

Drought insurance for African States

Managing the risks of climate change

The African Risk Capacity (ARC) offers member states of the African Union insurance against increasingly frequent and severe droughts, to enhance their resilience and reduce their dependence on international emergency aid in the event of a disaster. By combining early warning and contingency planning with an insurance mechanism, member states have access to funding shortly after an extreme weather event while pre-planning activities ensure that payouts are used effectively. The payouts enable governments to support their population during the critical months following a drought. This saves lives, protects livelihoods and assets and safeguards development gains. The innovative risk management instrument was established by KfW Development Bank on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and other donors including the United Kingdom and several African countries.

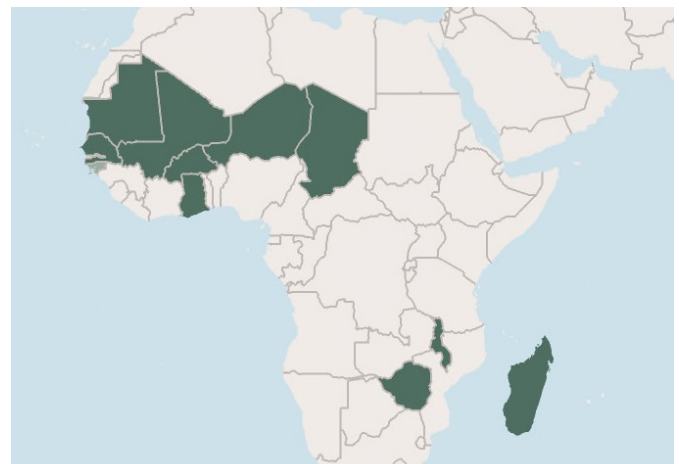
people in developing countries and emerging economies are insured against weather-related risks.

The InsuResilience Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions was launched at the 2017 UN Climate Conference in Bonn. Since its launch, more than 50 members have joined the Partnership. The Partnership aims to strengthen the resilience of developing countries and protect the lives and livelihoods of poor and vulnerable people against the impacts of disasters. ARC is embedded in this initiative.

Project name	African Risk Capacity (ARC)
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/Region	Africa
Lead executing agency	ARC Group, African Union

Context

As a result of climate change, the frequency and intensity of extreme weather events such as floods, cyclones and droughts are expected to increase. Developing countries and emerging economies have fewer coping and adaption capacities and thus suffer to a greater extent than high-income countries in the event of natural disasters. Due to the inevitability of extreme weather events and their damages, a comprehensive climate risk management is critical to cushion the consequences of natural disasters. Insurance is a key component of adequate risk management. However, according to estimates, only about 100 million poor and vulnerable



Countries with Certificates of Good Standing (approved contingency plan and technical preparation with ARC)



Drought in Africa. Source: KfW Group, photographer: Fred Hoogervorst

Project approach

The ARC provides insurance against drought to participating African countries. By combining early warning and contingency planning with an insurance mechanism, member states have access to funding shortly after an extreme weather event while pre-planning activities ensure that payouts are used effectively. The approach is jointly implemented by two institutions: the political arm of the African Risk Capacity Agency (ARC Agency) along with the financial implementation mechanism African Risk Capacity Insurance Company Limited (ARC Ltd).

In order to participate in the ARC, countries must undertake several processes, including defining a contingency plan that sets out which relief measures are to be financed with an insurance payout. This guarantees that every policyholder plans in advance the measures to be taken in the event of a disaster. Furthermore, countries can independently monitor their growing season using the ARC software, so they become aware at an early stage as to whether they need to prepare for a drought.

Members of the ARC risk pool receive a payout when rainfall - measured by satellite data - is insufficiently severe, resulting in estimated response costs crossing a certain pre-defined threshold (parametric insurance). Due to this index-based insurance solution payouts are provided quickly allowing affected countries to implement intervention programmes timely.

Impact

Rural population in particular suffers during extreme droughts. Within only a few months, the inventories of small farmers are exhausted, forcing them to slaughter

their livestock and sell off their possessions. Drought insurance payouts help to bridge the gap during the critical months following a drought, until international emergency aid becomes available. Thus, insurances can help to save lives and protect livelihoods.

Since its inception, ARC has insured eight African countries (Burkina Faso, Gambia, Kenya, Malawi, Mali, Mauritania, Niger and Senegal), providing protection in the amount of more than USD 400 million. By now, ARC has disbursed over USD 34 million to four countries (Mauritania, Niger, Senegal and Malawi) following a significant rainfall deficit. Using the insurance payouts the respected governments were enabled to support 2.1 million poor and vulnerable people and rescue more than 900,000 animals. Mohamed Beavogui, General Manager of ARC, declared that ARC "is an innovative, cost-efficient and reliable model for humanitarian financing". ARC allows African countries to move from taking ex-post measures after a crisis towards effectively managing their risks ex-ante.

Outlook

ARC aims to expand its insurance portfolio in the next years not only to additional countries, but to new products such as insurance policies against the effects of floods and cyclones. Furthermore, ARC Replica allows (international) humanitarian actors to top up ("replicate") the insurance coverage of countries insured by ARC policies. In this way, climate risk insurance can become an important element to advance the humanitarian system by addressing risks effectively ex-ante.



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