

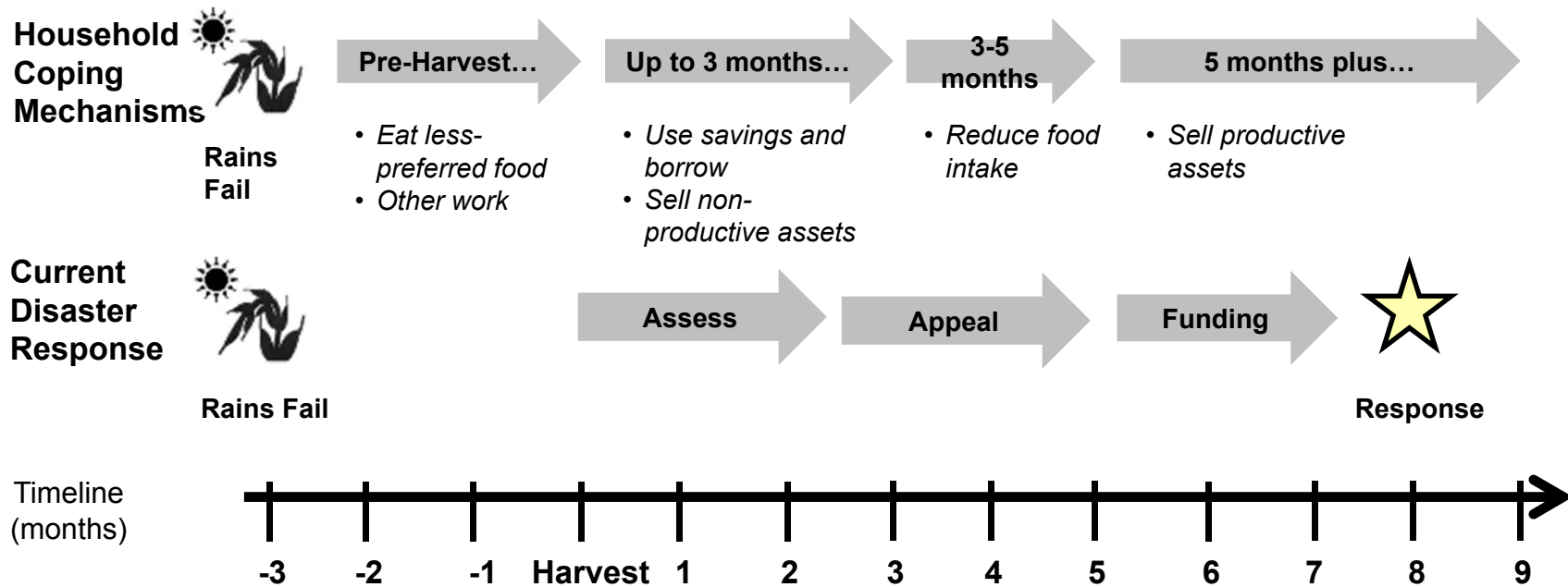


Adaptation Committee: Workshop on the means of  
implementation for enhanced adaptation action

2-4 March 2015  
Wissenschaftszentrum, Bonn



The way disaster response in Africa has worked for over 60 years...

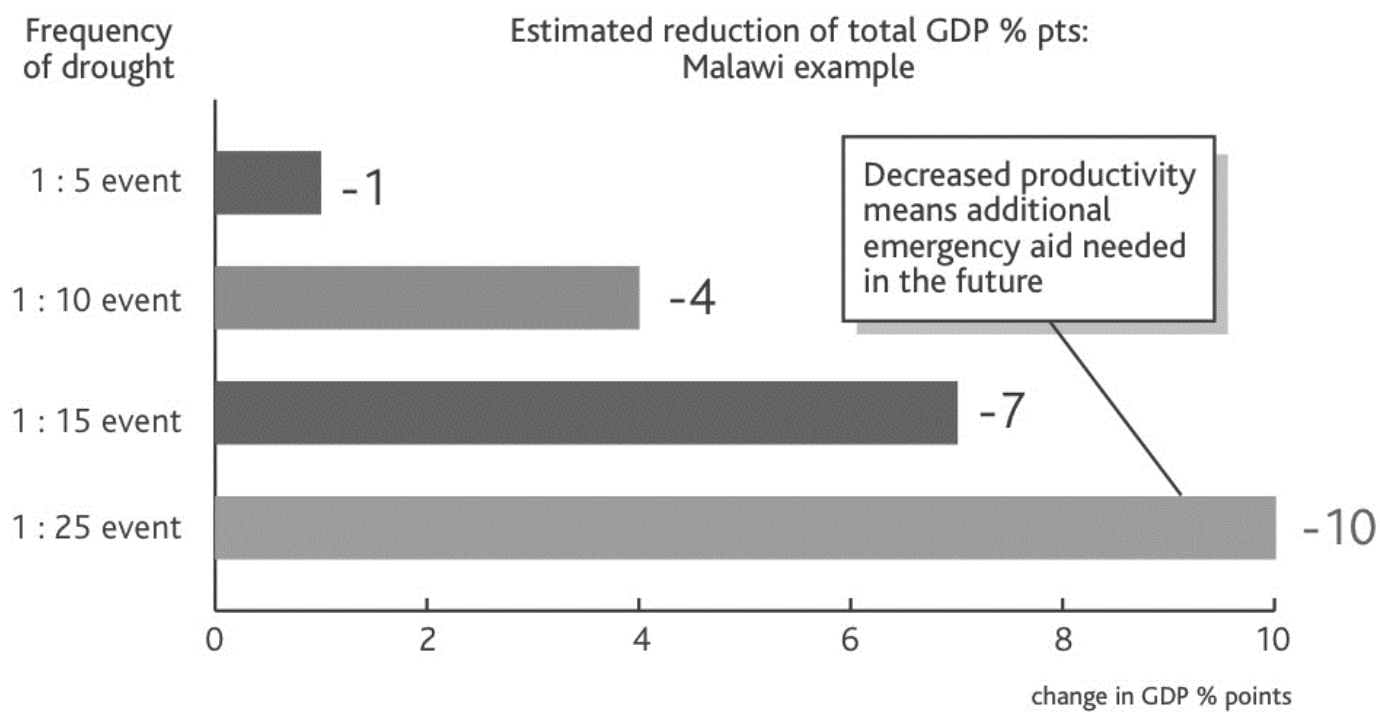


<sup>1</sup> Clarke/Hill, Cost-Benefit Analysis of the African Risk Capacity Facility, 2012

**How do we allocate certain resources against risks that are probable, but uncertain in terms of their magnitude and their timing?**

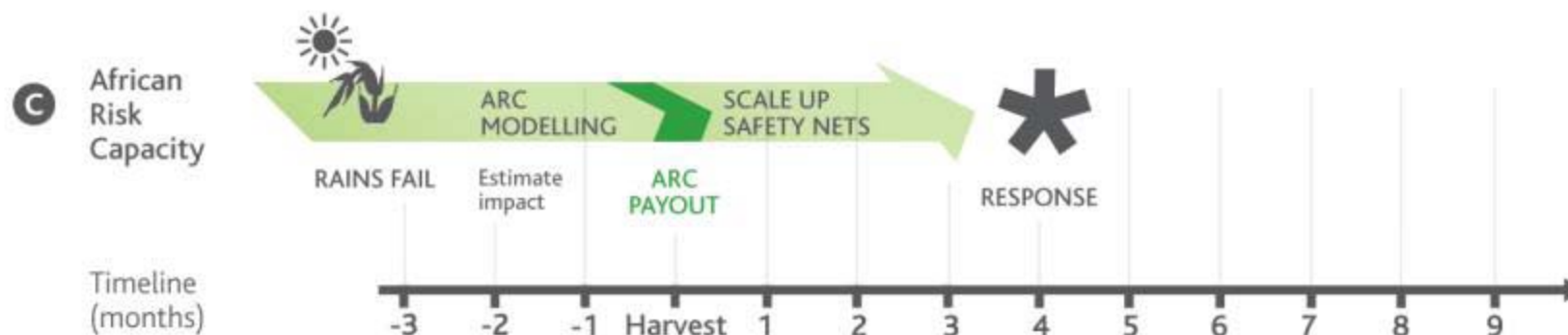


**Figure 1: The Impact of Drought Events on Malawi's GDP2**





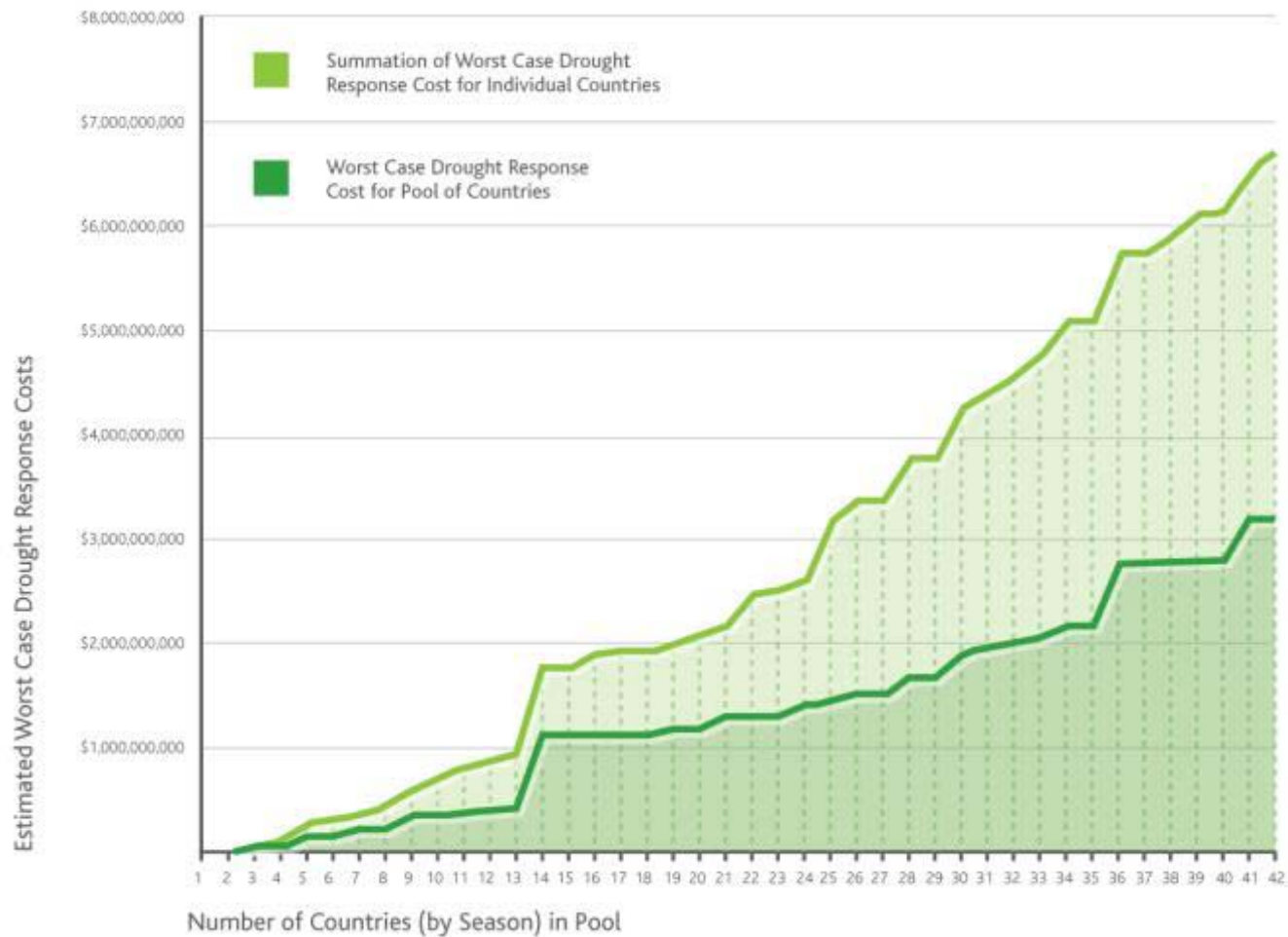
The way disaster response *could* work:



Source: Clarke/Hill, Cost-Benefit Analysis of the African Risk Capacity Facility, 2012

**How can we provide cost-effective, contingency financing to AU Member States in the event of a natural disaster?**

# Pan-African Solidarity Makes Financial Sense

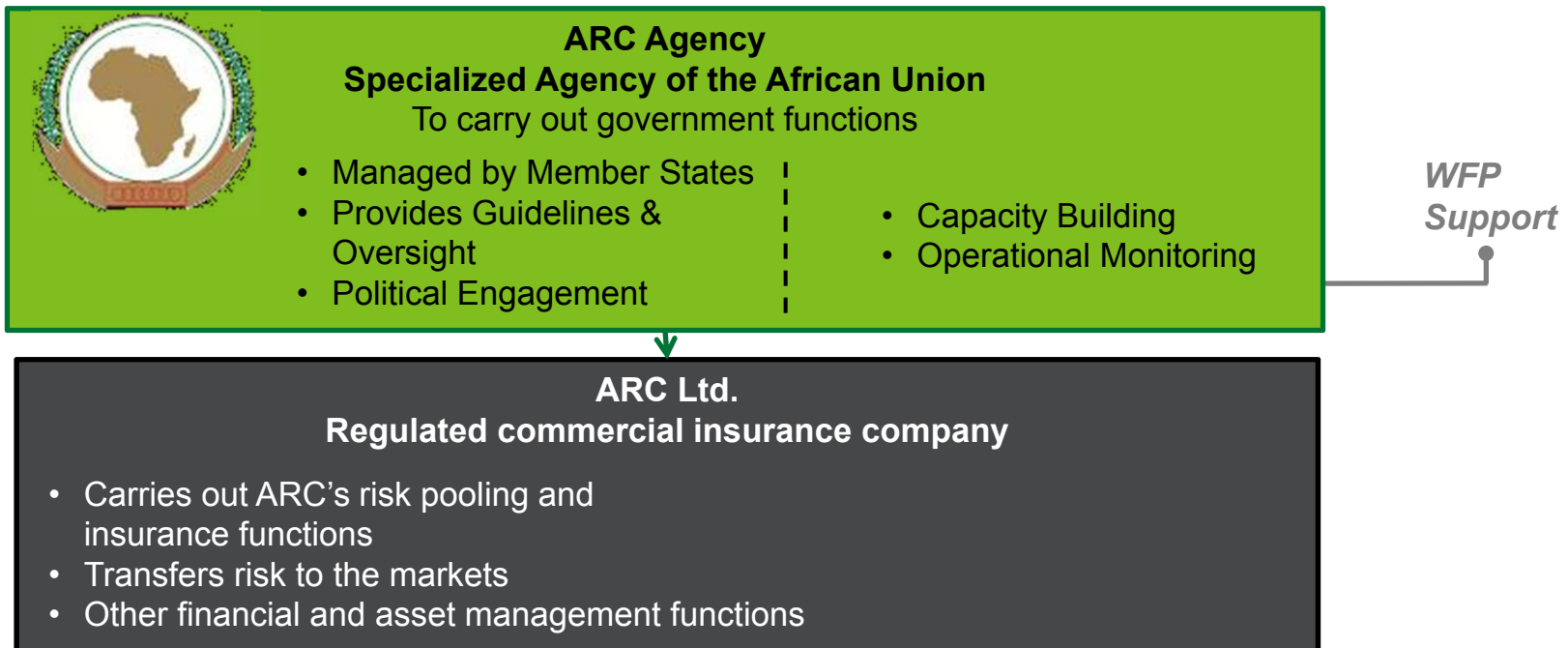


# Design

## Two-Tier Structure Allows Us to Benefit from Two Principal Value Drivers



- 1) **An AU Specialized Agency established by treaty to set continental standards for early intervention and provide capacity building in disaster response and finance**
- 2) **A well-regulated African-owned mutual insurance company to pool risk across the region**

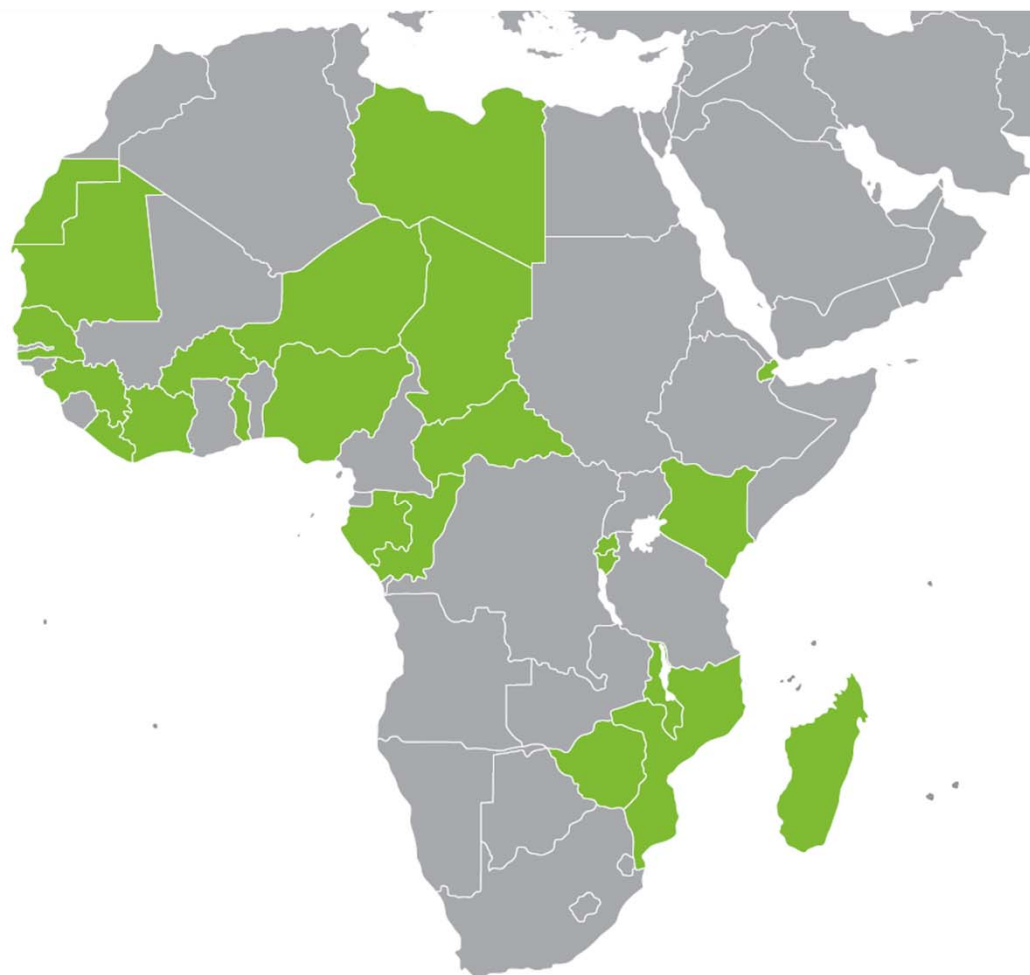


# Implementation

1. Country Participation
2. *Africa RiskView* Software
3. Establishment of ARC Insurance Company Ltd



## ARC Conference of the Parties



1. Burkina Faso
2. Burundi
3. Central African Republic
4. Chad
5. Republic of Congo
6. Djibouti
7. Gambia
8. Guinea
9. Liberia
10. Libya
11. Malawi
12. Mozambique
13. Niger
14. Rwanda
15. SADR
16. Senegal
17. Togo
18. Zimbabwe
19. Kenya
20. Mauritania
21. Côte d'Ivoire
22. Comoros
23. Gabon
24. Madagascar
25. Nigeria

## Africa RiskView



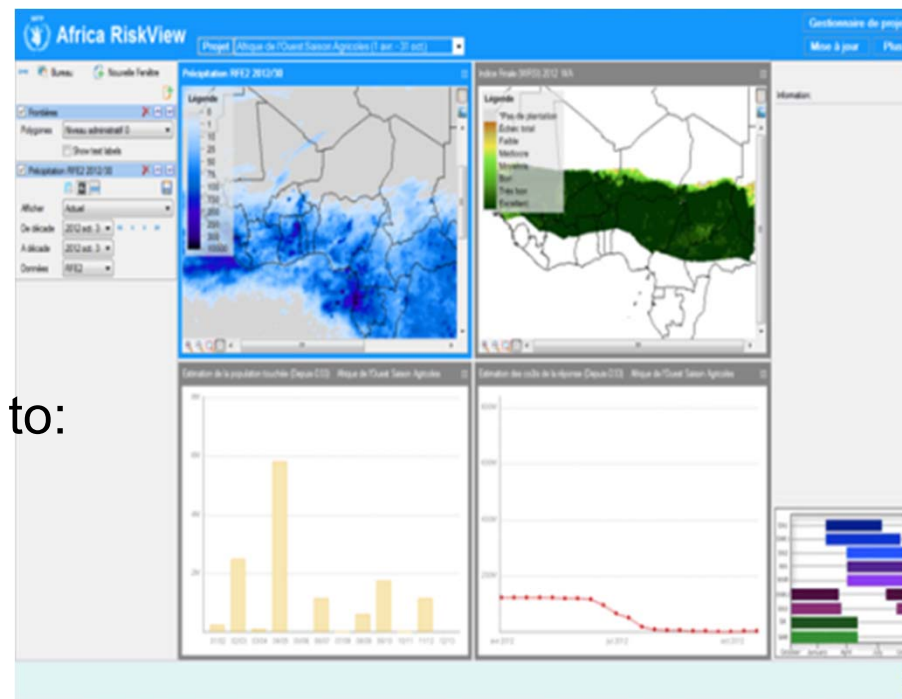
**Africa's 30-year climatology is captured in *Africa RiskView*, opening the opportunity to create new climate finance products transforming disaster management and climate change adaptation on the continent**

ARC Ltd Members can use ARV to:

- Analyze and monitor their disaster-related food security risk
- Define their participation in ARC using transparent criteria
- Monitor potential ARC payouts

Members could use ARV in the future to:

- Analyze and monitor the increase in frequency or severity of current weather events in the context of their respective historical risk profiles
- Access monies for resilience-building and adaptation every 5 years



## ARC Insurance Company Limited Establishment



- ARC Ltd established January 2014
- Board of Directors Chaired by Former IFC Head Dr Lars Thunell
- Six Founding Members
  - Class A: African Governments (USD 17m in premiums)
    - Kenya                      Niger
    - Mauritania                Senegal
  - Class C: Capital Contributors (20-yr repayable, no interest)
    - United Kingdom: GBP 30m transferred of GBP 90m committed
    - Germany: EUR 35m transferred of EUR 50m committed
- Coverage of agricultural seasons to began in 2014
- ARC Ltd paid out USD 25m to the Sahelian members in Jan 2015

# Extreme Climate Facility (XCF)

## XCF Context



**Estimates give an adaptation investment cost need of USD 14-17 billion per year over the period 2010-2050 for sub-Saharan countries to adapt to an approximately 2C warmer climate by 2050**

**To date, funds have not been forthcoming in the magnitude required and it is recognised that innovative and diverse sources of financing will be needed**

**As adaptation finance investment grows, it will be critical to have a fair and objective mechanism for its allocation and distribution to help prioritise the geographical location of the available investment flows**

## Concept

A small, semi-transparent globe graphic showing the African continent, positioned on the right side of the green header bar.

### **Data-driven financial vehicle that tracks the frequency and magnitude of extreme climate shocks in Africa**

- **Function:** Additional financing for countries *already managing their current weather risks through ARC*
- **Data-driven:** Payments to countries will be entirely data-driven over a 30 year period – if there is no significant increase in extreme events over current climatology, then no payment is made
- **Climate Adaptation:** Where payments are made, countries must use those funds to invest in DRR or climate change adaptation measures specified in pre-defined country-level adaptation funds
- **Scale:** Payment size will increase with extreme event number and magnitude over and above a severe threshold, corresponding to the degree of confidence that extreme events are increasing, the climate has changed and that intensified adaptation is needed
- **Action:** Leveraging ARC's existing infrastructure, XCF will ensure that countries and the international community properly monitor climate shocks and are financially prepared to undertake greater adaptation measures should their frequency and intensity increase

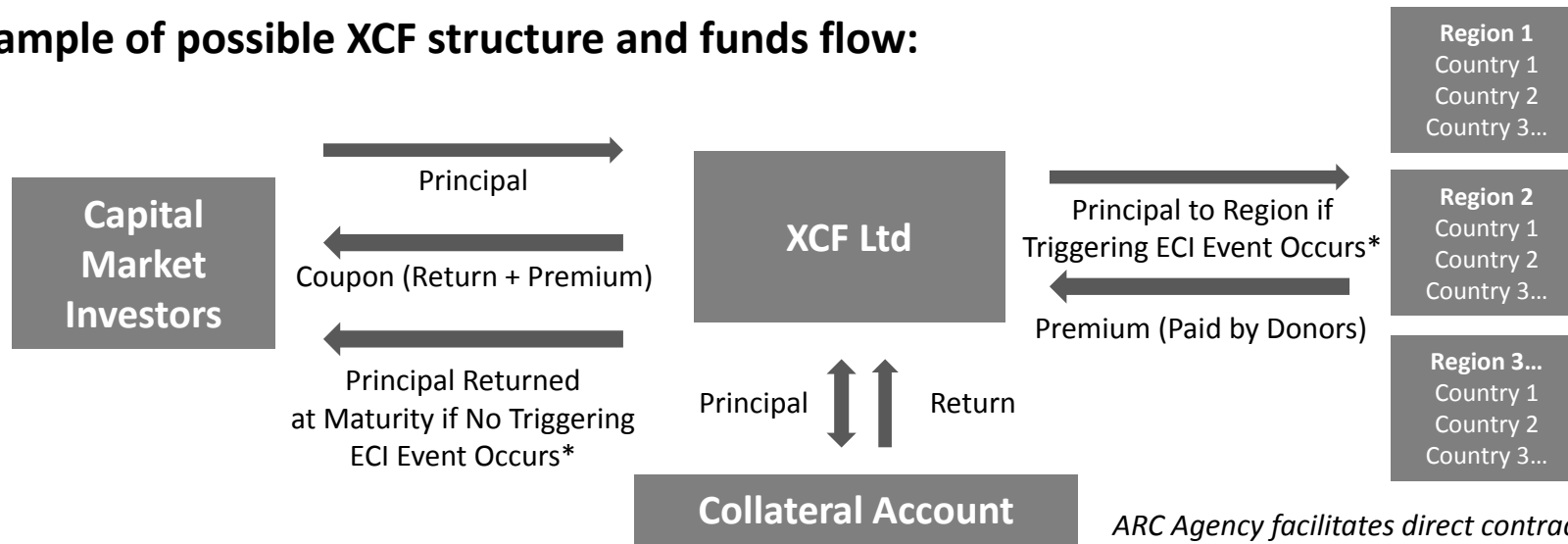
## XCF Mechanism



- Designed to access private capital, the XCF will be structured along the lines of a **catastrophe bond programme issuing a series of multi-year cat bonds**
- Donors would support cat bond coupon payments, while **investors provide the capital**
- Cat bonds will be **parametric**, based on an objective, **multi-hazard Extreme Climate Index (ECI)** and focus on each climatological region of Africa
- **Payments will be triggered** from the bond principal should the ECI exceed a set threshold at bond maturity, **indicating a potential change in frequency and intensity of extreme weather** events in the region
- Should they occur, **payments will start small** and would increase with subsequent cat bond issuances, **growing alongside increasing evidence** of observed deviations from the baseline climatology
- Should extreme events continue to occur countries could stand to receive a predetermined maximum dollar amount over **the 30 year XCF adaptation period**

# XCF Structure & Operation

## Example of possible XCF structure and funds flow:



*ARC Agency facilitates direct contracting with countries and approves country participation*

- **XCF Ltd** would be a second financial affiliate of ARC Agency, a special purpose company that would enter into direct swap agreements with participating countries and then issue a series of multi-year cat bonds linked to these agreements to investors
- **ARC Agency** would be the gateway for country participation in XCF by approving country adaptation plans and facilitating country interactions with XCF Ltd

\* Either all or a partial amount of the principal could be triggered depending on the severity/frequency of ECI events during cat bond tenor and the region or regions in which the events occur



Website: [www.africanriskcapacity.org](http://www.africanriskcapacity.org)

Twitter: @ARCapacity

## Benefits



- Free license for *Africa RiskView* software and historical database
- Training in use of the software and broader weather risk assessment
- Advisory services in sovereign level risk financing
- Peer-learning and review platform of best practices in contingency planning for disaster response, specific to the African context
- Access to ARC insurance products (droughts, tropical cyclones, floods, excess rainfall, etc)
- Potential future access to climate finance funds (broader than food security or the agriculture sector)