

## Case study:

### Providing quality assurance in Africa

Deployment value: £118,004.43

Duration: Desk based review (ongoing)

#### Context

Climate change is changing the risk profile of countries in Africa. The continent is starting to experience increasing drought as well as flash floods. Some large, forward looking multinational companies are starting to take action to manage risk along their supply chains. Governments have been slower to act and traditionally are seen to lag behind the private sector in terms of innovation and risk financing mechanisms.

Across Africa drought leads to food and water insecurity – at times leading to humanitarian disasters, and on occasion exacerbating underlying political tensions. Evidence suggests that while the short-term impacts may be catastrophic for people's well-being; there are also significant longer term impacts that affect prospects for economic growth.

The African Union (AU) has set up African Risk Capacity (ARC) to pool sovereign drought risk across Africa. To participate in the risk pool, African governments must demonstrate that they have effective contingency plans in place to respond rapidly in the event of drought. Knowing governments have plans and financing in place in case of significant drought should give investors greater confidence in investing in a country and also provide additional flexibility for national social protection schemes.

Such large-scale programmes require an effective system for collecting funds, pooling them effectively, and then paying out relief to the necessary people in the shortest time frame possible. It is in this area where IFUSE deployments have been able to provide significant support.

#### Deployment

The Government Actuary's Department (GAD) was tasked with reviewing and assessing financing arrangements for this initiative

Between October 2013 and March 2015, IFUSE facilitated three desk-based deployments by GAD for the African Union (AU) on behalf of ARC and DFID. IFUSE deployments delivered:

- A critical review of the financing proposal developed by ARC;
- An independent expert critical assessment of the performance of the ARC risk pool;
- An independent expert critical assessment of the performance of the African Risk; View (the drought modelling software underpinning ARC insurance); and
- Advice to DFID in relation to its proposed contribution to ARC.

#### Impact

The considerable experience of UK experts provided ARC with greater confidence in the effective functioning of a complex insurance product. "GAD inputs have challenged and helped shape the risk profiling, dynamic financial analysis, underwriting, accounting and premium earning policies for example and are a key part of the UK's scrutiny of the quarterly narrative and financial statements."

Consultations with DFID, UK experts and in-country beneficiaries indicated that ARC's pay-out system has already been mobilised in response to climate disasters in three countries in advance of UN appeals for humanitarian aid. Consultations put forward very positive assessments of these early pay-outs, highlighting that "the mechanism is effective, and efficient", providing pay-outs to national treasuries within 2 – 4 weeks of harvest so that the first assistance can reach households within 120 days.