

African Risk Capacity

KEY LESSONS TOWARDS CONSOLIDATING SOVEREIGN RISK PARAMETRIC INSURANCE WITHIN THE EAST AND SOUTHERN AFRICA REGION'S

DISASTER RISK FINANCING SPACE

The African Risk Capacity (ARC) was established to help African Union Member States improve their capacities to better prepare for and respond to disaster events arising from the various natural hazards faced on the continent, therefore protecting the food security of their vulnerable populations. A key part of the ARC strategy is the provision of innovative tools and products for Member States to effectively manage their natural disaster risk.

Background note: *This brief draws its main insights from the African Risk Capacity (ARC) East and Southern Africa (ESA) Region Lessons Learned workshop, conducted in Johannesburg South Africa in July 2018. The lessons learned extracted from this workshop, and experiences drawn from ARC programme implementation across seven countries in the ESA region are reported. This brief also aims to sensitise policy makers in the region on the benefits, values, challenges and solutions faced in implementing the ARC programme in the ESA region, with the overall aim of consolidating the role of the sole, pan-African solidarity and ubuntu based Sovereign Risk Parametric Insurance Scheme on the Continent.*

KEY LESSON 2: INNOVATION IS NECESSARY FOR GOVERNMENTS TO MOBILISE PREMIUM FINANCING

Financing insurance premiums to participate in ARC drought risk pools at sovereign level completes the cycle of the ARC capacity building programme, as it signifies the complete transition from the traditional ex-post (disaster response financing) to pre-planned disaster risk financing (ex-ante financing) for guaranteed early and speedy response. Governments could consider opportunities such as premium support programmes, implement tax levies, involve population through farmer organisations, capitalise on CSR from multilateral cooperations to raise premium resources, thus allowing more member states to participate in ARC risk Pool.



ARC Member States

ARC is led by 33 African Union Member States. These Member States set the direction of the African Risk Capacity's disaster risk management research and policy, and they have access to ARC's disaster risk management tools services, including the Africa RiskView software, the ARC Capacity Building Programme, and ARC Ltd's risk transfer services.

KEY LESSON 1: THE ARC DROUGHT RISK POOL HAS BEEN DEMONSTRATED TO STRENGTHEN DISASTER PREPAREDNESS

Droughts, floods, tropical cyclones, and outbreaks and epidemics are major disasters that affect especially vulnerable populations in the ESA region. Their frequency occurrence and impact in severity, is expected to worsen due to climate change and geo-political global changes in traditional disaster risk reduction, response planning and financing systems. Experiences shared by countries that have received payout demonstrated value added in participating in the Risk Pool. Countries in the ESA region need therefore to revamp their traditional approaches to responding to common risks affecting their populations. The ARC risk pool is a mechanism that ESA countries can engage to strengthen their disaster risk management, preparedness and response approaches at country level.

KEY LESSON 3: PRIMING LOW-INCOME COUNTRIES IN THE REGION IS IMPORTANT TO TRIGGER THEIR ACTIVE PARTICIPATION IN ARC POOL

Besides governments efforts towards sustained premium financing from national budgets, governments are handicapped by limited financial resources, limited understanding in parametric insurance and how the mechanism works in policy making levels. As such, most governments are yet to factor sovereign risk insurance premiums as a key component of their National Budget or even source it from their development partners. Development partners and stakeholders can provide support to ESA countries by priming their participation in ARC drought risk pools through premium support. This will allow governments to learn and appreciate the importance of the mechanism and thus with time factor premiums in their National Budgets.

KEY LESSON 4: DIFFERENT ACTORS IN THE ESA REGION HAVE A ROLE TO PLAY IN THE SUCCESS OF SOVEREIGN RISK POOL

There is strong recognition of collaborative effort among stakeholders active in the disaster risk reduction, management and financing sector. Actions of key stakeholders {Governments, INGOs, RECs, ICPs, AU, and Private Sector} towards building the ARC risk insurance pool, are by nature cross cutting but can be summarised as leadership in comprehensive disaster risk financing policy frameworks by governments, support to technical work and awareness building by key stakeholders and premium support . Stakeholders need to identify their best niche area to effectively support in growing the only sovereign risk pool in Africa .



KEY LESSON 5: PARAMETRIC INSURANCE IS PART OF THE SOLUTION, TOWARDS EFFECTIVE DISASTER RISK FINANCING

Sovereign risk insurance is just one piece of the resilience puzzle towards elaborate risk financing initiatives. In its construction, it is designed to serve governments needs towards insuring the uninsured. These populations are usually the most vulnerable populations who cannot afford to purchase or pay part of a subsidy based scheme to insure themselves against droughts induced food insecurity. Sovereign insurance should be part of a larger matrix of financing tools used to safeguard against impacts of disaster risk .



Dr. Hashim Hussein, the Secretary-General of the Sudanese National Council for Civil Defence (NCCD) representing the Minister of Interior for Sudan, signed a Memorandum of Understanding (MoU) with the African Risk Capacity (ARC) to work together towards helping the country better prepare to efficiently deal with extreme weather events and natural disasters.



KEY LESSON 6: INSTITUTIONALIZATION OF THE ARC PROCESSES WITHIN GOVERNMENTS IS KEY FOR SUSTAINABILITY

The success of the ARC programme across the ESA region will highly depend on institutionalisation of its key tenets within government and their partners' day to day operations. Key stakeholders in the ESA region involved with the ARC drought risk pool identify the key actions that can be adopted to achieve full scale institutionalisation for sustained growth of the programme.

KEY LESSONS 7: DIVERSIFICATION OF RISK PRODUCTS IS CRITICAL FOR THE ARC AGENCY GOING FORWARD

The ARC mechanism is built on the tenets of diversified risks insurance portfolios, products and quality assurance systems that enhances participating member states preferences. The diversified products in ARC's infancy has affected ESA countries participation in ARC risk pools. ARC as a Treaty based organization, that gets direction from its annual Conference of Parties representing the different regions of Africa, response to this need will support countries participation in the risk pool .