Introduction to the African Risk Capacity

MCII/GIZ Workshop

12 May 2014
Bonn, Germany
The African Risk Capacity is a continental sovereign risk pool and early response mechanism designed to provide cost-effective contingency funding to African governments to execute pre-approved contingency plans in the event of severe natural disasters.

Its mission is to help African Union Member States improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters and to assist its Member States to protect the food security of their vulnerable populations.

ARC currently focuses on drought, but has begun work on developing a flood model.
Current Disaster Response in Africa

How do we allocate certain resources against risks that are probable, but uncertain in terms of their magnitude and their timing?
ARC aims to provide cost-effective contingency funding to protect livelihoods and development gains.
ARC’s Institutional Structure

Two-entity structure:
- ARC Agency – a Specialised Agency of the African Union created by treaty
- ARC Insurance Company Limited – a hybrid-mutual insurance company domiciled in Bermuda

ARC Agency
Specialised Agency of the African Union
To carry out government-related functions
- Managed by Member States
- Provides guidelines & oversight
- Political engagement
- Capacity building on contingency planning
- Operational monitoring

ARC Insurance Company Limited
Regulated commercial insurance company
- Carries out ARC’s risk pooling and insurance functions
- Transfers risk to the markets
- Other financial and asset management functions
- Established in Bermuda for the interim period
- Governed by a board of insurance experts
Three ARC Pillars

Through its unique structure, ARC bring together three critical elements to achieve its mission:

- **Early Warning:** *Africa RiskView*
- **Insurance:** Index-based insurance and risk pooling
- **Response:** Contingency Planning
**Africa RiskView** is the software application developed to underpin ARC Ltd’s index-based drought insurance contracts

- It allows countries to:
  - Analyse and monitor their drought-related food security risk
  - Define their participation in the ARC Ltd using transparent criteria
  - Monitor potential ARC Ltd payouts
- Developed in-house by WFP/ARC
- Customising software is a prerequisite for taking out insurance
Underlying ARC Ltd insurance policy completely specifies the ARV model at the end of the customisation process for each season insured:

- RFE dataset selected
- Every WRSI parameter and selected benchmarks
- Admin units and population vulnerability profiles
- Response cost settings

Includes the insurance contract terms based on the modelled national drought response costs at the end of the season:

- National Response Costs Attachment Level (minimum 1-in-5 year)
- Ceding Percentage (up to 100%)
- Contract Limit (US $30m)
Insurance: Risk Pooling

- Summation of Worst Case Drought Response Cost for Individual Countries
- Worst Case Drought Response Cost for Pool of Countries
Response: Contingency Planning

ARC’s value to countries is directly linked to the countries’ ability to utilise a potential payout effectively.

Plans are developed by countries in consultation with the Agency, guided by ARC’s contingency planning standards:

- Eligibility criteria:
  - Time sensitive and/or catalytic
  - Livelihood saving
  - Must reach beneficiaries within 120 days and be implemented within 180 days
- Plans must demonstrate in detail that they can be implemented, monitored and evaluated.

Plans are evaluated by a Technical Review Committee and by the Agency Board’s Peer Review Mechanism before countries are eligible to take out insurance.

Currently reviewing this process with Kimetrica (Nairobi)
To join the risk pool, countries must undertake the following process:

1. Sign the treaty – 24 member states
2. Sign an MOU with the Agency to begin capacity building – 12 member states
3. Nominate a Programme Supervisor and Government Coordinator
4. Form technical working groups for the three ARC pillars:
   a. *Africa RiskView* customisation
   b. Risk transfer parameters
   c. Contingency planning
5. Receive a Certificate of Good Standing from the Agency Board
6. Pay premium to the Company for insurance coverage
In-Country Roles and Responsibilities

- In-Country Programme Supervisor/Government Team
- Technical Working Group
- Government Coordinator
- ARV Customisation TWG
  - Climatologists
  - Meteorologists
  - Agro-meteorologists
- Operations Planning TWG
  - Agro-meteorologists
  - Statisticians
  - Economists
  - Agronomists
- Risk Transfer TWG
  - Food security and vulnerability specialists
  - Financial experts
  - Contingency planners
  - Logistics

ARC Secretariat
Regional Programme Officer