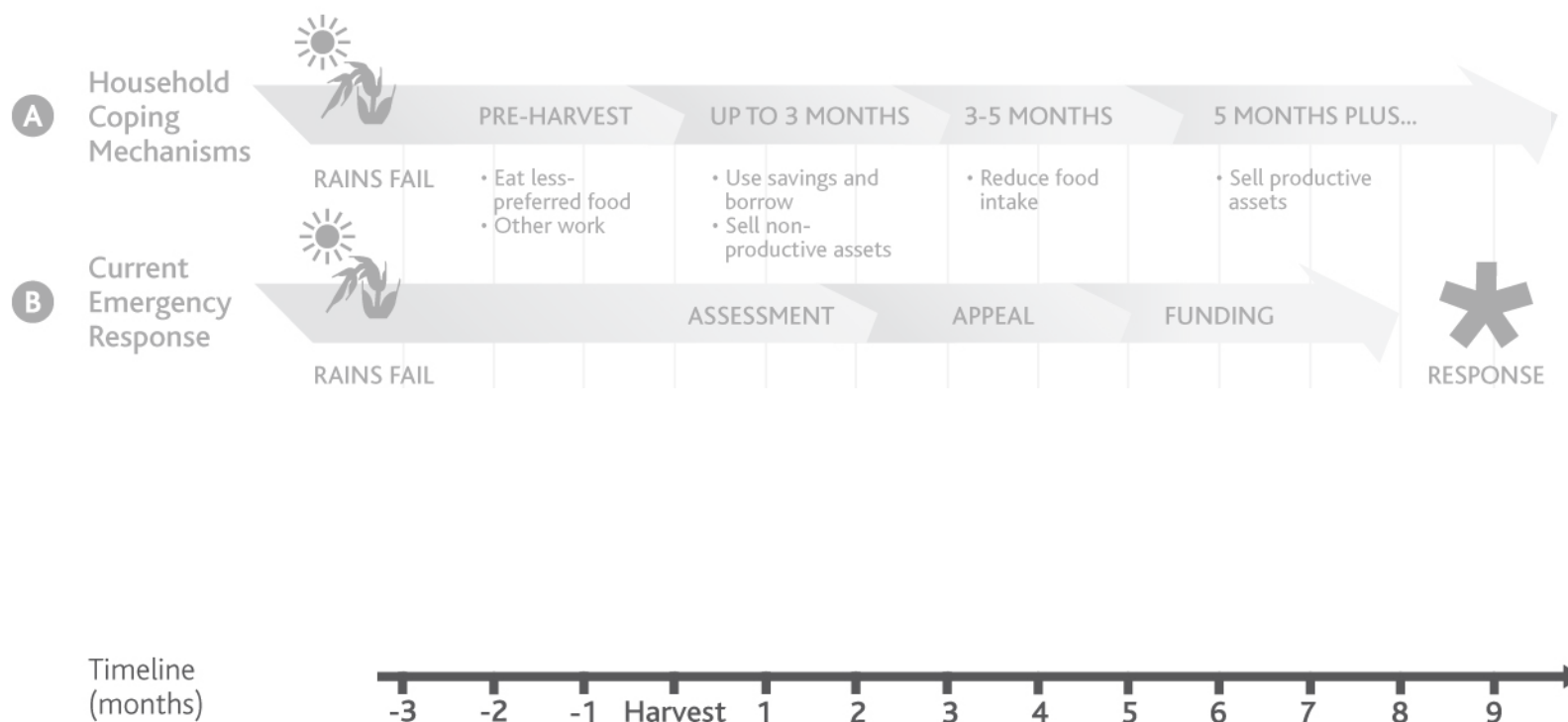


## **African Risk Capacity Building Approach**

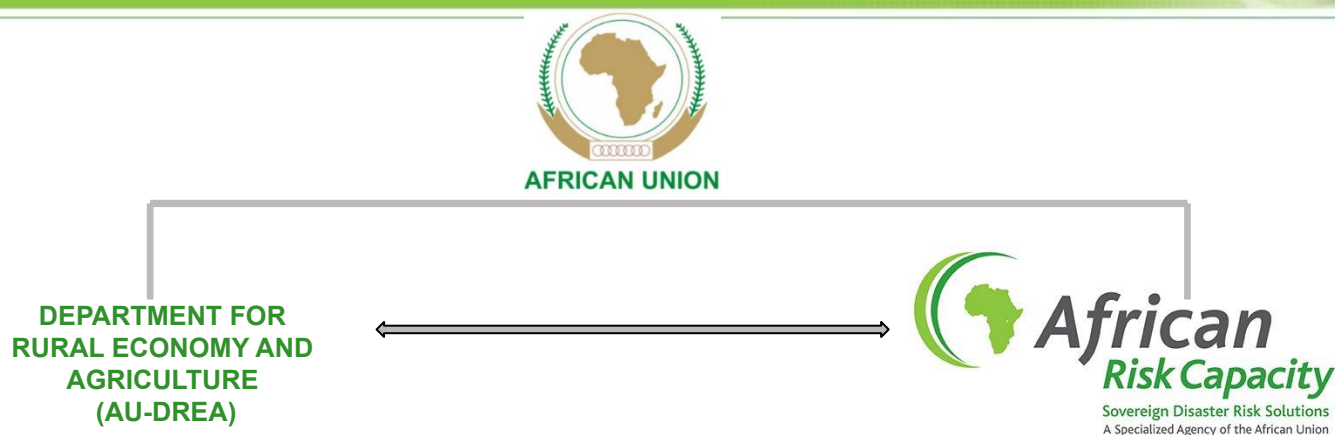
**COP24, 8 December 2018**

# Why ARC was created?



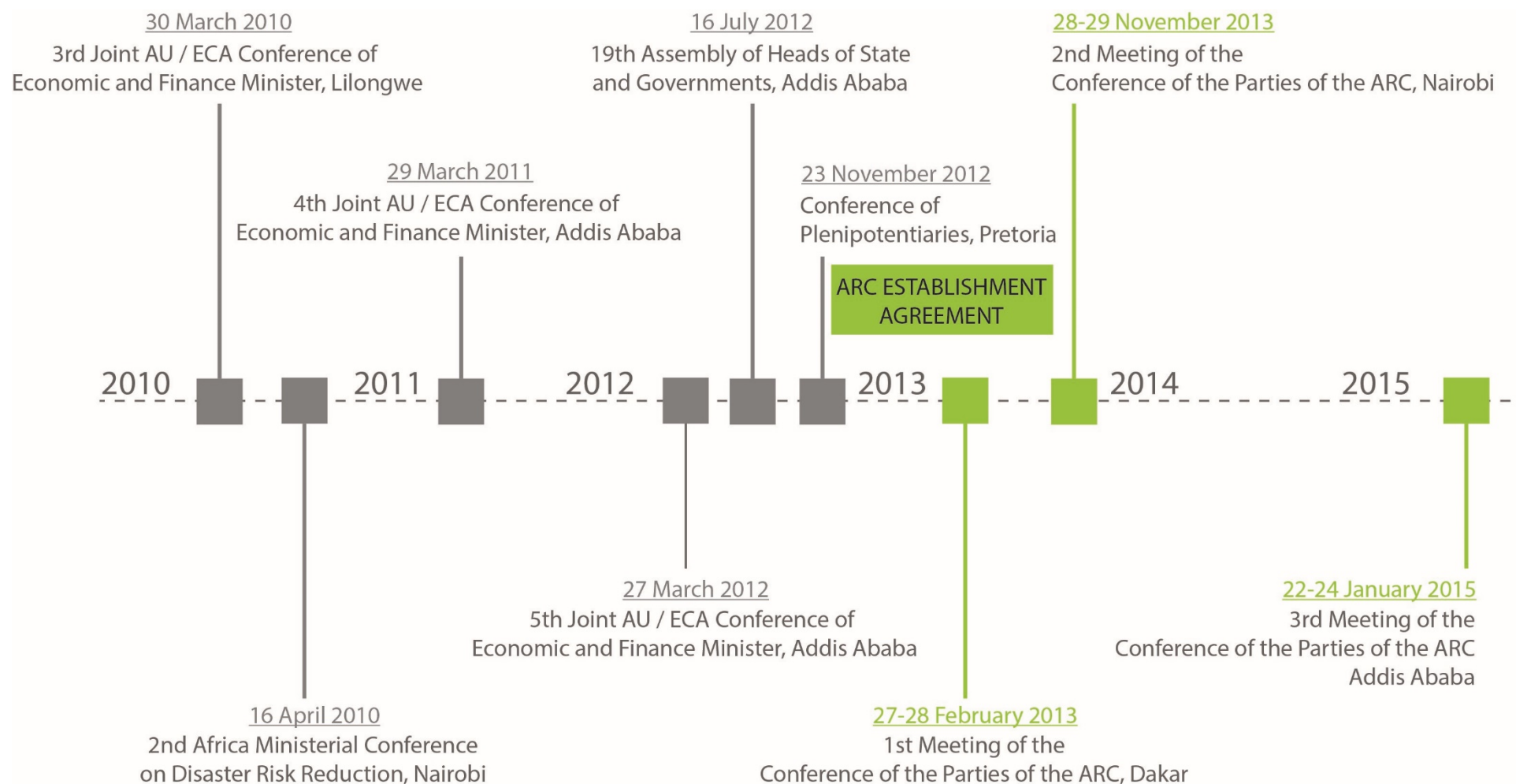
Source: Clarke/Hill, Cost-Benefit Analysis of the African Risk Capacity Facility,

# ARC and African Union



- The African Risk Capacity (ARC) is a Specialised Agency of the African Union designed to:
  - Provide **quick-disbursing funds** after drought, enabling a more timely response
  - Reduce risk management costs by **pooling risk** across regionally diverse weather systems
  - Help countries develop effective response plans for **early action**
  - Reduce the **impact of drought** and increase the effectiveness of external assistance
- Provides participating AU Member States contingent funds in the case of drought, and in future other natural disasters, to implement pre-defined contingency plans.

# ARC Institutional Development Process



# ARC's Two Tier Structure



## **ARC Agency** **Specialised Agency of the African Union** To carry out government-related function

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Managed by Member States</li> <li>• Provides guidelines &amp; oversight</li> <li>• Political engagement</li> </ul> | <ul style="list-style-type: none"> <li>• Capacity building</li> <li>• Operational monitoring</li> </ul> |
|---|---|

*UN WFP*  
*Administrative*  
*Services Support*

## **ARC Insurance Company Limited** Regulated commercial insurance company

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Carries out ARC's risk pooling and insurance functions</li> <li>• Transfers risk to the markets</li> <li>• Other financial and asset management functions</li> </ul> | <ul style="list-style-type: none"> <li>• Owned by Member States and Capital Contributors</li> <li>• Governed by a board of insurance experts</li> </ul> |
|---|---|

## ARC's Risk Financing Model



Through its unique structure, ARC bring together three critical elements to create a powerful value proposition for its Member States:

**Effective  
National  
Early Warning  
Systems**

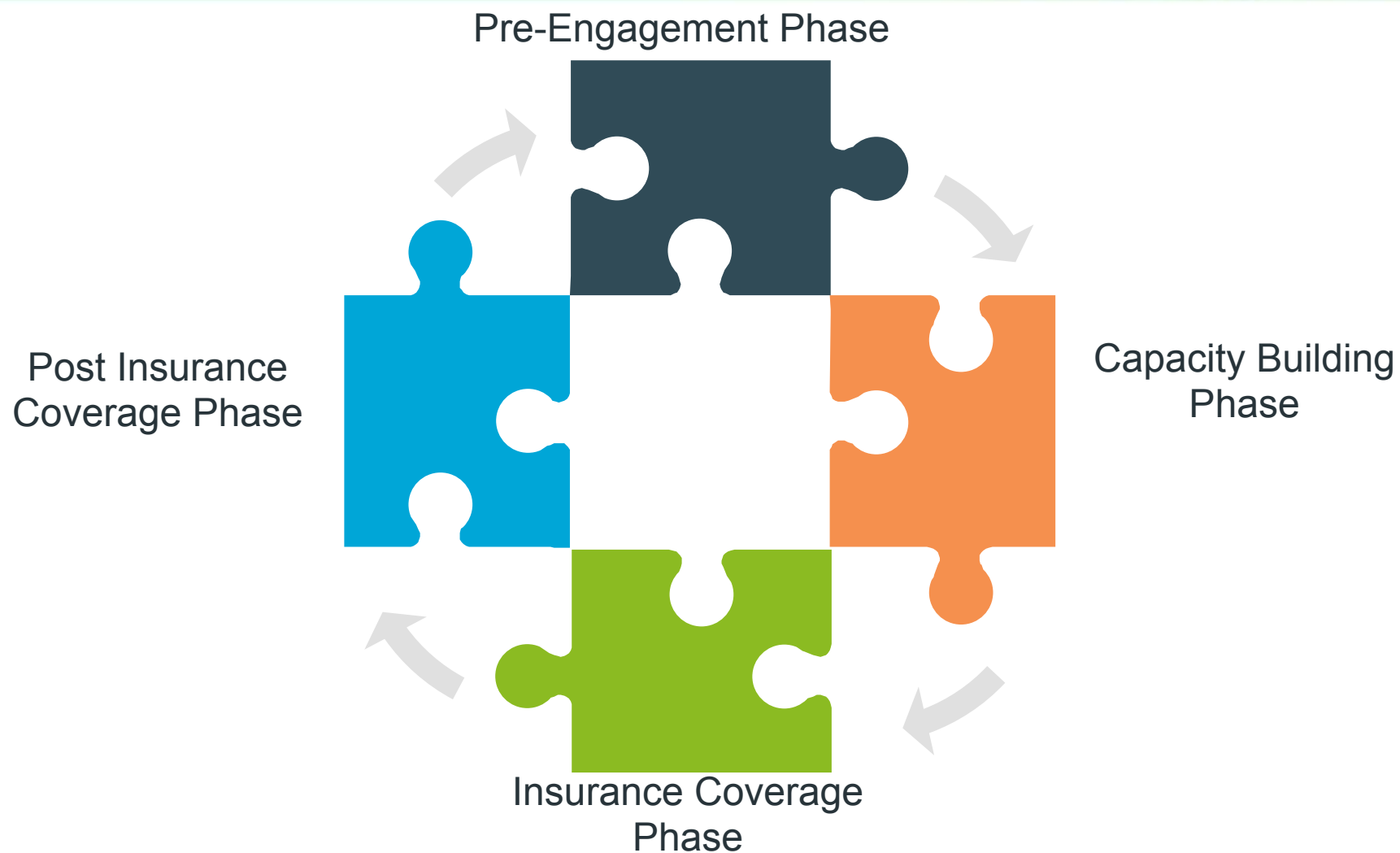
**Effective  
Response**

**Objective and  
Transparent  
Funding  
Mechanism**

- **Early Warning:** *Africa RiskView*
- **Response:** Contingency Plans to respond to Natural Hazards efficiently
- **Insurance:** Index-based insurance and risk pooling

**As a result a dollar spent on drought response through ARC saves \$4.40 in traditional humanitarian assistance costs**

## ARC programme cycle phases





## Step 1

**AU Member States become Members of the ARC Agency through signing the Establishment Treaty**





## Step 2

**Agreement on Memorandum of Understanding to implement the ARC Capacity Building Programme in-country**

## Pre- engagement phase



- **Scoping missions to introduce ARC concept to member states**
  - Member states request ARC mission to the country
  - Stakeholder consultations on programme
- **MoU negotiations and signature**
  - Legal consultations on MoU
  - Definition of scope of work for the member state
- **Programme set up**
  - Identification of coordinating Ministry
  - Establishing in country programme structure

# Establishment of a technical Working Group

IN-COUNTRY PROGRAMME SUPERVISOR

/  
GOVERNMENT TEAM

GOVERNMENT COORDINATOR

SUPPORT

ARC AGENCY SECRETARIAT

COUNTRY ENGAGEMENT MANAGER

## ARC TECHNICAL WORKING GROUP

CONTINGENCY PLANNERS  
HUMANITARIAN RESPONSE  
SPECIALISTS  
SOCIAL PROTECTION SPECIALISTS



CLIMATOLOGISTS / METEOROLOGISTS  
AGRO-METEOROLOGISTS  
AGRONOMISTS  
STATISTICIANS / ECONOMISTS  
FOOD SECURITY & VULNERABILITY SPECIALISTS

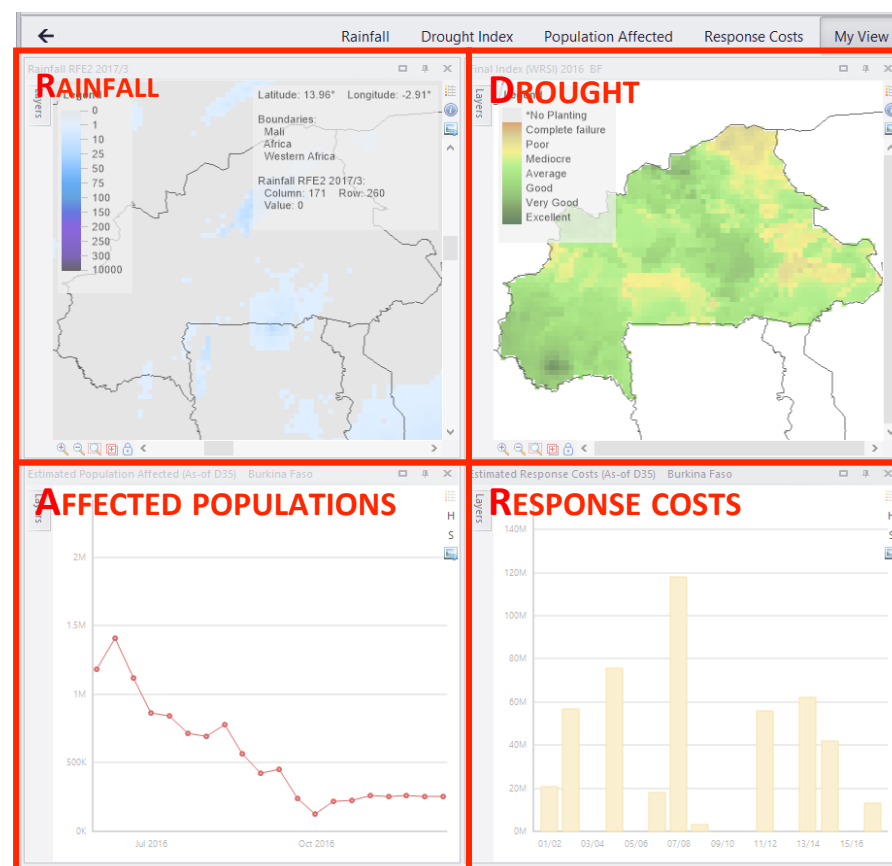
FINANCIAL EXPERTS  
INSURANCE EXPERTS  
ECONOMISTS

# AfricaRisk View

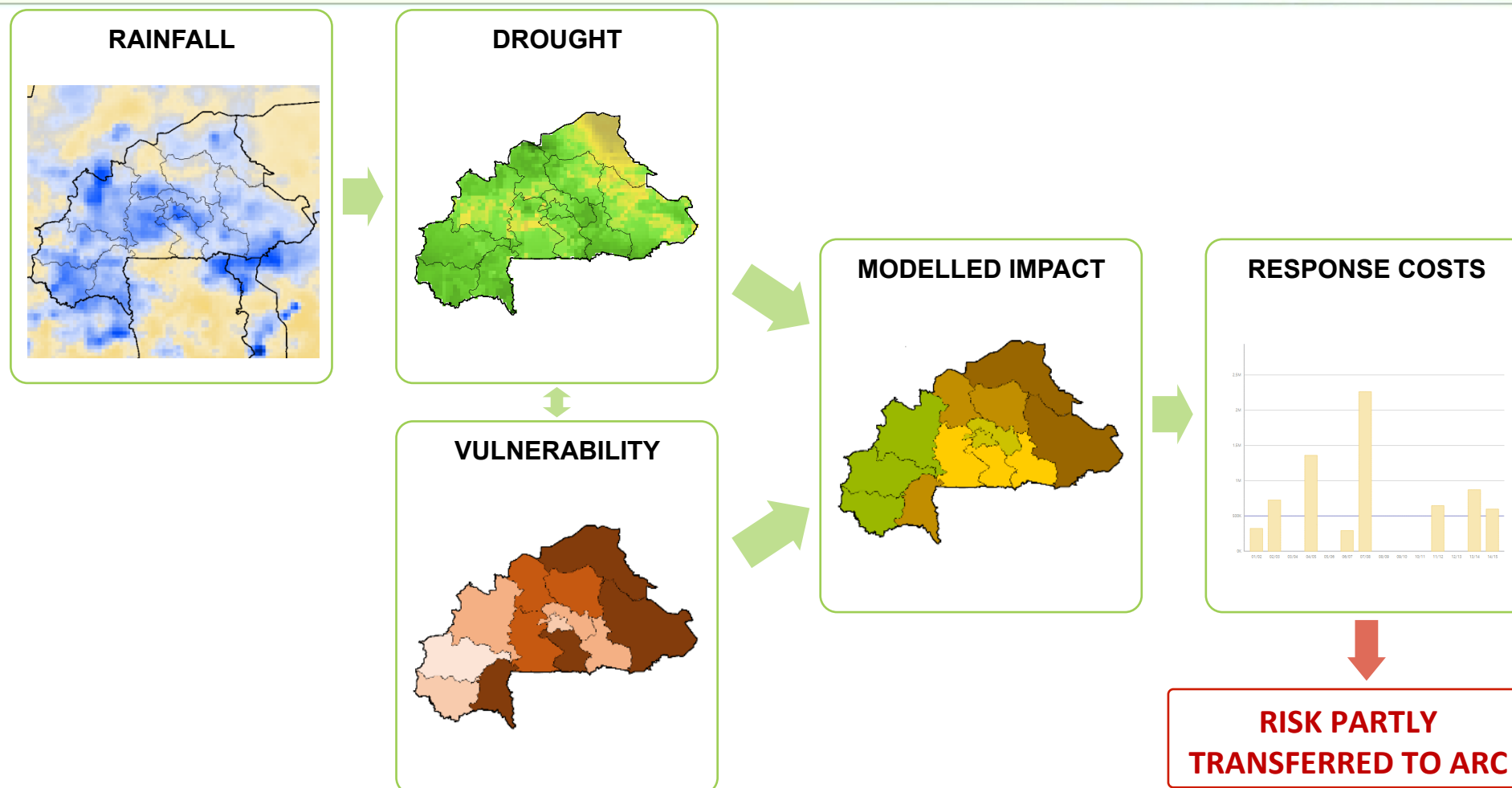
# What is Africa RiskView?

*Africa RiskView* (ARV) is a **drought risk modelling platform** that allows countries to:

- Monitor and analyse **rainfall**
- Follow the **progression of insured agricultural seasons**
- Estimate the **impact of drought** on vulnerable populations
- Calculate the associated **response cost**
- *Define participation in the ARC insurance pool using transparent criteria*

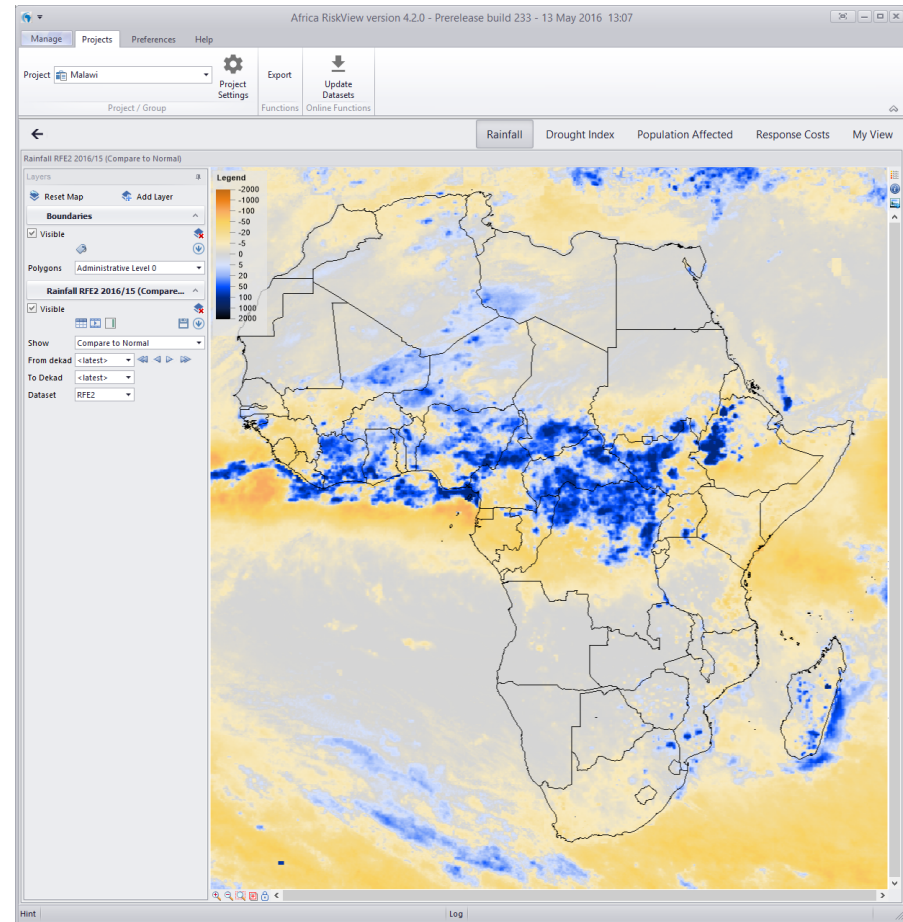


# Quantifying Risk



# Rainfall

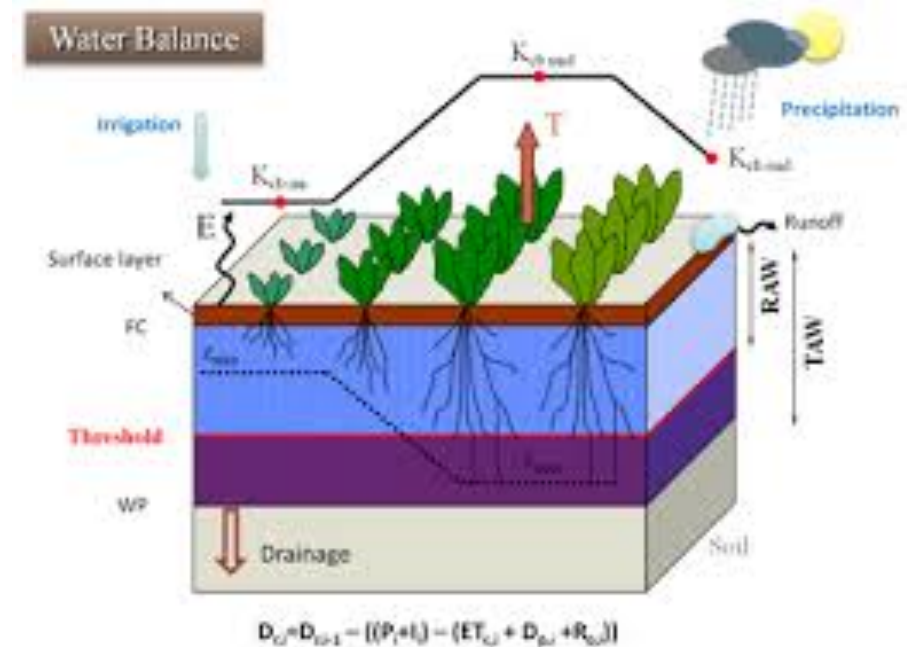
- *Africa RiskView* uses satellite **rainfall estimates** to monitor the progression of rainy seasons across the continent
- Rainfall data is the **only dynamic input data** in the model
- Satellite data is a source of transparent rainfall information that allows for **objectivity** across the ARC Risk Pool





# Drought Index

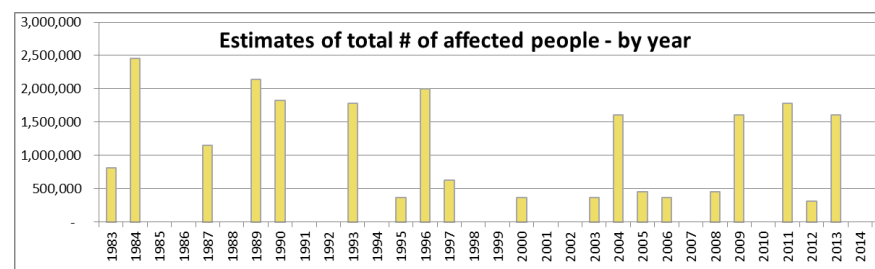
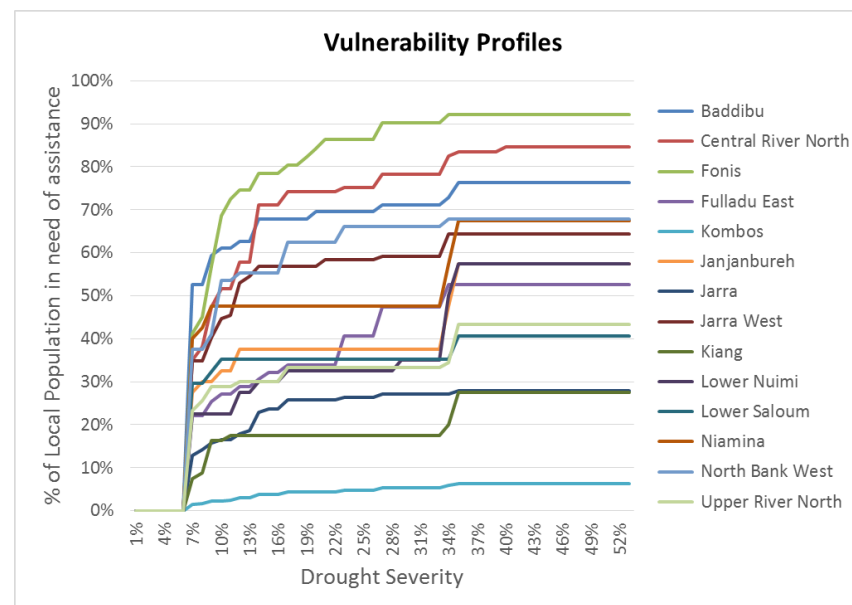
- Many drought indices exist, but *Africa RiskView* uses the **Water Requirements Satisfaction Index (WRSI)**.
- The WRSI is a “Water Balance Model”: it calculates water in & water out (taking into account all sorts of context-specific parameters) and compares the balance with the needs of the crop.
- This comparison is done throughout the season for each location, allowing a **real-time monitoring** of the situation.





# Drought Impact

- Drought severity (degree of dryness) is converted to Drought Impact (number of people in need of assistance) by assessing the **vulnerability to drought** of the local population.
- Two main considerations are: degree of **reliance on weather-dependant income** (mainly agriculture) and poverty level.
- Each season's total (country-wide) estimate is the sum of all local estimates



# Contingency Planning

## Operations Planning workstream

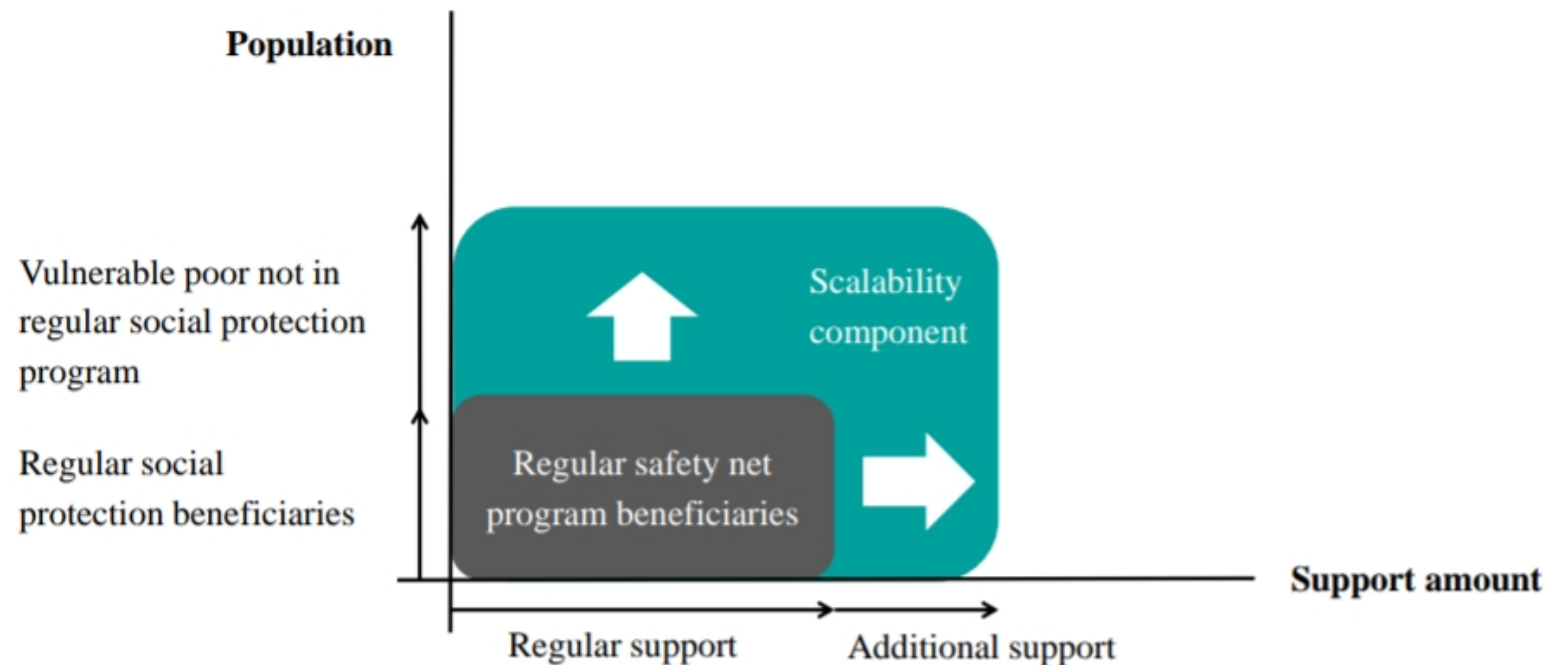


- An **Operation Plan** is a pre-requisite to taking out insurance.
- The plan should:
  - Identify activities that can be implemented **quickly for an early response** – Should meet specific **Eligibility and Implementation Criteria**
  - Be established in advance of the start of the season
  - Prepared through a consultative and collaborative process
  - Passed through the approval process of the ARC Governing Board
  - Preferably drawn from existing systems, programs and operations.
- If ARC payouts are not used for early response the benefits of risk transfer mechanism could be reduced or potentially lost.
- Considerations being made by other parties to use the Plan as a basis for early response

# Typical ARC Operational Planning Approach

Scaling up existing social protection programmes

- Inclusion of non regular beneficiaries
- Increased support for regular beneficiaries



# Risk Transfer

## Risk Transfer and Financing



- This is the final step a government will need to go through to determine if it wishes to join the ARC Risk Pool after *Africa RiskView* has been customized based on a country's preferences,
- Government will need to select the level of risk they wish to transfer to ARC
- These parameters include:
  - Level of risk the country wishes to transfer - **Sum Insured**
  - Frequency of Payout - **Risk Retention**
- These risk transfer parameters will be driven by:
  - The type of coverage that experts in government believe will best meet the country's needs
  - Premium available for the transaction

# Risk Transfer and Financing

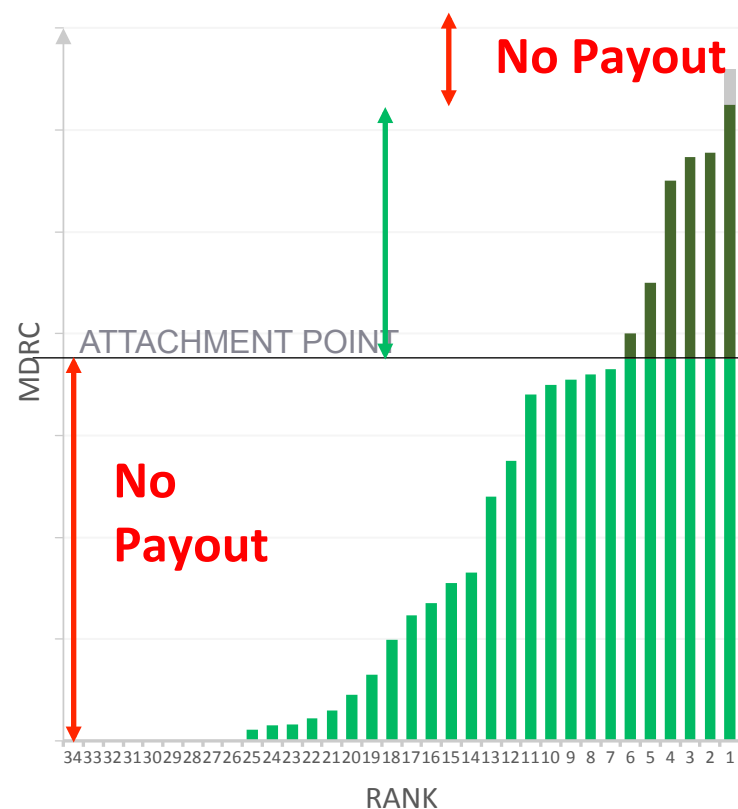
The **Attachment Point** is the the loss value at which the insurance policy begins to payout.

It functions like a deductible/excess in a standard insurance policy. Losses below the attachment point would be absorbed by the country.

The **Exhaustion Point** is the level at which the maximum payout under the policy is paid.

Losses above the exhaustion point would be retained or absorbed by the respective Government.

Maximum coverage per contract is **\$30m – negotiable upwards**



# Public Policy/ Institutional Strengthening



- **Lobbying and Advocacy**
  - **Transformational thinking** that recognises the importance of pre-financed and pre-disaster response plans in a cross-collaborative way.
  - Transitioning to broader **disaster risk layering and financing tools application**
- **Technical support**
  - Strengthening early warning system, risk quantification and cost implications allowing formulation of **transparent and objectively informed policy decisions**.
    - Mid season and end of season ARV bulletins – *e.g. SADC mid-season*.
    - In-country bulletins – *e.g. Ghana RiskView*; Sub-national reporting and monitoring systems – *e.g. Kenya reporting using ARV at county level*.
- **Breaking the Silos**
  - **Increased cross collaboration** across in-country TWG members, and across countries particularly **including Treasury representatives** in working groups of this nature.
  - Places **governments at the center** of response coordination and implementation with partner support.
  - Providing for a **basis for funding and structuring early response** even for more frequent and low severity drought events
  - Reviving defunct **social protection systems** in some instances
  - **Hedging government investments** in food security and agriculture production





## Step 3

The TRC and Board of ARC Agency reviews the Contingency Plan

Certificate of Good Standing once a Member Country has met requirements



## Step 4

Policy Signature, Premium Payment and country becomes a Member of the ARC Ltd, as a Class A Member.



## Step 5

### Seasonal Performance Monitoring



## Step 6

If policy triggers

Development of a Final Implementation Plan

## Example of a FIP \_ Malawi



### Operational Plan

- **Unconditional Cash Transfers – SCTP Scale up**
  - Scale up of an existing Social Cash Transfer Program (SCTP) implemented by government
- **Targeted Food Distribution**
  - Procurement and Distribution of Food baskets to targeted vulnerable populations

### Final Implementation Plan

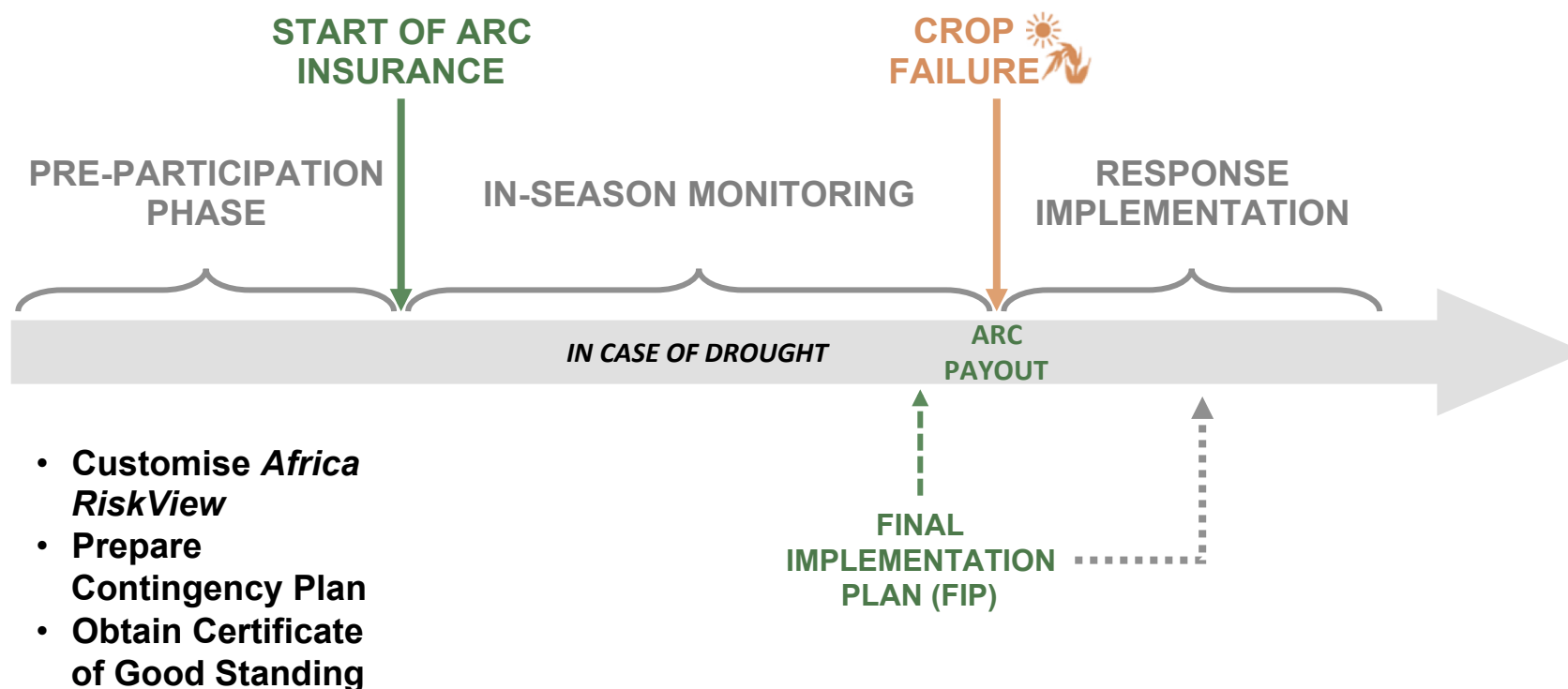
- **Emergency Cash Assistance (Cash Based Transfers) -\$2,4m**
  - Implemented by WFP through the Protracted relief and recovery operation
- **Replenishment of Strategic Grain Reserves (SGR)- \$5,7m**
  - Implemented by the National Food Reserve Agency (NFRA)



## Step 7

Response Implementation, Monitoring,  
Auditing

# Summary of ARC's engagement process



## A map of the African continent with country borders outlined. Countries are colored in two categories: green and grey. The green countries include Mauritania, Mali, Niger, Chad, Libya, Egypt, Sudan, South Sudan, Ethiopia, Somalia, Kenya, Tanzania, Uganda, Rwanda, Burundi, DRC, Congo, Gabon, Equatorial Guinea, Liberia, Ivory Coast, Ghana, Nigeria, Cameroon, and Mozambique. The grey countries include Algeria, Tunisia, Morocco, Mauritius, Madagascar, and several countries in Southern Africa (Botswana, Namibia, South Africa, Lesotho, Swaziland, Zimbabwe, and Zambia).

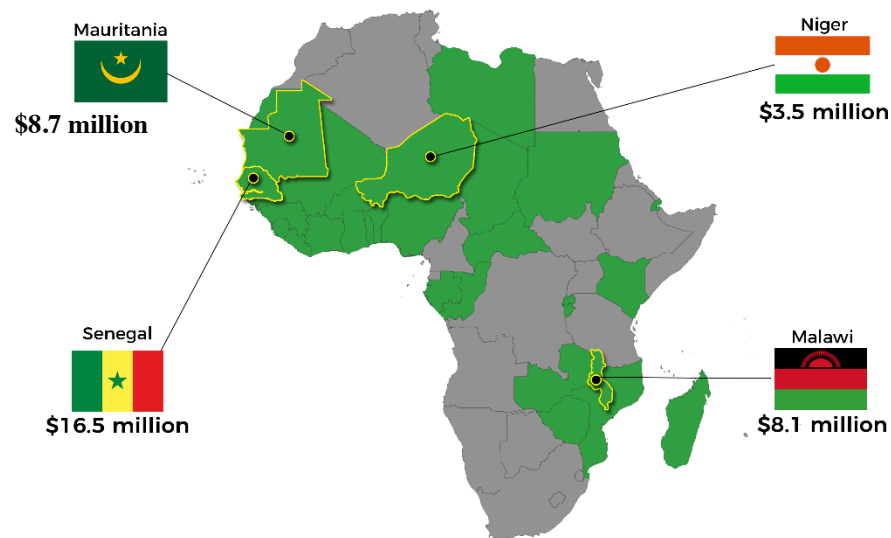
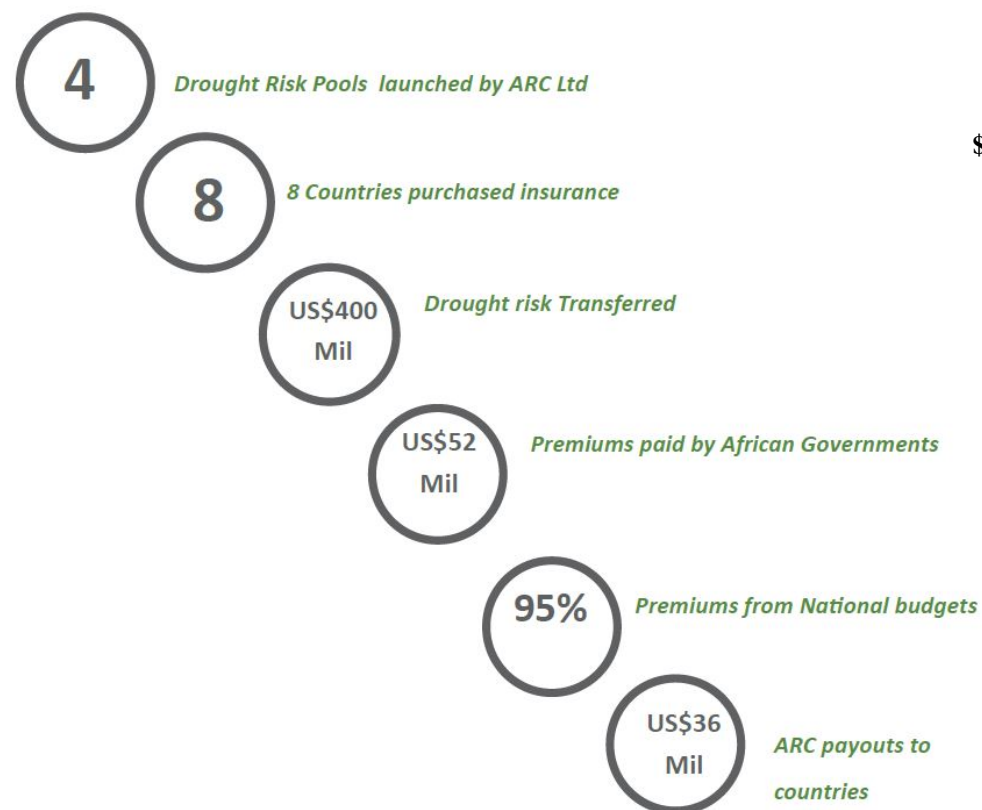
- 21 countries engaged in ARC Capacity Building Programme
- 14 Certificates of Good Standing
- 19 countries with active Memoranda of Understanding
- 15 in-country Technical Working Groups



# Progress Update



# Performance Update



**\$36 million  
paid out**

**Over 2.1  
million  
people  
assisted**

**Over 1  
million  
livestock  
assisted**

## ARC in the Future



- ***Africa RiskView* – Multi-hazard risk software**
  - Drought; River flooding; Tropical Cyclones
- **Outbreaks and Epidemics**
- **Replica**
  - Allows in-country UN Agencies and NGOs to leverage government backed and supported actions
- **Extreme Climate Facility**
  - Adaptation funding for countries with extreme climatic shifts coupled with extended low resilience and thus expensive premiums.
- **Building and Developing Partnerships**
  - Technical, political and financial collaborations
  - E.G ADRiFi, MOU's with RECs,
- **Licensing for Development (L4D)**

*Questions?*  
**Thank you!**