Fighting Against Food Insecurity

The Case for Risk Transfer Instruments

Sönke Kreft, Executive Director, MCII

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Increasing food shocks due to climate change

- Increased frequency of shocks overall
- > 80% of most food-insecure people live in countries prone to natural disasters
- Climatic disasters predominant cause for food system shocks (especially crops)
- Smaller window for recovery jeopardize existing coping strategies (e.g. asset accumulation)
- Increased interdependency – higher frequency of food system shocks threaten resilience of global food systems

- Requires a risk management approach working from preparedness mechanisms to handle an increasingly shock-prone world – including climate risk insurance (CRI)
- Necessitate a number of social protection mechanisms especially in food insecure regions
Role of insurance strategies in preparedness mechanisms

Schäfer et al., 2016

<table>
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<th>CONTRIBUTION OF CLIMATE RISK INSURANCE</th>
<th>DETERMINANTS OF RESILIENCE</th>
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<td>CATALYZING</td>
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<td>• Risk assessment</td>
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<td>• Improving financial liquidity after a disaster</td>
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<td>• Reducing distress asset sales</td>
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<td>• Increasing food security</td>
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<td>• Enabling rapid recovery</td>
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<td>PROMOTING</td>
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<td>• Increasing savings</td>
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<td>• Increasing productivity &amp; investment in higher return activities</td>
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<td>SPURRING TRANSFORMATION</td>
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<td>• Incentivizing risk reduction behavior</td>
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<td>• Fostering a culture of prevention-focused risk management</td>
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Schäfer et al., 2016
Role of insurance strategies in preparedness mechanisms

- Risk transfer products - Risk transfer includes traditional indemnity based products, parametric index insurance, bond products, alternative risk sharing instruments
- Potential to benchmark insurance payouts for food security objective
- Preparedness challenge: How to react to a disaster (including risk finance) in an ex-ante fashion?
- CRI is embedded in layered risk finance approach for better preparedness against shocks

SwissRe 2010
Schäfer 2016
Enhancing food security through holistic disaster risk management at the community level: The WFP R4 Experience

- Program operating in 6 countries in SSA and targeting farmers at the subsistence level
- Access to insurance through works in community resilience infrastructure
- Estimated coverage of over 98,000 farmers during the 2018/19 season
- Payouts amounting to US$ 2.4 million since 2011

- Evaluated impact: Increased investment in productive inputs; production in staple crops; savings; and overall expenditure.
Enhancing food security through CRI mechanisms: Examples

Drought emergency management and Government insurance: African Risk Capacity and ARC Replica

- Disaster risk finance model based on three pillars:
  - Early Warning: Africa RiskView
  - Response: Operational plans to respond to natural hazards efficiently
  - Insurance: Parametric insurance cover and risk pooling

- Operational plans address food security by:
  - Unconditional Cash Transfers: Scale up of an existing Social Cash Transfer Program implemented by government
  - Targeted Food Distribution: Procurement and distribution of food baskets to targeted populations

- Over 2.1 million people assisted and US$ 36M payouts since

- ARC Replica allows UN agencies and humanitarian actors to match ARC country insurance policies

- OPM Evaluation: ARC has contributed to create policy frameworks for disaster response and provided timely liquidity (Controversies with basis risk in Malawi and Mauritania)
Mobilization and momentum

- Increased momentum: G7 commitment in 2015
- Sustainable Development Agenda & Paris Agreement, World Humanitarian Summit
- Global InsuResilience Partnership – G20 and V20 partnership to advance climate and disaster risk finance and insurance solutions
- High Level Consultative Group, Programme Alliance, Worldbank Global Disaster Finance Fund (GRiF)
- Quo Vadis? UNSG Climate Summit 2019
Principles for Climate/Disaster Risk Finance and Insurance

1. Create positive and lasting change for poor and vulnerable people.

2. Implement adequate and high quality climate and disaster risk finance and insurance solutions that address the needs of poor and vulnerable people.

3. Ensure demand-driven approaches through environments that are conducive to stakeholder action, with a focus on the agency of end users.

4. Develop a mix of synergistic climate and disaster risk finance and insurance solutions building from existing institutional frameworks.

5. Climate and disaster risk finance and insurance solutions should provide inclusive and targeted support to promote equitable growth.
Thank you!

Sönke Kreft
kreft@ehs.unu.edu
@soekreft
Annex: ARC Value Proposition for food security