African Risk Capacity

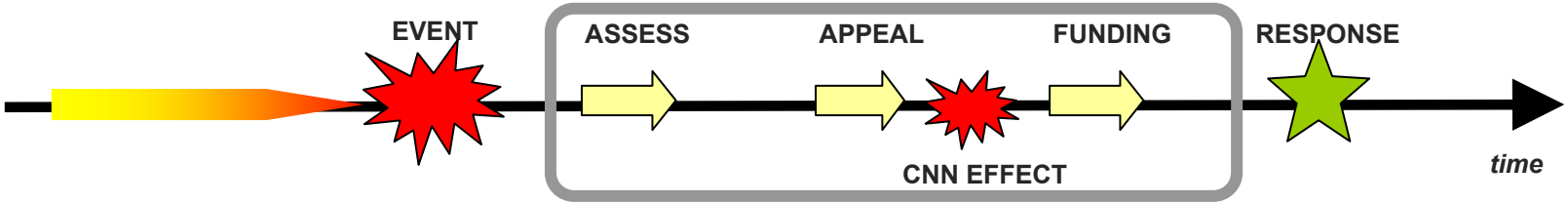
Sovereign Disaster Risk Solutions
A Project of the African Union

DFID Department for International Development

Sida

THE ROCKEFELLER FOUNDATION

The Way Disaster Assistance Works Now

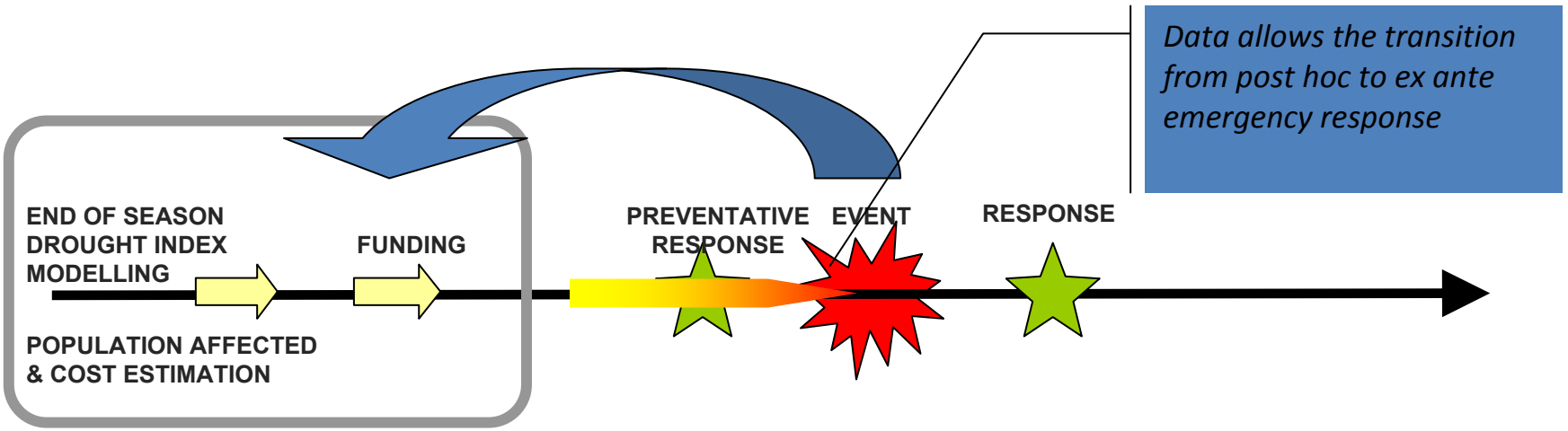


The Way Disaster Assistance Could Work

How do we close the gap in time and resources between event and response?

Is there a way to calculate how much we might need *before* the season ends?

How do we allocate certain resources against probable but uncertain risks?



Risk Management Options

Several tools are available to manage this risk as part of a layered financial risk management strategy and comprehensive disaster management plan:

1.Risk Retention:

Countries could use existing resources and programs to retain some risk and manage the impact of less severe, localized or frequent events in-country, e.g. through national reserves, annual contingency budgets and mechanisms such as safety nets, SGRs etc.

2. Risk Reduction:

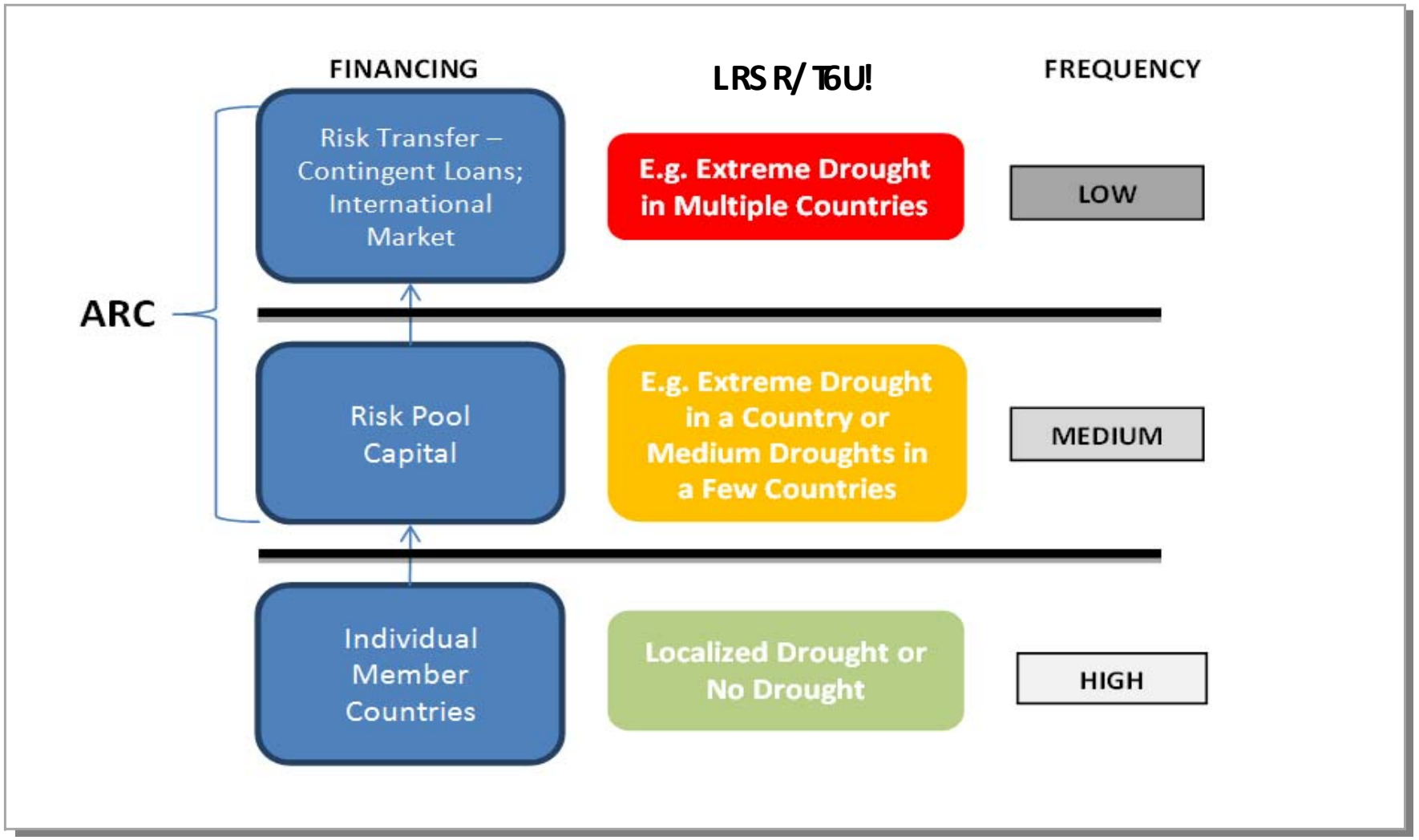
Longer-term DRR and climate proofing investments by countries could reduce the overall financial cost of this risk over time, however while these investment take effect the risk of disasters remains

3. Risk Financing:

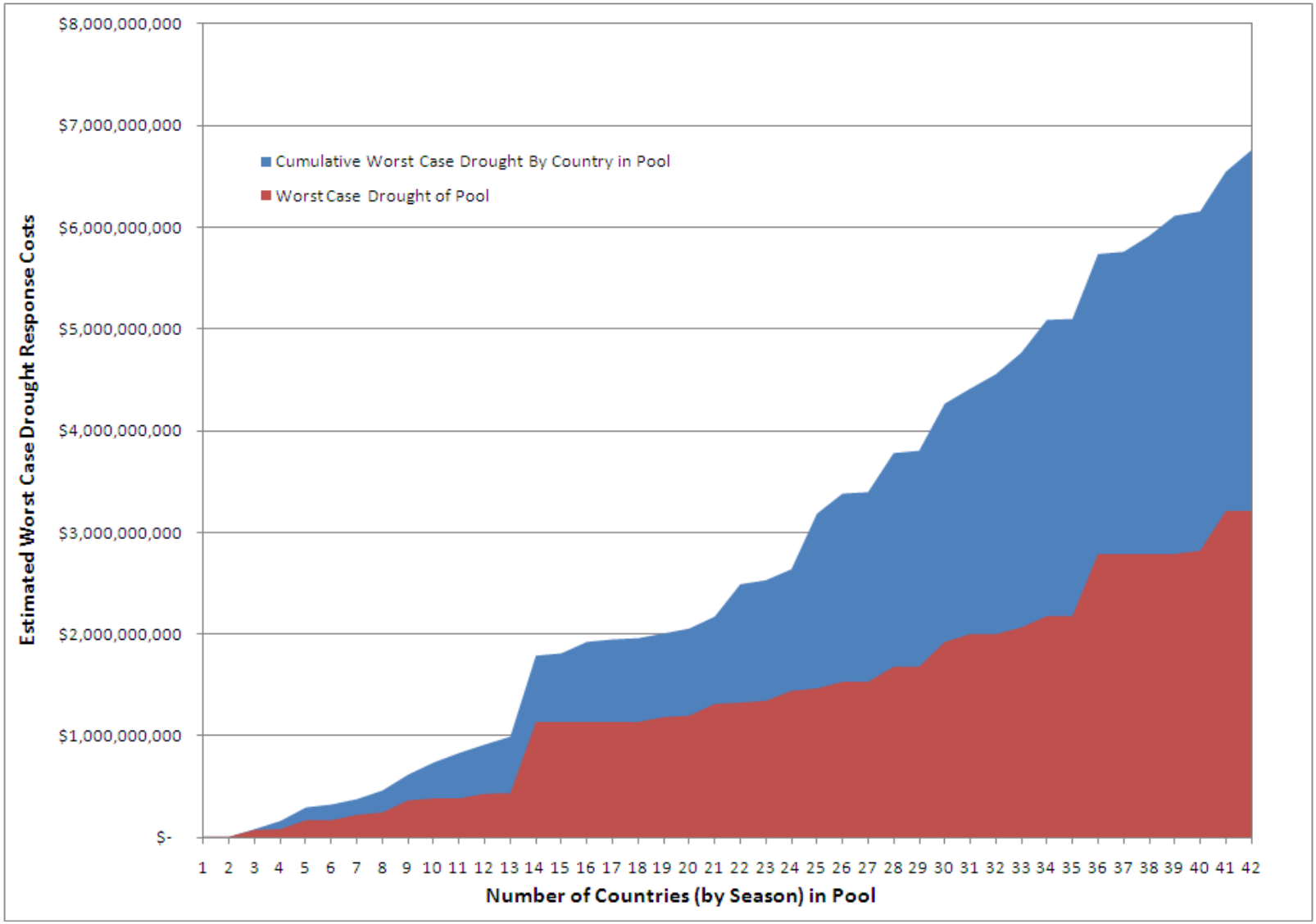
Contingent lending could also be considered. Countries could borrow to finance responses for more extreme events on pre-agreed terms from International Financial Institutions (IFIs) and repay back over a long period of time.

4. Risk Transfer:

Countries could choose to transfer risk, selecting to only receive compensation for drought events that are more extreme and less frequent in return for an annual fee, e.g. by entering into a transaction with a donor, reinsurer or by joining ARC


FINANCING
LRS R/ T6U!
FREQUENCY
Risk Transfer – Contingent Loans; International Market
E.g. Extreme Drought in Multiple Countries
LOW
ARC
Risk Pool Capital
E.g. Extreme Drought in a Country or Medium Droughts in a Few Countries
MEDIUM
Individual Member Countries
Localized Drought or No Drought
HIGH

Pan African Solidarity makes Risk Transfer Cost Efficient



DFA Results: Ethiopia + Malawi + Others

1ST	2ND	3RD	4TH	5TH	6TH	7TH	8TH	9TH	AAL	STDEV	COV
ETH									3.35M	8.8M	2.63
	MLW								5.18M	11.04M	2.13
		KEN							6.97M	12.68M	1.82
			MALI						8.41M	13.71M	1.63
				SEN					9.69M	15.41M	1.59
					ZAM				11.42M	17.72M	1.59
						ZAM			12.81M	20.37M	1.55
							TZ		14.37M	21.57M	1.50
								MOZ	15.96M	23.44M	1.47

Indicative Premium Rates

COUNTRY	1-IN-5 YEAR RETENTION	1-IN-7 YEAR RETENTION	1-10-YEAR RETENTION
KENYA	20%	15%	11%
ETHIOPIA	18%	15%	11%
MALI	16%	12%	10%
SENEGAL	18%	14%	10%
MALAWI	18%	15%	12%
NIGER	21%	16%	12%
ZAMBIA	20%	13%	9%
TANZANIA	16%	13%	10%
MOZAMBIQUE	17%	14%	11%
MARKET SAVINGS	35%	44%	52%

Quantifying the Risk

HAZARD

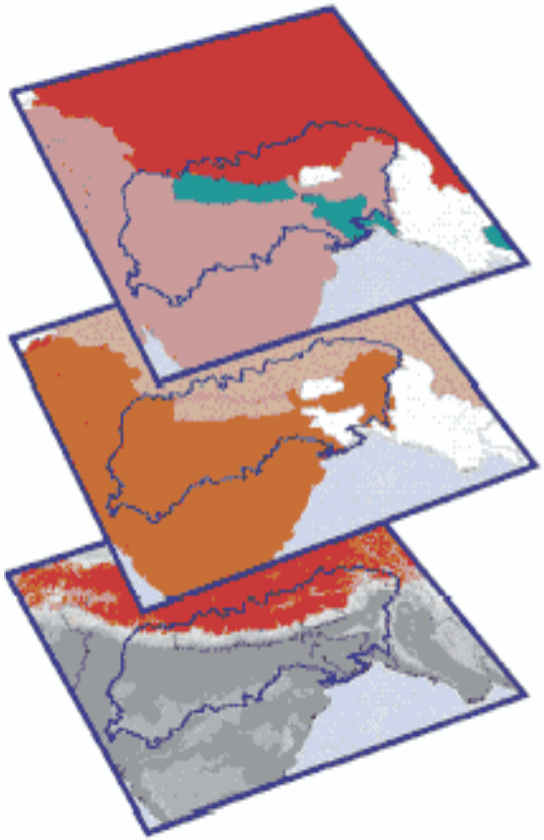
Satellite-based rainfall data for over 261,000 satellite pixels over Africa (0.1 dg x 0.1 dg or 10x10km sq near the equator) updated every 10 days.

VULNERABILITY

Who's at risk? Where are they? What are they growing or where do their herds graze?

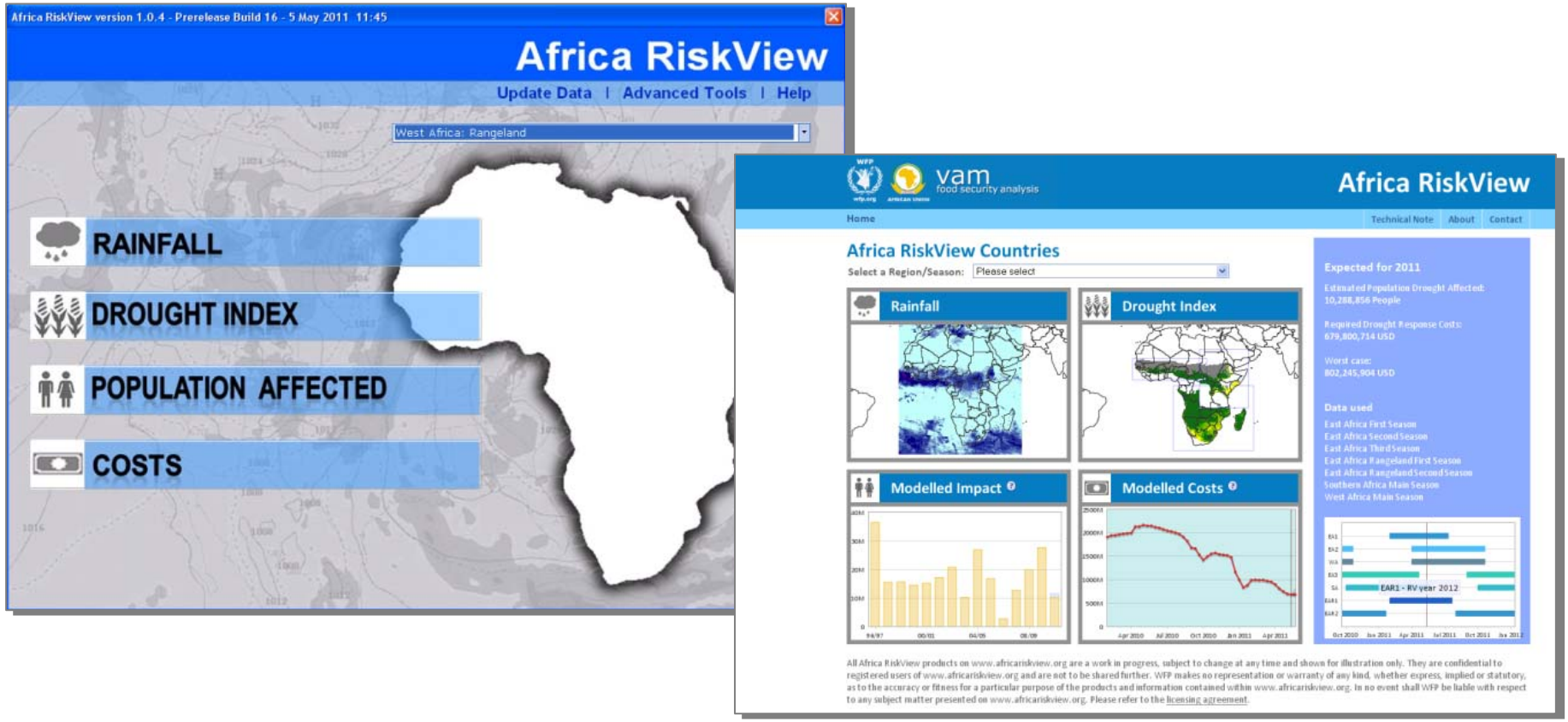
EXPOSURE

In today's procurement and logistic costs, how much will it cost to assist each potential person affected?



Africa RiskView: Technical Engine of ARC

Africa RiskView **is a software tool that allows financial management of ARC's weather risk in one portfolio by bringing existing information on food security together to assess and quantify weather-related risk using a standard setting methodology.**



Indirect and Direct Cost Savings

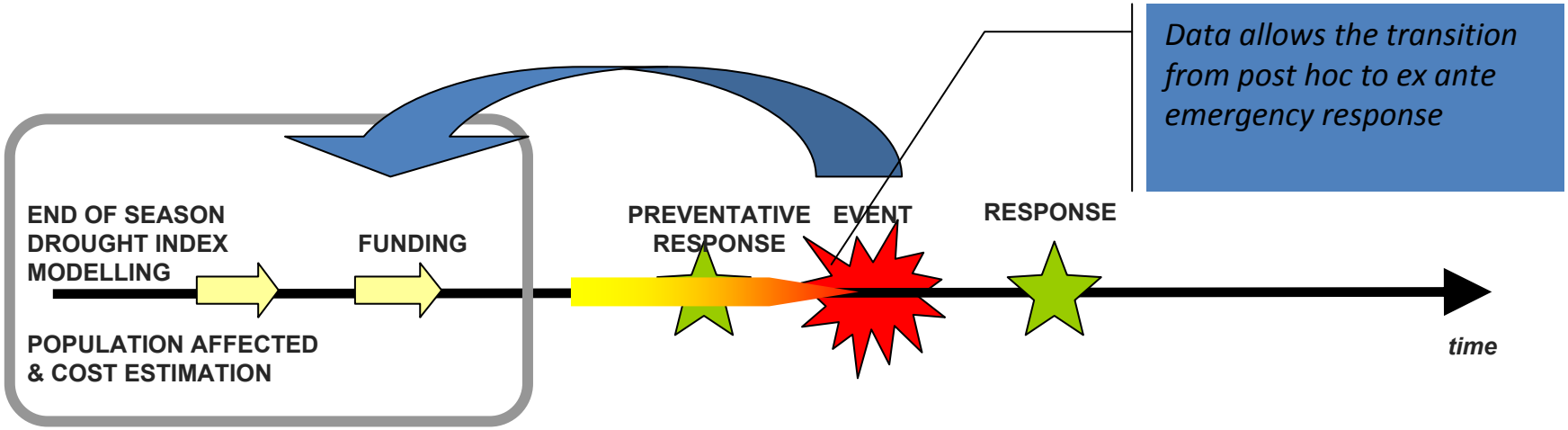
Benefits of Contingency Funds

- Immediate liquidity that contingency funds provide reduces the time between EVENT and RESPONSE so that appropriate assistance can be mobilized quickly and efficiently to those in need
- Evidence from Ethiopia shows $1 spent on early response can save $4 in the cost of intervention once a crisis has escalated
- Knowing ahead of time the potential amount of funds available allows for direct cost savings:

Benefits of Risk Pooling

- Countries save on administrative costs of risk transfer when in a pool, since each bilateral deal would require the design of a bespoke product
- Countries save on cost of capital (premium), given the diversification of a pool

African Risk Capacity



The ARC transfers risk away from vulnerable communities that shoulder the bulk of this burden to the pool and then to international financial markets that can handle it much better.

The ARC transfers ownership of disaster risk to African governments, creates incentives for risk reduction and ensures more objectivity, transparency, accountability and fairness in the humanitarian assistance system.

Success Requires Creating an Enabling Environment

1. **Political Will**
   - Resolution 16 to Establish ARC as an AU Specialised Agency
   - Scoping Missions to 16 of 19 interested countries

1. **Technical Know-how**
   - National Officers
   - Refinement of *Africa RiskView*
   - Setting of Risk Transfer Parameters

2. **Capital**
   - Goal: $200 million in initial capital

3. **Contingency Planning and Operational Capacity**