ADAPTATION
BLENDED

Project name	**Africa Disaster Risk Financing (ADRiFi) program**[1]
Country	A group of countries, including Madagascar, Malawi, Mauritania, Niger, Sudan, The Gambia, Zambia, and Zimbabwe
Sector	Insurance
Project/INVESTMENT AMOUNT	Total direct AfDB investment of approximately US$ 30 million in ADRiFi[2]
Development Partner(s)	African Development Bank (AfDB), Africa Risk Capacity (ARC)
Beneficiary Ministry/Institution	Member countries' ministries and government agencies in charge of social protection and disaster risk management, as well as their ministries of finance
Investor(s) and FUNDERS	Africa Risk Capacity (ARC) and African Development Bank (AfDB) ● ADRiFi Multi-Donor Trust Fund (MDTF) receives contributions from the Governments of the United Kingdom and Switzerland ● ARC's Premium Support Facility receives contributions from the Government of Germany
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Bilateral, Multilateral & Development Finance Institutions
Project Overall Goal	Boost resilience and response to climate shocks (e.g., drought, cyclone) in regional member countries

Project Outcomes	● The ADRiFi program has contributed to strengthening signatory countries' policies and mechanisms for disaster risk response
	● It has led to the adoption of new disaster risk financing policies, shifting budget allocations, and improving their disaster-related fiscal capacity[3]
	● It has also allowed for pay-outs that improve communities' resilience to shocks. For example:
	  ● In June 2020, Madagascar received a pay-out of US$ 2.13 million to cover the effects of extreme drought in the country's "Great South"
	  ● In March 2022, Madagascar received a pay-out of US$ 10.7 million following the damage and destruction caused by Tropical Cyclone BATSIRAI, which will go to support the communities affected[4]
	  ● In July 2022, Madagascar received a total of US$ 797 thousand in payouts to face extreme draught in the southern part of the country[5]

Alignment with Country Identified Climate Strategies, NDCs, etc. (if applicable)	The project supports member countries' National Adaptation Plans (NAPs) and Nationally Determined Contribution targets (NDCs), the majority of which place significant emphasis on adaptation, listing policies and actions to help communities adapt to climate change
Contribution of the Project to the UN SDGs	SDG 13: Climate action SDG 1: No poverty SDG 2: Zero hunger

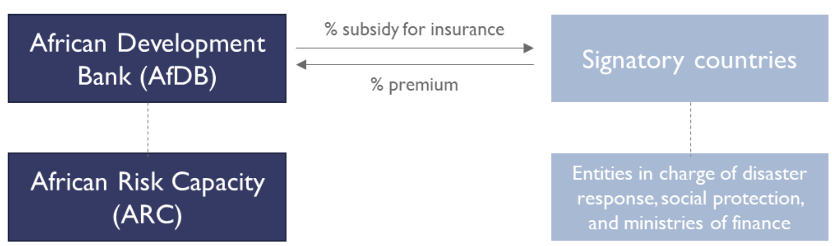
[1] This case was provided by CrossBoundary as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

[2] African Development Bank, https://www.afdb.org/en/cop26/flagship-climate-initiatives

[3] The Africa Disaster Risk Financing Initiative https://www.youtube.com/watch?v=mS950xRLfek

[4] African Risk Capacity News, 2022. https://www.arc.int/news/madagascar-receives-pay-out-arc-ltd-following-tropical-cyclone-batsirai

[5] Business Africa Online, 2022. https://businessafricaonline.com/madagascar-receives-us797049-million-drought-recovery-insurance-payout/

	SDG 11: Sustainable cities and communities
Socioeconomic Impact	Reduce exposure and vulnerability of member countries, and create a system to absorb, adapt, and aid recovery of these countries from climate shocks
Environmental Impact (on climate mitigation and/or adaptation)	Adaptation. The program strengthens the capacity of countries to assess climate-related risks, enhance their response to drought and other disasters, and review adaptation measures at national and sub-national levels
Enabling Environment (Supporting Policies)	Government and agencies that are willing and committed to implementing measures to improve their disaster risk management framework, agree on policy priorities, and develop financial protection instruments, tools, and strategies to better serve the local context
Technical Assistance (If Provided)	ADRiFi provides technical and financial support to the Government of the signatory country in two key areas: i) strengthening their capacity to assess climate risks[6] such as drought and cyclone, prevent food crises and develop contingency plans); and ii) transfer of sovereign risk by purchasing insurance against drought-related risks from African Risk Capacity (ARC)
Financing model/approach (ex: Blended finance)	Grant funding (bilateral and multilateral partial or total insurance premium subsidy) during the initial years of the program. The program funds the first years of premium with the idea that at the end of year 5 this will evolve into fully commercial insurance paid by signatory governments
Rationale for financing model/approach	The underlying thesis is that by providing support in the form of technical assistance and an initial subsidy of the insurance premium, countries will improve their response to disasters and realize the importance of allocating a portion of the budget to disaster risk insurance. An initial partial subsidy is necessary to get signatory countries on board, and make the necessary policy and structural improvements in disaster risk response that will allow for fully commercial insurance in the future
Financial instrument(s) (loans, grants, bonds….etc.)	Partial subsidy to support the acquisition of parametric sovereign insurance against disaster risk (e.g., drought, cyclone)
Diagram of the financing structure	 Note: The structure is a simplified illustration and does not represent a full depiction of all the actors involved in the transaction.

Executive Summary

Climate change is increasing developing countries' exposure to extreme weather events. Losses from weather-related catastrophes are often significant and can be difficult to measure with traditional methods. Objective parameters can serve as indicators of the magnitude of natural disasters and hence, as criteria for the coverage that clients may need for post-disaster recovery.

Instead of paying for the actual financial loss incurred, parametric or index insurance schemes cover the probability of a predefined event occurring (for example, drought, hurricane, cyclone, or earthquake) after which pre-arranged payments are automatically triggered. The model allows for flexibility in design and is becoming more popular with private companies, governments, and public-private partnerships.

The African Development Bank (AfDB)'s Africa Disaster Risk Financing (ADRiFi) program is an example of such a model implemented by private, public, and donor institutions. ADRiFi was set up by the African Development Bank (ADB) to subsidize insurance premiums for African Risk Capacity products. Africa Risk Capacity (ARC) and the AfDB signed a memorandum of understanding in March 2017 to help

[6] For example, beneficiary agencies also benefit from technical capacity building in risk modeling and profiling through the use of Africa RiskView (ARV) software. See African Development Dab portal, 2018. https://projectsportal.afdb.org/dataportal/VProject/show/P-MG-HZ0-001

African states manage disaster risk and improve their response to climate-related hazards.[7] Through ADRiFi, a group of countries, including The Gambia, Zimbabwe, Mauritania, Niger, Sudan, Madagascar, Zambia, and Malawi, are initially granted a portion of the insurance premium for the transfer of sovereign drought risk and receive assistance to improve their disaster response mechanisms. Madagascar and Zambia have already received disbursements that have helped their populations cope with the effects of severe drought.

The program effectively makes premium subsidies sustainable through concessional funding and helps countries move toward proactive risk management. The goal is that countries evolve from initial total and partial funding from ADRiFi during the first years of the program, to fully commercial acquisition of insurance in subsequent years. Since its inception, it has expanded to additional countries and welcomed new donors. It is now being extended to cover cyclone risk in some countries.[8] The integration of a gender perspective in disaster risk management has increased the awareness of some signatory countries' of the disproportionate impacts of climate change on vulnerable populations.

Analysis

What made this project successful? (Stakeholder involvement, innovation, addressing barriers to investment, etc.)[9]	This project has been made successful by multiple factors: ● The support of international donors has been crucial to increasing the program's capacity and expanding it to other geographies ● Regional coordination through the African Development Bank has been key to communicating and scaling up the model, as well as fostering collaboration among signatory countries
To what extent is this model scalable?	● Parametric insurance is a flexible insurance product that can be offered at different levels of aggregation: micro-level (farmers, or households), meso-level (risk aggregators such as rural banks or cooperatives) and macro-level (governments or other national agencies) ● Applicable to multiple sectors including agriculture, real estate, construction, tourism, and transportation
To what extent is this model replicable in other countries/regions?	Since its inception in 2017, and thanks to greater support from donors, the ADRiFi program continues to scale and grow. It is now being implemented in a group of countries, including The Gambia, Zimbabwe, Mauritania, Niger, Sudan, Madagascar, Zambia, and Malawi
Constraints/Drawbacks of Financing Model	The main drawback of this funding model is that signatory countries may find it difficult to financially cover the insurance policy once the partial subsidy period comes to an end. Although the program can substantially improve the country's disaster risk preparedness and raises awareness of the importance of insurance as a disaster risk management tool, it does not by itself solve the fiscal challenges of the signatory countries
Lessons Learnt	● The combination of financial aid (grant) with technical assistance and support has proven useful in improving the preparedness of governments for disaster risk. This combination has promoted awareness of disaster risk tools and strategies and created or improved disaster risk management frameworks ● The integration of a gender perspective in disaster risk management has increased signatory countries' awareness of the disproportionate impacts of climate change on vulnerable populations

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[7] Evans, Steve. Madagascar gets ARC parametric drought insurance payout as well. Artemis, 2022 https://www.artemis.bm/news/madagascar-gets-arc-parametric-drought-insurance-payout-as-well/

[8] African Development Bank's Africa Disaster Risk Financing Program receives $2.5 million pledge from United States. African Development Bank, 2021. https://www.afdb.org/en/news-and-events/press-releases/african-development-banks-africa-disaster-risk-financing-program-receives-25-million-pledge-united-states-46718

[9] The Nature Conservancy, 2020 GCTWF Factsheet, https://panorama.solutions/sites/default/files/gctwf_fact_sheet_september_2020_0.pdf

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