

Start Network – ARC Replica

INTRODUCTION | June 2017



Leading for change in
humanitarian aid

ARC Replica

There is widespread consensus that responding *earlier* to emerging food crises is more effective. Major drought (and other key drivers of food crises) typically shows its cumulative effects on vulnerable families over several months, gradually eroding their resilience and wellbeing.

Research suggests that earlier response can more effectively protect communities and bolster their resilience, at lower cost than waiting for traditional 'late' humanitarian response. However at present, even when it is clear that a humanitarian crisis is unfolding, sufficient funds usually do not arrive to enable intervention until it is too late.

The Start Network is addressing this problem by piloting a new financing instrument, Africa Risk Capacity (ARC) Replica, which aims to release funds quickly and predictably in major emerging droughts. This financing instrument is underpinned by:

- Science-based risk modelling to understand drought in our areas of operation
- Contingency planning aimed at mitigating the impact of drought on vulnerable communities
- Pre-positioned financing to deliver response plans.

What is Africa Risk Capacity?

The African Union's African Risk Capacity (ARC) is a risk management and resilience building platform that provides financial tools and infrastructure to help African Union Member States manage natural disaster risk. ARC aims to promote pro-active risk management instead of re-active disaster response. This is achieved through ARC's programme by enabling participating Member States to prepare for, manage and finance natural disaster risk. Cost-benefit analysis (CBA) estimate that one dollar spent on early intervention through ARC saves four and a half dollars spent after a crisis is allowed to evolve.

The risk identified by member governments is financed through parametric insurance, provided by ARC. ARC Member States pay premiums through national budget processes and receive payouts for pre-approved contingency plans. ARC insurance policies payout to national governments when a drought of a certain magnitude is measured using Africa RiskView (ARV) which uses satellite remote sensing linked to crop models and prior levels of food insecurity. Before countries can purchase insurance, they must develop contingency plans, which are meant to optimise ARC disbursements. These plans are evaluated by the ARC Board's Peer Review Mechanism according to standards set by the Conference of the Parties. The below flow-chart illustrates this basic process.

ARC works with countries to calculate country premium¹ and allocates payouts to member countries based on predetermined and transparent rules for payment. Countries select the level at which they wish to participate by selecting the amount of risk they wish to retain² and amount of financing they would want from ARC for droughts of varying severity. At present, ARC policies are designed to payout about every 5 years. The risk pool reinsures itself in international markets and benefits from investment income so that it builds the capital available for coverage to member governments.

Parametric Insurance:

Parametric insurance is like other types of insurance, where in return for a yearly premium the policyholder receives a specified payment if the insured event (e.g a drought) takes place. The key difference is that instead of making payments on the basis of losses measured after an event, it makes the payments automatically based on pre-agreed triggers.

One of the key benefits of parametric insurance is speed of payment. This is particularly important where the insurance payment will fund costs of intervention after a catastrophe.

¹ An insurance premium is the amount of money that has to be paid for an insurance policy.

² This refers to the amount of funding from national budgets that a government would absorb to cover the costs of addressing the drought impact. Anything above the national government capacity would then be requested in international assistance.

What is ARC Replica?

Under ARC's Replica Coverage, non-governmental partners (like the Start Network) are supported by donors to replicate the insurance policies purchased by ARC Member States ('Replica Policy' – pay matching insurance premiums). If rainfall levels fall below a pre-defined threshold, they will receive matching pay outs at the same time as the government, to implement timely and coordinated actions to protect communities at risk. This enables ARC to expand its portfolio to better meet the disaster financing requirements of its Member States by cost effectively capitalising on ARC's Government-led risk management system and using international resources to match country coverage.

However, the role of the ARC Replica partner is not just to replicate an existing policy to expand coverage, but also to draw on the respective strengths of the replica partners, so as to contribute to the evolution and strengthening of the ARC mechanism as a whole. In addition to expanding coverage, there are a number of other roles for the Replica partner:

- Work with African governments to strengthen technical preparation activities and planning, ensuring that any policy being replicated has been appropriately designed.
- Create a two way flow of communication between vulnerable communities and the ARC government customisation process, ensuring that their specific needs and vulnerabilities are well represented in the process.
- Design and experiment with more rigorous tools for the contingency planning, monitoring and evaluation and other technical aspects of the programme, which if successful could be adopted across the wider ARC programme.
- Position the Replica initiative within a wider package of resilience interventions, in order to promote a layered approach to effective risk management.

The Start Network and World Food Programme are the first designated partners of the ARC Replica initiative. This initiative is currently being explored with Start Network members in **Mali** and **Senegal**.

How does it work?

The Replica Partner (Start Network) will put in place an Operations/Contingency Plan in close consultation with and endorsed by the Replicated country government. The countries' operations plan will be assessed by the Technical Review and Monitoring Committee of ARC Agency and approved by the Board to receive a Certificate of Good Standing (CGS) as a precondition for the purchasing the Replica coverage policy. Replica Partners are not required to have a CGS but are required to have an approved Contingency Plan. During the pilot year of Replica, the relevant country will approve their Replica Partner's Contingency Plans. In future years, Replica Partner Contingency Plans will be submitted together with the country Contingency Plans for Board approval.

The Replica policy is a parametric (index) insurance contract which mirrors the terms and conditions of each individual country up to (or below) the amount of coverage taken out by the country itself. Matching policies would use the same Africa RiskView (ARV) thresholds and triggers as the national government's ARC insurance policy. In the case of a payout, funds would be distributed to the Start Network's frontline NGOs, who would be ready to scale up activities to protect communities at risk.

Start Network's donors would pay the premiums for the Replica policies. These premiums would have to be additional funding provided by donors, not taken from Start Network operational budgets. The donor contributions will include premiums and operational support costs that are required for the preparatory work.

Main Takeaways

ARC Replica provides countries lacking financial and operational capacity to expand coverage beyond their current policy, with increased insurance-based funding and scaled, coordinated and timely operational execution through the matching replica policy.

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ARC Replica provides donors with a means to deploy international resources more effectively through participation in ARC's government-led risk management system, while expanding the coverage of climate risk insurance. Replica could contribute significantly to reaching the goals of *InsuResilience* to expand the coverage of climate risk insurance to 400 million people by 2020.

Country government

Replica Partner

ARC Replica Design and Payout Process

