

Press Release issued by ARC Ltd.

Parametric development insurance shows real impact on African continent amidst calls for increased climate finance in run up to COP27

Climate finance is a hot topic in the run up to COP27. While Africa waits for developed nations to fulfil their aid pledges, climate financing is making a difference on the continent, but more needs to be done...

JOHANNESBURG, 27 SEPTEMBER 2022 – Less than two months to this year's UN Climate Change Conference (COP27) in Sharm El-Sheikh, African leaders are turning up the heat on countries which pledged climate finance to help developing countries adapt to the effects of climate change but have not delivered.

Agreements in Paris and Copenhagen had earmarked billions of dollars for climate change mitigation and adaptation in places like countries in Africa which suffer many of the worst impacts of global warming yet share little of the blame.

Said **Yasmine Fouad**, Egypt's Environment Minister recently: "We were not the cause the cause of these emissions, but it is us – our people and our natural resources – that are affected."

At COP26 in Glasgow, new financial pledges were made – US\$100bn every year in climate finance to support developing countries. It would seem we're not there yet.

In its [Landscape of Climate Finance in Africa](#) report mapping climate finance flows in Africa, the Climate Policy Initiative estimates that Africa alone needs US\$277bn annually to implement its Nationally Determined Contributions (NDCs) and meet 2030 climate goals. The continent needs US\$2.8T in total between 2020-2030 to limit warming to 1.5°C and addressing the biggest impacts of climate change.

Africa's annual climate finance flows stand at only US\$29.5bn – a shortfall of US\$247.5bn per year and just 11% of what's needed. The non-profit's stark warning in the run-up to COP27: "Time is of the essence; delaying action will cost the continent more in the future".

Building resilience to climate change is of paramount importance in Africa, says **Lesley Ndlovu**, African Risk Capacity (ARC) Ltd. CEO.

A hybrid mutual insurer and financial affiliate of the African Risk Capacity Group, ARC Ltd. provides parametric insurance services to African Union member states and farmer organisations to pool disaster-related risk across Africa and transfer it to international risk markets.

"In doing so, we improve Africa's response to climate-related disasters and contribute to resilience building and ultimately to food security. To this end, ARC Ltd. has paid out US\$124,3m in claims from eight risk pools since 2014, transferred US\$1bn risk and covered 30m people per year.

“In the past year alone, we paid out US\$59.6m and covered 18m individuals in countries like Mali, Malawi and Madagascar,” says Ndlovu.

In 2022, the impact will be greater, with pay outs already having been disbursed to several African countries, including:

- Burkina Faso: US\$1.19m for drought
- Madagascar: US\$797,049 for drought and US\$10.7m for tropical cyclone
- Mali: US\$7.1m for drought
- Mauritania: US\$1.14m for drought
- Malawi: US\$14.2m for drought
- Zambia: US\$5.3m for drought

These high levels of pay outs illustrate the value of a parametric insurance mechanism to meeting the needs of Africa’s most vulnerable. Insurance products help to build resilience by supporting the implementation of national disaster risk management policies and strategies, particularly the promotion of financial resilience to climatic hazards.

“As the premier institution for disaster risk financing on the continent, ARC Ltd. provides disaster risk insurance targeted at promoting resilience and providing financial protection to vulnerable populations in Africa when perils occur.

“The pay outs assist governments to support their affected populations quickly, helping them rebuild and recover from the effects of a drought or tropical cyclone and ensuring they have the means to bounce back swiftly instead of resorting to negative coping mechanisms,” Ndlovu explains.

The ARC Ltd. risk transfer and risk pool solution is the only affordable disaster-risk system on the African continent, says **Hans Ramm**, former Senior Policy Advisor for the Swiss Agency for Development and Cooperation (SDC).

“There’s no alternative system in sight for building greater resilience against natural disasters. All too often, traditional funding mechanisms are too late for small-scale farmers who must sell off their assets to ward off poverty and food insecurity.”

“As donors, we want to be assured that pay outs reach the poor and vulnerable communities they are intended to protect. ARC Ltd. lives up to its governance promises and pay outs to member states are verified by independent audits,” Ramm explains

Index Insurance Analyst at the World Food Program (WFP), **Bwalya Namwawa**, describes ARC Ltd.’s Replica Programme as a tool that can be used to execute activities on the ground swiftly after a climate-change disaster has occurred.

“We view insurance as one component of the entire disaster risk management agenda. Via ARC Ltd.’s Replica Programme, the WFP has ensured some level of certainty that, in the event of the onset of a natural disaster, there will be immediate pay outs related to the disaster’s predicted magnitude. This allows all involved to prepare before disaster strikes, instead of responding to the impact after it has happened,” says Namwawa.

Currently only 13 African countries participate in ARC Ltd.’s risk pools, indicating that there’s a great deal more work to do to achieve the organisation’s vision of extending

climate risk financing to cover to the estimated 200m vulnerable people who bear the brunt of climate change impacts on the continent.

Funding premiums is the great challenge, Ndlovu explains. However, through strong partnerships with donors such as USAID, the Foreign Commonwealth and Development Office, KfW Development Bank, the Swiss Agency for Development and Cooperation, the African Development Bank, World Food Program and Start Network, ARC Ltd.'s impact is being felt on the continent.

“We need broader collaborations between private and public sector if we are to reach even more people and close the protection gap. As we prepare for COP27, a key discussion points must be how these partnerships can build a resilient continent able to respond to extreme weather events and, in doing so, protect the economic development gains made over the last few years. The problem is so big that all of us have a role to play,” Ndlovu concludes.

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For more information about ARC Group, or to arrange an interview, please contact **Claire Lathe** at claire@bigambitions.co.za.

About ARC Ltd.

The African Risk Capacity Limited (ARC Ltd.) is a financial affiliate of the African Risk Capacity (ARC) Group, a specialised agency of the African Union (AU), an initiative designed to improve current responses to climate-related food security emergencies.

ARC Ltd. is a mutual insurance facility comprised of its members, which have included Kenya, Mauritania, Niger, Senegal, Mali, Malawi, the Gambia, Burkina Faso, Chad, Zimbabwe, Togo, Madagascar, and Zambia.

The membership also includes its capital contributors who have provided premium subsidies, including USAID, FCDO, SDC, KfW/BMZ, IFAD, AFDB, WFP and STARTNETWORK.

To view our full Integrated Annual Report, click [here](#).