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REPORT OF THE AFRICAN RISK CAPACITY
SPECIALIZED AGENCY OF THE AFRICAN UNION

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I. INTRODUCTION

1. The African Risk Capacity (**ARC**) is a pan-African risk pool designed to help Member States of the African Union to improve their capacities to plan, prepare and respond to extreme weather events and natural disasters such as drought, floods and cyclones. The work of ARC is undertaken by two entities which together form the ARC Group: the **ARC Agency**, a Specialized Agency of the African Union, established by a treaty; and its financial affiliate the **ARC Insurance Company Limited (ARC Ltd)**, a mutual insurance company. ARC Agency provides capacity building services to Member States, as well as the political oversight and strategic direction for ARC, while ARC Ltd carries out the insurance and risk transfer functions of ARC.

2. ARC Agency was established by the Agreement for the Establishment of the African Risk Capacity (ARC) Agency (the **Treaty**) in November 2012, pursuant to a resolution adopted by the Fifth Joint African Union Conference of African Ministers of Economy and Finance, and a subsequent decision by the African Union Assembly of Heads of State and Government (Assembly/AU/Dec.417(XIX)) on 16 July 2012. Through these and other decisions, the African Union (**AU**) leadership expressed its desire to develop an African solution to respond to the impacts of extreme weather events and natural disasters by establishing a continental disaster risk financing mechanism.

3. In 2013, ARC Agency caused the establishment of ARC Ltd as a mutual insurance company, pursuant to a decision of the ARC Agency Conference of the Parties (the **CoP**).

4. The ARC Agenda for Action outlines the strategic growth plan that will allow ARC to insure 150 million people in Africa by 2020 with US \$1.5 billion in coverage across 30 AU member states, and to channel a further US \$500 million in climate adaptation financing.

5. Pursuant to Executive Council Decision EX.CL/Dec.934(XXIX) adopted in July 2016 in Kigali, Rwanda *on the African Risk Capacity*, ARC Agency is required to present “a comprehensive report accompanied by a draft decision for consideration” to the Executive Council at its January 2017 Session. The present report provides a comprehensive report on the African Risk Capacity with an attached draft decision for the consideration of the Executive Council.

II. MANDATE

6. ARC was founded to improve the capacity of AU Member States to manage natural disaster risk, adapt to climate change and protect food insecure populations. It represents a new model of disaster response financing, combining a purpose-built financial entity and an international organization, both formed and managed by AU Member States, to facilitate risk pooling to provide predictable and timely financing when an ARC Member State experiences a natural disaster.

7. ARC works through national governments, embedding its programme within a more comprehensive national risk management framework, and within the broader framework of development. It also focuses on building partnerships within the development community to strengthen services provided to its Member States.

8. ARC supports the African Union Agenda 2063 goal to minimize the vulnerability of people to natural disasters as part of a structural transformation of Africa. ARC also offers a concrete tool which contributes to the goals laid out under Pillar III of the Comprehensive Africa Agriculture Development Programme (CAADP), to reduce hunger and improve the response to food emergencies.

III. OVERVIEW OF ACCOMPLISHMENTS

9. Since its establishment, ARC has made remarkable progress towards accomplishing its organizational goals:

- a) 32 AU member states have signed the Treaty, allowing them to take advantage of the benefits offered by ARC Agency Membership;
- b) The ARC Agency CoP established ARC Ltd, a mutual insurance company established for the purpose of providing risk financing to ARC Agency Member States;
- c) ARC Agency has entered into Memoranda of Understanding (MoU) with 16 AU member states across the continent. Pursuant to these MoUs, ARC Agency has provided technical and capacity building services, supporting the AU member states' preparations to take out insurance from ARC Ltd.;
- d) In its first three years, ARC Ltd has provided drought insurance to 8 AU member states— Burkina Faso, The Gambia, Kenya, Malawi, Mali, Mauritania, Niger and Senegal - for a total insurance coverage of up to

USD 401.8 million with corresponding premiums of up to USD 53 million¹;

- e) ARC Ltd has made, or is about to make, insurance payouts to four AU member states, totaling over **USD 34 million**. Payouts totaling over USD 26 million were made to **Mauritania, Niger and Senegal** in response to a drought at the end of 2014, allowing these governments to deliver timely assistance to 1.3 million people and over half a million livestock. A payout of USD 8.1 million will be made to **Malawi** at the end of 2016, enabling Malawi to provide food assistance to approximately 808,834 people suffering from the impact of drought;
- f) ARC Agency and ARC Ltd together made significant progress towards developing new insurance products for: i. tropical cyclones (which will be available in 2017); ii. Flood (which will be launched as a pilot programme in 2017); iii. Climate volatility (in response to a request by the AU Ministers of Finance in March 2014 (Resolution L15/Rev.1.)); and iv. Outbreak and Epidemic insurance (in response to the requests of ARC Member States in January 2015 and AU Ministers of Finance in March 2015 (Eighth AU-ECA Joint Annual Meetings, Resolution L9));
- g) ARC will launch Replica Coverage for the 2017/18 policy year, allowing the UN and other humanitarian actors an opportunity to leverage ARC's country built risk management architecture by taking out insurance coverage that replicates the insurance taken out by ARC Member States;
- h) ARC has participated in many international fora, including the last several UN Framework Convention on Climate Change (UNFCCC) Conferences of the Parties, including the conference in Paris, France (COP21) during which parties reached an historic international agreement with obligations for all parties, and the most recent conference in Marrakech, Morocco (COP22);
- i) ARC Agency elected its first regular-term Director General, Mr. Mohamed Beavogui;
- j) ARC Ltd selected its first full-time Chief Executive Officer, Ms. Dolika Banda;

¹ The exact amount of amount of coverage and premiums is not currently available because certain countries have not yet finalized their payments for the third insurance season.

IV. BACKGROUND AND ORGANIZATION

A. ARC Agency

10. Forty-one AU member states participated in the Conference of Plenipotentiaries at which the Treaty was adopted, held in Pretoria, South Africa in November 2012. Eighteen AU Member States signed the Treaty at that time and fourteen additional States have signed since then.

11. The Treaty is currently being applied provisionally pending its ratification by 10 States Parties. As of early December 2016, three AU member states- **Mauritania, The Gambia and Mali** - had ratified the Treaty and deposited their instruments of ratification with the Chairperson of the African Union. Two additional AU member states – **Chad and Senegal** – were most of the way through the ratification process.

Table 1: ARC Treaty Signatories

<p>Original Signatories (23 November 2012)</p> <ol style="list-style-type: none"> 1. Burkina Faso 2. Burundi 3. Central African Republic 4. Chad 5. Republic of Congo 6. Djibouti 7. The Gambia 8. Guinea 9. Liberia 10. Libya (with reservations) 11. Malawi 12. Mozambique 13. Niger 14. Rwanda 15. Sahrawi Arab Democratic Republic 16. Senegal 17. Togo 	<p>18. Zimbabwe</p> <p>Additional Signatories (date signed)</p> <ol style="list-style-type: none"> 19. Kenya (28 January 2013) 20. Mauritania (28 January 2013) 21. Côte d'Ivoire (6 February 2013) 22. Comoros (15 February 2013) 23. Gabon (30 January 2014) 24. Madagascar (31 January 2014) 25. Benin (27 June 2014) 26. Nigeria (4 December 2014) 27. Mali (27 May 2015) 28. Ghana (28 January 2016) 29. Guinea Bissau (29 January 2016) 30. Sao Tome and Principe (29 January 2016) 31. Sierra Leone (29 January 2016) 32. Zambia (29 January 2016)
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i) The Conference of the Parties

12. The CoP includes all ARC Member States and is the supreme organ of the ARC Agency. It meets once a year to take key decisions, including adopting: the annual ARC Programme of Work and Budget, rules for ensuring Parties' compliance with their approved Contingency Plans, rules governing the issuance and withdrawal of Certificates of Good Standing, and other strategic decisions. The CoP also elects

5 of the members of the ARC Agency Governing Board, and the ARC Director General.

13. The fifth session of the CoP is scheduled to take place in early March 2017 in Abidjan, Cote d'Ivoire.

ii) The ARC Agency Governing Board

14. The operations of the ARC Agency Secretariat are overseen by the ARC Agency Governing Board (the Agency Board), which has eight (8) members: five (5) members who are selected by the CoP, two (2) members who are appointed by the Chairperson of the African Union Commission, and the Director General who serves as a non-voting member.

15. The Agency Board is responsible for ARC Agency's strategic planning, setting the standards that ARC Member States must meet in order to take part in the ARC insurance scheme, evaluating Contingency Plans submitted by ARC Member States, monitoring Member States' compliance with their approved Contingency Plans in case of an insurance payout, and approving financial and other regulations.

16. The Agency Board also evaluates the performance of ARC Ltd and advises the members of ARC Ltd on its functioning.²

iii) ARC Agency Secretariat

17. The Secretariat, which includes 38 staff and consultant, manages all country client services and outreach, implementing the ARC Agency Programme of Work, under the direction of the Director General.

18. ARC Agency operates pursuant to an administrative services arrangement (the **ASA**) with WFP. The Secretariat is currently co-located with the UN World Food Programme (WFP) Regional Bureau for Southern Africa in Johannesburg, South Africa, pending the definitive entry into force of the Treaty. ARC Agency also has staff working out of the several other WFP offices, including WFP headquarters in Rome, Italy, and the WFP office in New York, USA. After the Treaty goes into force definitively, the CoP will select an ARC Member State to host ARC Agency with the requisite privileges, immunities and facilities of the African Union.

19. ARC Agency elected its first regular-term Director General, Mr. Mohamed Beavogui, of Guinea, in January 2015 for a 4-year term.³

² Treaty, Art. 15(g).

³ Prior to Mr. Beavogui taking office, the position of Director General was held by Dr. Richard Wilcox who was elected to the position of Director General, *ad interim*, at the first ARC CoP, in November 2012.

B. ARC Ltd

20. ARC Ltd was established as a financial affiliate of ARC Agency, pursuant to a decision by the first ARC Agency CoP, in February 2013, under the laws of Bermuda. ARC Ltd shall remain domiciled in Bermuda until an “equally favourable legal and regulatory regime exists in an AU Member State.”⁴ A permanent jurisdiction for ARC Ltd cannot be selected until the Treaty has been ratified by 10 AU member states.

i) ARC Ltd Membership

21. As a mutual insurance company, ARC Ltd is owned by its members. At present, ARC Ltd has 2 classes of members: Class A Members and Class C Members. The Class A Members are the ARC Member States that have active insurance policies with ARC Ltd. For the 2015/16 policy year, the Class A Members were: The Gambia, Kenya, Malawi, Mali, Mauritania, Niger, and Senegal.⁵ For the 2016/17 policy year, the ARC Member States which have signed policies as of end November 2016 were: Burkina Faso, The Gambia, Mali, Mauritania, Niger, and Senegal. The Class C Members are the entities that have provided capital to ARC Ltd, in the form of 20-year, no-interest returnable capital: the UK Department for International Development (DFID) and the German development bank, KfW. The ARC Ltd Members meet annually to take decisions.

ii) The Board of Directors

22. The day to day operations of ARC Ltd are overseen by the Board of Directors of ARC Ltd (**ARC Ltd Board**) which comprises seven Directors elected by the ARC Ltd members. The ARC Ltd Directors are independent financial professionals acting in their personal capacities. The ARC Ltd Board of Directors is responsible for directing the activities of the service providers; monitoring investments, insurance, derivative contracts and other transactions; reviewing reports by the service providers; overseeing governance; assessing ARC Ltd’s efficacy; approving insurance pay-outs; approving ARC Ltd’s financial strategy; and approving ARC Ltd’s risk management strategy. They meet 3-4 times per year.

iii) ARC Ltd Management

23. ARC Ltd has a small management team. Many of its functions are carried out by professional specialist service providers, including an insurance manager, underwriter, an auditor, a loss reserve specialist and legal counsel. ARC Ltd opened

⁴ See Report and Decisions of the First Conference of the Parties of the African Risk Capacity (ARC) Agency (ARC/COP1/D016.0904_13), Paragraph 8 (f).

⁵ These are countries in the second insurance pool. The third insurance pool will incept on 1 May 2016, with additional Class A Members.

an office in Johannesburg, South Africa in 2016 to facilitate cooperation between ARC Agency and ARC Ltd.

24. ARC Ltd's first full-time Chief Executive Officer, Ms. Dolika Banda, took office in early September, 2016.

C. The Relationship between ARC Agency and ARC Ltd

25. Both ARC Agency and ARC Ltd are necessary to accomplish the objectives of ARC. The Boards and staff of the two institutions work closely together and collaborate pursuant to a Memorandum of Understanding that was signed by the chairpersons of the respective Boards of Directors in June 2014.

26. ARC Agency's role is to:

- a) Provide capacity building services to Member States;
- b) Provide political oversight and strategic direction for ARC;
- c) Set the standards for participation in the ARC risk pool; and
- d) Ensure that Member States are in compliance with their approved contingency plans.

27. The role of ARC Ltd is to:

- a. Carry out the insurance and risk transfer functions of ARC, including:
 - i) Issuing parametric weather insurance policies to governments that have fulfilled the standards set by the CoP.

28. ARC Ltd may not enter into an insurance contract with an ARC Member State without the approval of the ARC Agency Board.

V. ACTIVITIES

A. Research and Development

29. ARC's research and development (R&D) programme focuses on developing and continually improving ARC insurance products and other risk management tools so that they continue to be relevant to ARC Member States and that basis risk is minimised. By focusing on concrete and operationally applied products which are integrated within the national contingency plans and sovereign risk management frameworks, ARC aims at evolving and improving the state of risk modelling and disaster risk management across the continent. The ultimate objective of this process is to ensure that all Member States have access to the state-of-the-art technologies and the internal capacity to use them effectively, in an effort to meet the needs of the

people that are most vulnerable to natural disasters and to build long-term climate resilience for Africa.

30. ARC is working on developing additional insurance product, including products for flood, tropical cyclone, and outbreak and epidemic insurance in response to ARC Member States' demand.

31. ARC has been working to develop the Replica Coverage pilot. Replica Coverage allows humanitarian actors to leverage ARC's country-led risk management architecture to scale up coverage and boost timely responses, doubling the number of people covered by climate risk insurance. Countries lacking financial and operational capacity to expand their insurance coverage beyond what they purchased would benefit from humanitarian actors' ability to provide both increased insurance-based funding and scaled, coordinated and timely operational execution.

32. In March 2014, the ARC Agency was also requested by the AU Conference of Ministers of Finance to develop a proposal for a mechanism by which African states could gain access to financing to respond to the impacts of increased climate volatility (Resolution L15/Rev.1). ARC's R&D team is working to design the Extreme Climate Facility (**XCF**) to closely track extreme weather events and, in the event that weather shocks such as extreme heat, droughts, floods or cyclones increase in occurrence and intensity across the continent, to trigger funding to AU member states already managing their weather risk through ARC Ltd.

B. Increased Scalability and Sustainability

33. ARC is currently working to increase its visibility to African Union States that are not ARC Member States with the intention of expanding the membership of ARC through increased engagement directly with AU member states and by participation in continental fora. Five additional AU member states – Ghana, Guinea Bissau, Sao Tome and Principe, Sierra Leone and Zambia- signed the ARC Treaty during the January 2016 AU Assembly meeting. ARC will continue its dialogue with non-member AU Member States, which will in turn strengthen its continental leadership role on disaster risk management and financing, and strengthen ARC's position as the representative body of AU Member States both within Africa and globally.

34. In parallel, ARC has been providing support to its Member States to encourage timely Treaty ratification. During the fourth session of the CoP, held in Addis Ababa, Ethiopia, on 22 and 23 January 2016, ARC's Member States decided to establish a twelve month timeline for ARC Member States to ratify the Treaty. In

order to fulfil this decision, ARC Agency Member States agreed to engage their best efforts to ratify the Treaty by January 2017.⁶

C. Improving Disaster Risk Management on the Continent

35. ARC has committed to working with its Member States to support government efforts towards increasing food security and resilience building in countries. ARC seeks to compliment these ongoing efforts and investments to help manage disaster risk through investments in resilience building and adaptation. Significant resources have been invested by governments and partners in these areas which, it is hoped, will improve the food security of Member States and their resilience to shocks. As such, ARC seeks to help Governments protect these investments against further shocks, preventing the progress that has been made in these areas from being eliminated due to a single shock or event. ARC's focus on complementarity allows it to work with governments to identify the most efficient use of insurance vis-à-vis investments in food security and resilience.

36. There are numerous national and regional research institutions across the continent undertaking research in the thematic areas of ARC. Integrating these institutions in the work of ARC will be critical in transforming disaster risk understanding and management and to increasing ARC's value as a practical risk management tool for the continent. To date Regional Economic Communities and local early warning and research organizations across the continent have been participating in ARC's processes and dialogue with discussions underway to formalize these partnerships. Such engagements and partnerships will allow ARC to ensure improved access to innovative tools and insurance products for African Union (AU) Member States to effectively manage their natural disaster risk.

VI. CHALLENGES FACED BY ARC

37. ARC Agency is a Specialized Agency; in order to better fulfil its mandate, ARC should be more integrated into the work of the AU and its organs relating to natural disasters, food insecurity and innovative finance. This calls for ARC to be fully involved in initiatives and work streams relating to its mandate when they are put forward by other AU bodies.

38. Although ARC Member States have taken decisions encouraging ratification of the Treaty at the third and fourth sessions of the CoP, only 3 ARC Member States have completed the ratification process by depositing an instrument of ratification with African Union Commission. This poses a significant challenge to ARC Agency. The Treaty is currently in force provisionally and will not come into force definitively

⁶ Report of the Fourth Session of the Conference of the Parties of the African Risk Capacity (ARC) Agency, paragraph 18 (k).

until 10 instruments of ratification have been deposited with the African Union Commission. Consequently, ARC Agency cannot select a permanent headquarters because the Treaty requires 10 ratifications before such a decision can be taken.

39. ARC faces resource challenges. ARC intends to reach as many as 30 AU member states by 2020 with USD 1.5 billion of coverage against drought, flood and cyclones, indirectly insuring around 150 million Africans. Demand for risk transfer products from ARC has gained significant momentum, but the ARC capacity building programme is resource intensive and historically, the limitation on AU member states beginning the capacity building programme has been ARC Agency's lack of sufficient resources. As ARC Agency expands to provide capacity for tropical cyclone and flood events in anticipation of the introduction of these insurance products in 2016 and 2018, respectively, this becomes a critical issue for the growth of the pool.

40. ARC Member States also face resource challenges. High-risk AU member states with low resilience may not have the resources to pay premiums to ARC Ltd. Those AU member states are seeking premium financing. Premium financing will support sustained pool growth in the early years, and, when tied to commitments on embedding risk management in sovereign systems, will help the pool to become sustainable in the medium term. Currently, no AU Member states in the ARC pool are supported through external resources in their payment of ARC premium. The AfDB has offered its support to this endeavour, and ARC is also in discussions with multiple other channels, including the World Bank (IDA) and more tentatively the idea of premium financing is also being explored by G7 EU member states.

VII. RECOMMENDATIONS BY ARC

41. In order to enhance the work and activities of ARC, and to facilitate achieving its mandate of helping AU Member States to better prepare for and respond to natural disasters, ARC exhorts the Executive Council to endorse the following recommendations:

- a) To emphasize the important mandate of ARC Agency, the African Union Specialized Agency founded to improve the capacity of AU Member States to manage natural disaster risk, adapt to climate change and protect food insecure populations;
- b) To urge ARC Agency Member States to ratify the Treaty and deposit their instruments of ratification with the African Union Commission;
- c) To further urge Member States of the African Union that have not yet signed the Treaty to become Members of the ARC Agency so that they may take advantage of the benefits of ARC membership, including access to services to help better prepare for and respond to natural disasters, and to address climate change;

- d) To encourage AU Member States, organs of the AU and other continental bodies to extend necessary support to and work with ARC to improve responses to natural disasters on the continent, and, in particular to involve ARC in discussions, events and decisions relating to natural disaster risk, climate change and innovative finance;
- e) To request development finance institutions and partners to support this critical contribution to the continent's disaster risk management and climate change adaptation infrastructure, including through premium support, and to channel their support to risk management in Africa through ARC, an existing African-led institution.

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