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**EXECUTIVE COUNCIL**

**Thirty-Second Ordinary Session**

**22 - 26 January 2018**

**Addis Ababa, ETHIOPIA**

**EX.CL/1060(XXXII)**  
Original: English

**REPORT OF THE AFRICAN RISK CAPACITY  
SPECIALIZED AGENCY OF THE AFRICAN UNION  
(December 2016 – November 2017)**

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

(December 2016 – November 2017)

**I. EXECUTIVE SUMMARY**

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. ARC represents a new model of disaster response financing and an example of African Governments working together to address a critical issue facing the continent.
2. To date, eight countries have participated in ARC's four drought risk pools and ARC has made insurance pay-outs of US \$34 million to four countries: Malawi, Mauritania, Niger and Senegal. These resources have gone towards supporting over 2 million people and 1 million livestock through the scale up of cash transfer, food distribution and subsidized livestock feeding programmes. But ARC is not just about insurance. It is about advanced preparation and improving risk management on the African continent.
3. During the reporting period, ARC has worked to develop its core software product, *Africa RiskView*. It has also made progress on the development of additional products including: a parametric insurance river flood model; a mechanism to help African governments to better respond to the impacts of increased climate volatility; and a product to respond to the risk of outbreaks and epidemics.
4. During the reporting period, ARC engaged more closely with the Regional Economic Communities. ARC has also been participating actively contributing to the international climate policy discussions by participating in the InsuResilience initiative and other international fora.
5. ARC is working to increase the resources available to its member states, including through discussions with the African Development Bank and other partners to establish a premium financing facility. ARC also continued to make progress on the Replica Initiative Pilot, under which international organizations and non-governmental organizations can take out insurance that match the insurance taken by ARC Members, thereby contributing additional resources to disaster response in ARC Member States.
6. As ARC was born out of the AU, and is working with AU Member governments, the work of ARC needs to be further integrated into the AU system as the institution could contribute to food security, early warning, peace and security and financial diversification on the continent. ARC has a range of proposals that will

maximize the benefit of ARC's work within the AU and will help AU Member states take full advantage of the benefits offered by ARC.

## II. INTRODUCTION

7. 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: the **ARC Agency**, a Specialized Agency of the African Union 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.

8. 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. 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**).

9. Pursuant to Executive Council Decision EX.CL/Dec.952(XXX) adopted in January 2017 in Addis Ababa, Ethiopia *on the Activity Report of the African Risk Capacity Agency of the African Union (ARC Agency)*, the **ARC Agency**, a Specialized Agency of the African Union, was requested to "report regularly to the Executive Council on its activities". The present report provides a comprehensive report on the activities of the ARC Agency and ARC Ltd from December 2016 to November 2017 with an attached draft decision for the consideration of the Executive Council.

## III. OVERVIEW

10. ARC represents a tangible example of African Governments working in partnership to address the issue of improving management and financing of disaster risks on the continent. It also represents a new model of disaster response financing, combining an international organization with a purpose-built financial entity, 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.

11. To date, eight countries have participated in ARC's four drought risk pools and ARC Ltd has underwritten over USD \$400 million of drought risk. African governments have paid US \$52 million in insurance premiums with 95% of this being sourced from national budgets without any international support. This demonstrates that there is an appetite in African countries for such instruments and an interest in proactively managing risks.

12. ARC Ltd has made insurance pay-outs of US \$34 million to four countries: Malawi, Mauritania, Niger and Senegal. These resources have gone towards supporting over 2 million people and 1 million livestock through the scale up of cash transfer, food distribution and subsidized livestock feeding programmes.

13. ARC is not just about insurance. It is about advanced preparation and improving risk management. ARC has pioneered the requirement for countries to have peer-reviewed and approved contingency plans as a pre-requisite for accessing insurance coverage. Having these preapproved plans has been enormously helpful in ensuring rapid and transparent use of funds. To achieve the above, ARC invests the majority of its resources in building capacity at the national level to enable Member States to take informed decisions when it comes to disaster risk management and financing.

14. In addition to fulfilling its mandate, ARC also 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 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. ARC's work is also a major contributor to the continent's efforts to strengthen peace and security, by increasing the resilience of vulnerable people, helping to safeguard the livelihoods of rural populations, thereby keeping people in their communities during climate induced crisis because they are supported during difficult times.

15. As ARC was born out of the AU, and is working with AU Member governments to develop a pan-African response system that enables African countries to meet the needs of people impacted by natural disasters, the work of ARC needs further integration into the AU system as the institution could contribute to food security, early warning, peace and security and financial diversification on the continent. In this context, ARC proposes that the following steps be taken:

- a) In addition to ARC's work with the AU Department for Rural Economy and Agriculture, better structuring of ARC's contribution to the work of the peace and security and the economic departments.
- b) Designation of Champions for ARC, through the establishment of a Ministerial Committee to serve as a Champion team for ARC, and the

designation of Champion Heads of State for ARC to respond to issues facing the continent.

- c) Integration of ARC into the early stage of the AU reform process.
- d) Support of the AU to encourage development finance institutions and partners to support African countries to access a premium facility, as a critical means to enable the effective and sustainable grounding of the continent's disaster risk management and climate change adaptation infrastructure.

## **IV. ACTIVITIES**

### **A. Research and Development**

**16.** 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. ARC's ultimate objective 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.

**17.** ARC's has been developing and continuing to improve its core product, *Africa RiskView*, so that it continues to be relevant to ARC Member States and basis risk is minimised. During the reporting period, ARC has initiated the introduction of a new quality assurance system and enhanced its in-country work by expanding its country technical working groups to include additional expertise. ARC Agency also launched a robustness and sensitivity analysis of *Africa RiskView* in collaboration with the Disaster Risk Financing & Insurance Program team from the Finance & Markets Global Practice of the World Bank between November 2016 and March 2017. The same is being undertaken in cooperation with the UK Department for International Development.

**18.** ARC Agency continues to work on the development of a parametric insurance river flood model, a challenging and technically complex process. A flood pilot programme was launched in the second quarter of 2017 in three ARC Member States: Côte d'Ivoire, The Gambia and Ghana. Preparations for testing the flood model have also begun in Guinea and Togo. The pilot is expected to conclude by mid-2018.

**19.** 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). In response to this request, the ARC began research to establish the ARC Extreme Climate Facility (XCF). ARC has progressed

on the technical work on XCF, including contracting an all-African consortium<sup>1</sup> to review the Extreme Climate Index.

**20.** In response to demand from ARC Agency's Member States following the Ebola crisis in 2015, the ARC's is designing an Outbreak and Epidemic (O&E) parametric insurance product. Uganda and Guinea (Conakry) were selected as pilot countries for O&E, and the pilot was officially launched in September 2017. The Ministries of Health and academic and research institutions in both countries are committed to work with ARC on the pilot. The pathogen selection process in each pilot country will be undertaken in the coming months.

**21.** During the reporting period, ARC Agency established and consolidated a strong partnership with technical partners such as the African Union's Social Affairs team and the AU Centre for Disease Control and Prevention (AU-CDC). AU-CDC have committed, and have assigned technical staff to support the core technical activities of the O&E pilot phase. ARC is also working with the World Health Organisation (WHO) Regional Office for Africa, specifically the Health Security and Emergency Team, and World Bank Pandemic Emergency Facility (PEF) team to forge technical and strategic collaborations to ensure complementarity of work.

## **B. Scalability and Sustainability**

**22.** ARC Agency convened its Fifth session of the Conference of the Parties (the **CoP**) in Abidjan, Côte d'Ivoire on 8-9 March 2017, at the invitation of the Government of the Republic of Côte d'Ivoire. Eighteen ARC Agency Member States attended: Burkina Faso, Chad, Comoros, Côte d'Ivoire, The Gambia, Ghana, Guinea, Kenya, Malawi, Mali, Madagascar, Mauritania, Niger, Nigeria, Senegal, Togo, Zambia and Zimbabwe. Many donors and partner organizations attended the CoP as Observers.

**23.** During the CoP, the ARC Member States were briefed on a range of matters, and took a number of important decisions:

- a) Adopted the Programme of Work and Budget for 2017;
- b) Approved the Alternative Payout Mechanism rules for situations in which a government may not be able to receive an ARC Ltd insurance payout that it is due;
- c) Requested the Governing Board of the ARC Agency to combine the selection criteria for a domicile for the ARC Ltd with the Criteria for the

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<sup>1</sup> The consortium is led by the Council for Scientific and Industrial Research (CSIR) of South Africa, partnering with Southern Africa Science Service Centre for Climate Change and Adaptive Land Management (SASSCAL), a joint initiative of Angola, Botswana, Namibia, South Africa, Zambia, and Germany.

Selection of a Permanent Headquarters of the ARC Agency in light of the importance of co-locating the entities;

- d) The CoP reappointed 2 members of the ARC Agency Governing Board and their alternates: 1. Hon. Diombar Thiam and Mr. Bouh Ould Sid' Ahmed (alternative), of Mauritania, for the North African Seat; and 2. Dr. Agnes Kalibata and Mr. Alex Kanyakole (alternative), of Rwanda, for the Eastern African seat;
- e) A sub-committee of the Senior Government Officials' session of the CoP was formed during the meeting to consider premium financing and the financial sustainability of the ARC Agency and made the following recommendations, which were endorsed by the CoP:
  - i) ARC Member States in Africa should capitalize ARC Ltd;
  - ii) ARC Agency should launch an initiative to bring countries that have left the pool back and to attract new member states;
  - iii) Fees may be factored into the premiums, and the cost of premiums should reduce over time once African ARC Member States have capitalized ARC Ltd;
  - iv) ARC Member States are urged to use the African Development Bank facility currently under development, as well as other funding sources, to pay insurance premiums and undertake other activities.

**24.** The ARC Agency Governing Board met three times during the reporting period: in January, July and November. In addition to overseeing the activities of ARC Agency, the ARC Agency Governing Board, in consultation with the ARC Ltd Board (collectively, the **Boards**), has been working to improve the governance and operations of the ARC.

**25.** During the reporting period, ARC engaged more closely with the Regional Economic Communities, including entering into a Memorandum of Understanding with the Economic Community of West African States (ECOWAS) and engaging with the Southern Africa Development Community (SADC) Executive Secretary with a goal to identify opportunities for collaboration to strengthen participation of southern African countries in the ARC pool and further build capacity within these countries. In East Africa, discussions have been initiated with the Intergovernmental Authority on Development (IGAD). Over the coming months, ARC will build on these discussions and together with IGAD determine concrete areas for collaboration.

**26.** As part of an effort to actively contribute to the international climate policy discussions, ARC has been participating in the InsuResilience technical working group meetings and in various meetings organised by the InsuResilience Secretariat to bring to bear the experiences of the institution in developing, implementing and operating insurance mechanisms such as ARC on the African continent.

### C. Improving Disaster Risk Management on the Continent

**27.** ARC has committed to working with its Member States to support government efforts towards increasing food security and resilience. ARC seeks to compliment these ongoing efforts and investments to help manage disaster risk through investments in resilience building and adaptation. The ARC Group's focus on complementarity helps governments to identify the most efficient use of insurance vis-à-vis investments in food security and resilience.

**28.** The ARC has made a concerted effort to structure a premium financing funding partnership with the African Development Bank (AfDB) and other key players that would support Member States continued and sustained participation both financially and technically in ARC. A partnership with the AfDB was formalised in an MoU signed between ARC and AfDB in March 2017. Through this partnership AfDB intends to start a support programme with at least ten of its Regional Member Countries over a period of 5 years with a digressive premium subsidy mechanism for participation in ARC (US \$60 million). The ARC expects the mechanism to be in place by May 2018.

**29.** In addition to engagement with the AfDB, the ARC has also been actively pursuing discussions with donors and other partners to support the premium financing initiative. This has included:

- a) initiation of discussions with the International Fund for Agricultural Development (IFAD) and West African Development Bank (BOAD), both of which have expressed interest in matched financing options;
- b) with the European Union Commission (EU) through financing provided through the intra-ACP envelope;
- c) The French Development Agency (AFD) and the Islamic Development Bank (IsDB).

**30.** During this reporting period, the ARC has continued to make progress on the operational and procedural steps required to implement a pilot for the Replica Initiative Pilot, under which international organizations and non-governmental organizations can take out insurance policies that match the insurance taken by ARC Agency member states.

**31.** ARC Agency has been undertaking planning work and preparation of key documentation with its two main Replica Partners WFP and the START Network, and holding workshops with the Replica Partners and the Replica pilot countries: Mali, Senegal and Mauritania.

**32.** There are numerous national and regional research institutions across the continent undertaking research in the thematic areas of the ARC. Integrating these

institutions in the work of the ARC will be critical in transforming disaster risk understanding and management and to increasing the ARC's value as a practical risk management tool for the continent. To date Regional Economic Communities and local early warning and research organisations across the continent have been participating in the ARC's processes and dialogue with discussions underway to formalise these partnerships. Such engagements and partnerships will allow the ARC to ensure improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk.

#### **D. Activities of ARC Ltd**

**33.** The ARC's third insurance pool closed during the reporting period. Given a number of factors, including the drought event which affected Malawi and elections in Kenya, neither country participated in the ARC Ltd drought risk pool for 2016 – 2017. The portfolio consisted of 6 countries: Burkina Faso, Mali, Mauritania, Niger, Senegal and The Gambia. These countries secured US \$94,799,273 in coverage through ARC Ltd for a corresponding premium of US \$11,310,491. Efforts continue to be deployed to encourage both Malawi and Kenya to participate in future pools.

**34.** The ARC's fourth insurance pool was being formed during the reporting period. Despite the constraints over the past year, it is expected that the pace of country on-boarding will improve with Pools V and VI as more countries are signing MoUs with ARC Agency with expectations to join these Pools. The following countries are being actively engaged for participation: Madagascar, Zimbabwe, Swaziland Botswana, Namibia, Ghana, Nigeria, Togo, Guinea, Zambia, Ethiopia and Comoros.

**35.** During the reporting period ARC Ltd established an office in Johannesburg, South Africa, close to the offices of ARC Agency, which enables ARC Ltd and ARC Agency to work together more closely. ARC Ltd also hired a Chief Operating Officer and a Chief Underwriting Officer.

**36.** ARC Ltd held its annual members meeting in March 2017, on the margins of the ARC Agency CoP. During that meeting, the members approved the annual Audited Financials for 2016, renewed the Board Chair's term of service for an additional year, approved revised 2017 and 2018 operating budgets and related workplans.

**37.** In addition, the Board of Directors of ARC Ltd met three times during the reporting period to oversee the activities of ARC Ltd, including a Joint Meeting with the ARC Agency Governing Board. ARC Ltd's Underwriting, Audit and Finance Committees also met as required to deal with matters delegated within their areas of oversight.

## V. CHALLENGES FACED BY ARC

**38.** ARC Agency is a Specialized Agency of the African Union. 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, including: better integrated reporting; designations of ARC Champions within the AU; and integration of ARC into the AU reform process.

**39.** Following ARC Member States' decisions encouraging ratification of the Treaty at the third and fourth sessions of the CoP, 8 countries have completed the national ratification process, but only 4 ARC Member States have completed process at the AU Commission level. The Treaty is currently in force provisionally and will not come into force definitively until 10 instruments of ratification have been deposited with the AUC.

**40.** ARC Member States face resource challenges. Several AU member States with low resilience may not have the resources to pay premiums to ARC Ltd and may require premium financing support. 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. The AfDB has offered its support to this endeavour, and ARC is also in discussions with multiple alternative channels, including the Arab Bank for Economic Development in Africa, the Islamic Development Bank and the European Union.

## VI. 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 further urge Member States of the African Union that have not yet signed or ratified the Treaty to become Members of the ARC Agency so that they may take advantage of the benefits of ARC Agency membership, including access to services to help better prepare for and respond to natural disasters, and to address climate change;
- c) To request better structuring of ARC's contribution to the work of the peace and security and the economic departments, in addition to ARC's work with the AU Department for Rural Economy and Agriculture;

- d) To recommend that a Ministerial Committee be established to serve as a Champion team for ARC, and that ARC be integrated into the early stages of the AU reform process;
- e) To encourage ARC Member States to work to capitalize ARC Ltd to increase African ownership over this ground-breaking and critical African institution;
- f) To further encourage AU Member States, organs of the AU and other continental bodies to extend necessary support to and work with the 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;
- g) 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 the ARC, an existing African-led institution;
- h) To encourage donor partners to support the establishment of the ARC replica programme to drive even further coordination between the positive efforts being made by African governments and the work of the humanitarian community on the continent

**DRAFT**

**DECISION ON THE ACTIVITY REPORT OF THE AFRICAN RISK CAPACITY  
SPECIALIZED AGENCY OF THE AFRICAN UNION (ARC AGENCY)**  
**Doc. EX.CL/1060(XXIX)**

**The Executive Council,**

- 1. WELCOMES AND TAKES NOTE** of the Activity Report of the African Risk Capacity Specialized Agency of the African Union (ARC Agency), together with the recommendations contained therein;
- 2. ENCOURAGES** African Union Member States to reaffirm their commitment to the original vision that led to the establishment of ARC as an African owned solution; support and commitment should be demonstrated by countries signing or ratifying the Treaty and actively participating in the ARC risk pool;
- 3. REQUESTS** the African Union Commission to integrate the work of ARC into the activities of the Commission;
- 4. RECOMMENDS** that a Ministerial Committee be established to serve as a Champion team for ARC, and that ARC be integrated into the early stage of the African Union reform process;
- 5. URGES** ARC Member States to work to capitalize ARC Ltd to increase African ownership over this ground-breaking and critical African institution;
- 6. ENCOURAGES** African Union Member States, relevant Specialized Technical Committees and organs of the African Union to extend necessary support to and work with ARC to achieve its mandate of improving response to natural disasters on the continent, and to involve ARC in discussions, events and decisions relating to natural disaster risk, climate change and innovative finance;
- 7. STRONGLY ADVOCATES** that donors and International Financial Institutions such as the World Bank and African Development Bank Arab Bank for Economic Development in Africa, the Islamic Development Bank and the European Union to actively support premium financing for African governments to sustainably participate in the ARC risk pool;
- 8. ENCOURAGES** donor partners to support the establishment of the ARC replica programme to drive even further coordination between the positive efforts being made by African governments and the work of the humanitarian community on the continent;
- 9. REQUESTS** ARC to submit a progress report on the implementation of this decision at the January 2019 Assembly and activity reports at each subsequent January Assembly Session.

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# **Report of the African Risk Capacity Specialized Agency of the African Union (December 2016 – November 2017)**

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