the initial success of the Horn of Africa Risk Transfer for Adaptation (HARITA) initiative, pioneered in Ethiopia by OA, the Relief Society of Tigray (REST) and Swiss Re. R4 operates in Ethiopia, Senegal, Malawi and Zambia currently reaching over 32,000 vulnerable farmers and their families with four integrated risk management tools: **improved resource management** through asset creation (risk reduction), **insurance** (risk transfer), **livelihoods diversification and microcredit** (prudent risk taking) and **savings** (risk reserves).

Project status

In 2015, R4 reached 32,288 farmers in Ethiopia, Senegal, Malawi and Zambia. The total sum insured amounts to over \$2.2 million while the value of premiums reached almost \$360,000. In Ethiopia, where R4 reaches 27,668 participants, the initiative builds on the Ethiopian Government Productive Safety Net (PSNP). In Senegal, R4 insured 3,621 farmers out of the 12,000 participants who accessed the FFA and/or savings components. In Malawi and Zambia, where 2015 was the first year of operations, R4 reached 999 farmers building on WFP's FFA (in Malawi) and FAO's CASU project (in Zambia). Triggered by the adverse conditions brought by El Niño, a total payout of \$445,063 has been distributed this year in Ethiopia and Senegal. The season in Malawi and Zambia will end in April, therefore potential payouts will be distributed between May and June 2016.

What's innovative about R4?

R4 has broken new ground in the field of rural risk management by enabling the poorest farmers to pay for crop insurance with their own labor. Thanks to R4's comprehensive risk management scheme, communities are stronger in the face of disasters. They are able to invest in new seeds and fertilizer to guarantee food is on the table all year long. Protected by insurance, families facing a drought or other shock, no longer find themselves forced into desperate measures, such as selling their farm animals or taking their children out of school. Here is how it works:

- Farmers can access weather index insurance by paying with their labor through **Insurance-for-Assets (IFA) schemes**. When a drought hits, compensation for weather-related losses prevents farmers from selling productive assets and stimulates faster recovery.

- IFA schemes are built into either existing social safety nets, disaster risk reduction schemes, or WFP's Food Assistance for Assets programme. **Assets built through risk reduction activities promote resilience** by steadily decreasing vulnerability to disaster risks over time.
- By protecting farmers' investments in case of a bad season, R4 enables households to invest in riskier but more remunerative enterprises, as well as in seeds, fertilizers and new technologies to increase their agricultural productivity.
- **Participants establish small-scale savings**, which are used to build 'risk reserves'. In Senegal the initiative leverages on OA's Savings for Change (SfC) programme. Savings help build a stronger financial base for investing – but also act as a buffer against short-term needs and idiosyncratic shocks, such as illness and death.
- To ensure **long-term sustainability**, R4 contributes to the creation of rural financial markets, by building the capacity of farmers, local insurance companies, and micro-finance institutions and gradually transitioning farmers to pay for insurance in cash.



Impact to date: The initiative is helping improve farmer's resilience

The first major impact evaluation of R4/HARITA in Ethiopia shows that insured farmers save more than twice than those without any insurance, and they invest more in seeds, fertilizer and productive assets, such as plough oxen. Farmers in one cluster of villages tripled their grain reserves compared with uninsured farmers. Women, who often head the poorest households, achieved the largest gains in productivity, through investing in labor and improved tools for planting.

In Senegal, despite two consecutive bad harvests, R4 farmers were able to maintain their food security level compared to farmers living in the same area and exposed to the same shocks. Women claimed that they felt empowered - in addition to having increased access to land, seeds and water for irrigation and drinking, they benefit from training in numeracy, literacy and business. Having more food and water available also means that they no longer have to travel far from home to fetch water, with consequent gains in terms of time to dedicate to their children or small business.

More information, as well as Quarterly and Annual Reports, Case studies and Factsheets can be found [here](#).

C. Partnerships:

In the context of the Fourth Forum of the Standing Committee on Finance, the World Food Programme and Oxfam America would be willing to co-organize a session featuring high-profile speakers to discuss the growing relevance of index-insurance as a tool in addressing loss and damage and managing weather-related risks for farmers across the developing world

Event Format:

- I. **Title:** The Role of Micro-Insurance in Addressing Loss and Damage: Challenges and Opportunities

II. **Session Objectives:**

- a. Situate micro-insurance as part of the broader suite of financial instruments that address the risks of loss and damage related to the negative consequences of climate change
- b. Bring increased attention to the role of weather-indexed micro-insurance (as part of an innovative and integrated approach to risk management) in a context of growing natural disasters and climate change impacts on vulnerable households.
- c. Address key challenges and lessons learned as it relates to micro-insurance, highlighting key principles and approaches to explicitly target the poorest and most vulnerable households
- d. Discuss sustainability of risk transfer mechanism schemes for LDCs highly vulnerable to the negative impacts of climate change.

III. **Facilitator:** International expert on loss and damage

IV. **Speakers:**

- a. Executive-level representative of World Food Programme
- b. Executive-level representative of Oxfam America
- c. Ministerial representative of the Ethiopian Government
- d. Senior Reinsurance Expert
- e. Civil Society Representative

V. **Target audience:** The audience will include governments, development practitioners, policy makers, Excom members of Loss and Damage, researchers and members of the private sector

D. **Potential events to synergise the Forum with:**

Based on upcoming international climate events, suggestions include:

- G7 Initiative InsuResilience steering group meeting
- Bonn Climate Change Conference (May 2016)
- Fourth meeting of ExCOM Warsaw International Mechanism for L&D (September 2016)
- Green Climate Fund meeting
- UNFCCC Adaptation related events (e.g. NAP Expo scheduled for 15-17 August 2016, Adaptation Forum scheduled during 10-13 May 2016)
- World Cities Summit (July 2016)
- Climate Week 2016 in NYC (September 19-26)

Collaboration

The R4 Rural Resilience Initiative is a strategic collaboration between the World Food Programme and Oxfam America, with no commingling of funds. Each partner has its own sponsors as listed. R4 is inviting donors to support expansion.



The World Food Programme is the world's largest humanitarian agency fighting hunger worldwide.

Each year, on average, WFP feeds more than 90 million people in more than 70 countries.

www.wfp.org/disaster-risk-reduction

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Oxfam America is an international relief and development organization that creates lasting solutions to poverty, hunger, and injustice, working with individuals and local groups in more than 90 countries. Oxfam America does not receive funding from the US government.

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