

»»Project Information

Implemented by:



Climate Insurance - Africa

Bearing climate change risks together

In 2012, African governments created the first insurance pool - the African Risk Capacity (ARC) - that takes effect when extreme weather occurs and provides rapid funding. In addition to individual states and development partners such as Germany, private insurance companies are also involved. Participating countries insure each other via the ARC. In the event of a disaster, the pool makes insurance payments to the affected states that are able, in turn, to support those in need within their respective countries. When the Sahel suffered an extreme drought in 2015, the three countries affected were quick to receive USD 25 million from the pool. The ARC's design is exemplary and forward-looking, also because of the way in which it spreads risks between various stakeholders.

only around 100 million poor people are insured against risks from adverse weather. For this reason, the G7 states plan to set up insurances for a further 400 million people by 2020.

They view this goal as a contribution to international climate agreements within the framework of the United Nations: in the Paris Agreement on climate change concluded in December 2015, the member states are expressly called to make headway on insurance solutions to cushion climate change-related risks. The ARC

Project name	The Climate Insurance Fund
Commissioned by	BMZ
Country/Region	Regional - Africa
Lead executing agency	African Union

Current situation

At their summit in Elmau in 2015, G7 heads of state and government agreed to set up an initiative to support climate-risk insurance. The background here is the increase in extreme weather which will occur due to climate change. However, not all the effects of these changes can be avoided by good preventative measures. Comprehensive climate risk management therefore also includes insurance that compensates for such damages.

Climate risk insurance is important for regions affected by extreme weather fluctuations that will be further amplified by climate change – in other words for many developing and industrialised countries. When natural disasters occur, these countries suffer to a greater extent than OECD states for example, measured in terms of economic power. And yet, according to estimates,





Drought in Africa. Photo: KfW / Fred Hoogervorst

is such a climate insurance facility that is already in place.

Project approach

The founding principle of the ARC is not to wait until a natural disaster occurs and then hope for ad-hoc support from international development partners, but rather to make preparations in advance via this insurance pool. As a result, countries affected can counteract crises more rapidly and in a more coordinated manner due to payments from ARC. These are disbursed when certain, fixed threshold levels, e.g. volumes of rainfall, are exceeded. Payments are index-based and depend on these fixed "triggers". If an agreed threshold level is exceeded, for example indicating a drought, the states receive money within a short period of time.

A distinctive feature of ARC is that before a government can take out an insurance policy, it must prepare an emergency plan and determine in advance how the funds are to be disbursed if it becomes necessary. Each emergency plan undergoes a peer review process by the other ARC members in order to be approved.

The ARC consists of two parts – the African Risk Capacity Agency – a special African Union organisation that all the participating states belong to, and the African Risk Insurance Company Limited, the insurance company itself. Alongside African states, Germany and Great Britain are also involved as development partners. KfW, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) has, to date, paid in USD 50 million; further commitments are planned. Private reinsurance companies cover part of the risk. In the future, there will also be ARC replica coverage that will offer international organisations and

NGOs the option of taking out insurance policies in conjunction with local governments and their emergency plans. They too will receive funds quickly and reliably in the event of a disaster.

Impact

In 2015, the Sahel saw a drought which triggered the first payouts totalling USD 25 million to Mauritania, Niger and Senegal. These countries used the funds towards food supplies, cattle fodder and cash payments to the affected population. The three states had previously paid premiums of USD 8 million in total and were thus able to access considerable sums of emergency capital based on relatively favourably priced insurance policies.

Currently, 15 African countries belong to ARC; the aim is to extend that figure to 30 by 2020. The insured damage sum is expected to have multiplied to reach USD 850 million at that point, and will thus secure millions of Africans against climate-induced risks. Mohamed Beavogui, General Director of the ARC Agency, declares, "This is an innovative, cost-efficient and reliable model for humanitarian financing."



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