

SAVING
LIVES
CHANGING
LIVES



ARC Replica

WFP's partnership with the African Risk Capacity (ARC) for the expansion of climate risk insurance

Climate change affects food-insecure people the most. Many of them live in countries that are prone to extreme weather events and face high levels of environmental degradation. It is estimated that by 2050 the risks of hunger and child malnutrition could increase by 20 percent. Climate disasters such as droughts, storms and floods will act as some of the driving forces behind these increases.

Governments of developing countries have made significant progress in managing growing climate risks and building resilience through greater allocation of domestic resources to disaster management. However, only about 100 million people in developing countries are currently covered by climate risk insurance and these countries will continue to need international support until they can fully manage their own risks.

The G7 and its partner countries made a commitment ahead of COP21 to expand this number to 400 million people by 2020, including 300 million through sovereign mechanisms such as the African Risk Capacity (ARC). ARC was established by the African Union (AU) to help Member States improve their emergency preparedness and response capacity for climate risks, including through innovative finance mechanisms and climate risk insurance.

As part of the G7 InsuResilience initiative, WFP, ARC and partners have been evaluating ways to expand the coverage offered by ARC to countries where limited technical and financial capacity prevents them from unlocking the full potential of this mechanism.

partners as an innovative approach to expand climate risk insurance coverage to more people and improve the effectiveness of emergency humanitarian response in vulnerable African countries prone to climate risks.

Under ARC's Replica Coverage, WFP and other partners (Replica Partners) can match the insurance coverage of ARC Member States (Replicated Countries) by purchasing a 'Replica Policy'. ARC member countries can then access additional protection through the matching policies acquired by WFP or other humanitarian agencies.

HOW DOES IT WORK?

The Replica policy is a parametric (index) insurance contract which proportionally mirrors the terms and conditions of the policy of the Replicated country up to the amount of coverage taken out by the country itself. Matching policies use the same Africa RiskView (ARV) thresholds and triggers and the government's ARC insurance policy, developed and customized by national technical working groups together with WFP.

Operations Plans (OPs) are developed in close consultation with and endorsed by the Replicated country government, outlining the complementary response measures to be implemented in case insurance pay-outs are triggered by a large-scale climate shock. Bolstering national response capacities, the OPs will also be integrated into WFP Country Strategic Plans in close consultation with each government. The matching policy premiums are to be funded by donors, while more sustainable financing arrangements are being developed.

WHAT IS ARC REPLICA?

ARC Replica is an insurance product offered by ARC Ltd to WFP and other humanitarian





WHAT ARE THE BENEFITS?

Replica enables ARC to expand its portfolio to better meet the disaster financing requirements of its Member States by cost-effectively capitalizing on ARC's government-led risk management system and using international resources to potentially double the coverage of climate risk insurance.

Countries lacking financial and/or operational capacity for greater coverage expansion beyond their own policy, benefit from Replica Partners providing both increased insurance-based funding and scaled, coordinated and timely operational execution. At the same time, the Replica scheme provides an opportunity for African governments and international partners like WFP to build national technical capacities and systems in emergency preparedness and response, targeting, and risk finance.

Replica will significantly increase the number of people covered by climate risk insurance, providing a new model for delivering humanitarian assistance that if adopted and/or supported by others could contribute significantly to reaching the goals of the InsuResilience initiative. Needs that remain uncovered by ARC and ARC replica will continue to absorb significant international resources through the UN appeals system.

ARC REPLICA PILOT AND NEXT STEPS

Based on eligibility criteria pre-determined by ARC and partners, ARC Replica is being piloted in Mali, Mauritania and Senegal in 2018. These selectin criteria are valid for the first two years of the pilot, as parametric insurance schemes necessitate a great deal of investment and are not intended to pay out every year.

As a lead Replica partner in Mali and Mauritania, WFP is contributing to: annual technical preparatory work, including the preparation of OPs in consultation with ARC and ARC country representatives; government technical working groups for the review, validation, and customization of indices and the establishment of risk transfer parameters. WFP is working with national early warning groups to

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triangulate information with wider early warning systems and country-level indicators. WFP is also collaborating with national institutions to improve and diversify national disaster and climate risk financing frameworks by linking them with other funds and instruments beyond insurance.

RESOURCE REQUIREMENTS

ARC Replica provides donors and countries with the opportunity to invest in innovative climate risk financing mechanisms that transform the current humanitarian model, which is focused on slow, late and repetitive crisis response, to a model which is based on forward-looking risk management enabling quicker and more predictable action. Initial financial support from Germany and Denmark has allowed the piloting of Replica in two countries.

Currently, US\$ 26.3 million are being sought to further expand climate risk insurance coverage, build institutional capacity on risk financing and develop evidence-based guidance for government partners. However, comprehensive operationalization and scale up of the approach across Africa would require significant additional resources.

