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UNIÃO AFRICANA

Addis Ababa, Ethiopia

P. O. Box 3243

Telephone: 5517 700

Fax: 5517844

Website: www.au.int

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ACTIVITY REPORT OF THE AFRICAN RISK CAPACITY AGENCY

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

(For the reporting period: January – December 2018)

I. SUMMARY

1. African Risk Capacity (ARC) Agency is a Specialized Agency of the African Union that was established in 2012 to provide a comprehensive and integrated approach to tackling the impacts of natural disasters on vulnerable populations on the continent.
2. In 2014, ARC launched its initial risk insurance product for Member States through its financial affiliate, the ARC Insurance Company Limited (ARC Ltd). ARC Ltd is a specialist mutual insurance company and Africa's first ever disaster insurance pool. ARC Ltd aggregates risk by issuing insurance policies to participating governments and transferring the pooled risk to the international markets.
3. In just over five (5) years since its establishment, ARC has proven to be a key component in efforts to meaningfully respond to the impacts of extreme weather events and natural disasters on the continent. Its innovative approach has helped Member States not only build capacity in risk profiling and contingency planning but has also provided over US \$400 million in drought insurance coverage to participating Member States. Furthermore, ARC has embarked on an ambitious drive to consolidate strategic partnerships and technical cooperation agreements with various international and entities in order to enhance service delivery to Member States.
4. Despite its successes, ARC acknowledges that risk financing through risk transfer is not the only solution for effective disaster risk management. ARC recognises the importance of broader and holistic disaster risk management approaches in building resilience and risk reduction infrastructure. Although there is a growing interest in ARC insurance products and services, Member States still face significant challenges and constraints in participating in the mechanism, especially in mobilizing premium funds and ensuring consistent participation in the insurance pool.
5. However, ARC has seen a great milestone achieved with the approval of the Africa Disaster Risk Financing (ADRFi) programme by the African Development Bank (AfDB). ADRFi is a premium financing programme that will expand access to ARC's risk transfer facilities. Nine (9) Member States have expressed interest in participating in the programme.
6. ARC is continuing to improve its current drought insurance product while developing other risk transfer products to mitigate the impacts of more frequent extreme weather events and natural disasters. ARC is developing flood, tropical cyclone, outbreaks and

epidemics insurance products, which are currently at an advanced stage of research and development.

7. As a Specialized Agency of the African Union, this annual activity report of the African Risk Capacity presents the progress, achievements, challenges, and recommendations of the institution during the reporting period for January to December 2018, and is intended to be presented and endorsed at the 37th Ordinary Session of the Permanent Representatives' Committee (PRC), the 34th Ordinary Session of the Executive Council, and the 32nd Ordinary Session of the Assembly of the Union.

II. BACKGROUND

8. African countries are among the nations most vulnerable to the impacts of natural disasters and extreme weather events, and they are likely to experience more severe and frequent extreme weather events in the future as a result of climate change. Such events diminish economic growth, cause major budget dislocation, erode development gains and resilience, and increase the risk of political instability.
9. In 2011 and 2012, African Union (AU) leadership expressed its desire to develop an African solution for responding to the negative impacts of extreme weather events and natural disasters on the continent, particularly those exacerbated by climate change. The African Risk Capacity (ARC) Agency was established in November 2012, pursuant to a resolution adopted at 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)). Eighteen (18) AU Member States signed the Agreement for the Establishment of the African Risk Capacity Agency (the Treaty) at the Conference of Plenipotentiaries on 23 November 2012. There are now thirty-three (33)¹ Treaty signatories.
10. ARC's vision is to protect the livelihoods of vulnerable people in Africa against the impact of natural disasters through home-grown, innovative, cost-effective, timely, and sustainable solutions. To accomplish its mission to use modern finance mechanisms, such as risk pooling and risk transfer, to create pan-African climate response systems that enable African countries to meet the needs of people harmed by natural disasters, ARC builds on its achievements to date and works toward three key strategic objectives:
 - i. Innovate - A Dynamic Approach to Research and Development
 - ii. Strengthen - Strengthening Disaster Risk Management on the Continent
 - iii. Grow - Increased Scalability and Sustainability of ARC Operations and Insurance Coverage

¹ Benin, Burkina Faso, Burundi, Central African Republic, Chad, Republic of Congo, Comoros, Côte d'Ivoire, Djibouti, The Gambia, Gabon, Ghana, Guinea, Guinea Bissau, Kenya, Liberia, Libya, Madagascar, Mali, Malawi, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sahrawi Arab Democratic Republic, Sao Tome and Principe, Senegal, Sierra Leone, Sudan, Togo, Zambia and Zimbabwe.

11. Through its rigorous and comprehensive capacity building programme and index insurance mechanism, ARC enables Member States to build resilience and better plan, prepare and respond to extreme weather events by linking cutting-edge early warning technology with contingency planning and modern financial tools. With the risk pooling and transfer services offered by ARC Ltd, the continent can better manage its natural disaster risk as a group, and African sovereigns can access rapidly disbursing financing to fund emergency responses effectively.

III. ARC'S ACTIVITIES

12. During the reporting year of 2018, progress has been made towards its strategic objectives to continue developing and improving on ARC's early warning and risk transfer products; to deepen engagement with countries to advance disaster risk management capacities on the continent; and to encourage ARC's growth and sustainability as a pan-African disaster risk financing institution.
13. ARC's work and activities for the reporting period are thus reported in the context of these three strategic objectives.

Strategic Objective 1: Dynamic and Applied Research and Development (R&D)

14. ARC's R&D programme focuses on ARC's first Strategic Objective by developing and continually improving ARC insurance products and other risk management tools. The strategy to achieve the Strategic Objective is built on the two main objectives of improving the reliability and the accuracy of *Africa RiskView* as an existing product and developing new quality disaster risk management products.
15. The *Africa RiskView* software is the technical engine of the ARC Agency used to underwrite the drought risk pool. A core product of the ARC Agency, *Africa RiskView* is designed to interpret satellite weather information, specifically rainfall estimates, and combine it with data on crops and soil characteristics. It then translates these estimates into the number of people who may be directly affected by a rainfall deficit or drought in a given agricultural season. Using cost-per-affected-person estimates, *Africa RiskView* estimates the total response costs to a particular drought event.
16. Improving and building continued confidence in *Africa RiskView* is a key priority for ARC Agency's R&D. Since January 2018, ARC has redoubled its efforts to meet Member State needs and refine *Africa RiskView* by establishing the *Africa RiskView* Technical Review Forum (TRF). The TRF is composed of international experts to support the refinement of the model platform and its ability to reflect the impacts of weather shocks more accurately. This has resulted in the integration of new functionalities to improve the robustness and sensitivity of the software. A review for the new functionalities was conducted in the 2017/2018 ARC drought model in Senegal and Mauritania, and the recommendations have been incorporated into the *Africa RiskView* improvement plan.

17. ARC also advanced the development of new products (in line with the Executive Council Decision (EX.CL/Dec.952 (XXX)) by increasing engagement with Member States on the river flood insurance product, as well as the development of the Tropical Cyclone product.
18. Pilot programmes for the validation of the river flood insurance product were initiated in three ARC Member States – Côte d'Ivoire, The Gambia, and Ghana – and engagement with Guinea and Togo has started. Validations by in-country technical experts were also initiated within the pilot countries.
19. In line with the resolution (Resolution L - 15 on ARC)², ARC made progress on the technical work for the Extreme Climate Facility (XCF)³ with the finalisation and dissemination of the technical reports and the development of policy briefs. The XCF Extreme Climate Index (ECI) was presented during the 5th International Conference on Climate Services and the SASSCAL Science Symposium on “Science Diplomacy Supporting Climate Change Action in SADC”, which took place on 16 -18 April in Lusaka, Zambia.
20. In response to the West African Ebola outbreak and a call by African Ministers of Finance in 2015, ARC is building on its existing infrastructure and experience in drought insurance to develop and introduce a sovereign parametric insurance product for outbreaks and epidemics (O&E).
21. During the reporting period, the first set of four pathogens – Ebola virus, Marburg virus, Lassa Fever, and meningitis – were agreed upon and finalised for the design and development of the first African sovereign O&E parametric insurance product. This was achieved through consultations with the World Health Organization Africa Regional Office (WHO AFRO), the African Union Centres for Disease Control and Prevention (AU-CDC), the Ministries of Health of Uganda and Guinea, and other subject matter specialists. The pathogens represent three pathogen families, and over 30 countries in Africa are at risk of an outbreak of at least one of the pathogens.

Strategic Objective 2: Strengthening Disaster Risk Management and Financing on the Continent

² 7th Joint Annual Meetings of the ECA Conference of African Ministers of Finance, Planning and Economic Development and AU Conference of Ministers of Economy and Finance held in Abuja, Nigeria, 29 and 30 March 2014.

³ ARC began research in 2015 to establish an ARC Extreme Climate Facility (XCF), by which African States will be able to gain access to additional financing to respond to the impacts of increased climate volatility. The Extreme Climate facility (XCF) is envisioned as a data-driven, multi-year financial vehicle that tracks the frequency and magnitude of extreme climate shocks in Africa, and provides additional financing for countries already managing their current weather risks through the African Risk Capacity Insurance Company Limited (ARC Ltd) to ensure ARC's value to its members is sustainable and resilient to future climate shifts.

22. A fundamental aspect of ARC's work involves engaging governments through high-level meetings, technical workshops, and scoping missions in order for governments to gain an understanding of disaster risk financing and insurance. These engagements set the direction to build disaster risk management capacities and country ownership of the ARC programme by governments. This is an important component of ARC's work and encompasses all interactions ARC has with a country, including supporting the technical workstreams⁴.
23. In line with ARC's mandate to strengthen disaster risk management and financing on the continent, 19 new and existing ARC Member States hold active Memoranda of Understanding (MoU) for participation in the ARC Capacity Building Programme. ARC is offering capacity building services to new countries, like Togo and Guinea.
24. During the reporting period, ARC provided technical support to Mali, Senegal, Ghana, Mauritania, Burkina Faso, and Kenya for the development and refinement of their Operations Plans prior to their potential participation in the ARC risk pool. ARC conducted scoping missions in Lesotho, Togo, and Djibouti to provide an overview of ARC's capacity building process and risk transfer mechanism to government officials and experts.
25. ARC held Lessons Learned workshops with its Member States to provide an opportunity for feedback from ARC's Member States and further encourage country ownership.
26. ARC has deepened its influence and expanded the conversation around disaster risk management on the continent by hosting and participating in high-level events, such as the African Development Bank Annual Meetings, as well as by forging new partnerships with international and African institutions. ARC participated in several events during the AfDB Annual Meetings, including the ECOWAS Agricultural Policy Technical Partners Meeting, the SADC Disaster Risk Financing Meeting, the First Drought Core Group Meeting (a coalition of UN and humanitarian partners formed to advocate for ending droughts and preventing famines), and the Southern African Regional Climate Outlook Forum (SARCOF) Meeting.
27. ARC and the African Union Commission (AUC), through the department of Rural Economy and Agriculture, jointly organized a successful workshop on "Transforming Disaster Risk Financing Towards Agenda 2063" within the premises of the AUC. Workshop participants included PRC member states, donors, and other continental and international technical stakeholders in natural disaster risk financing
28. During the reporting period, ARC held its annual Conference of Parties (COP) in March 2018 and participated in events hosted by the African Union (namely the 30th and 31st

⁴ ARC technical work streams include; Africa *RiskView* customisation, Contingency Planning and Risk Transfer

African Union Summit), Regional Economic Communities, and their related technical institutions.

29. During the reporting period, ARC has embarked on an ambitious drive to expand and consolidate its partnerships with relevant international and regional institutions. ARC signed Memoranda of Understanding (MoU) with the African Institute of Mathematical Sciences (AIMS) and the United Nations Economic Commission for Africa (UNECA) earlier this year. These partnerships seek to bridge the skill gaps in disaster risk financing, disaster risk management, and actuarial sciences on the continent. These partnerships and policy engagements ensure that the ARC programme has the necessary support to strengthen disaster risk management systems across Africa.
30. ARC has recently entered into a cooperation agreement with the Permanent Interstate Committee for Drought Control in the Sahel (CILSS).

Strategic Objective 3: Scalability and Sustainability of ARC Operations

31. Along with ARC's research and expansion of disaster risk management capacity on the continent, ARC has made strides in providing risk transfer services for Member States and developing as a pan-African insurance institution.
32. During the reporting period, Mauritania received a payment of US \$2.4 million from ARC Ltd following a poor rainy season in 2017. The funds were used in the first half of 2018 to provide subsidized livestock feed in the most affected pastoral areas.
33. ARC has seen a great milestone achieved with the approval of the Africa Disaster Risk Financing (ADRFi) programme by the African Development Bank (AfDB). ADRFi is a premium financing programme that will expand access to ARC's risk transfer facilities. Nine (9) Member States have expressed interest in participating in the programme.
34. ADRFi is a comprehensive and sustainable solution for risk transfer within the broader context of disaster risk management. ADRFi will run from 2019-2023, and the programme aims scale up subscriptions to the mechanism in order to enhance the resilience and response to climate shocks on the continent.
35. The ADRFi programme helps eligible countries access risk transfer services through premium support for parametric weather insurance offered by ARC. Until the 4th year of participation, the participating countries will receive premium support of up to 50% of the country's annual premium from ADRFi. From the 5th year onward, countries will be in a better position to fully finance their premiums from their national budgets and maintain sustained domestic resource allocation for insurance premiums. In addition to premium financing support, ADRFi will assist countries in improving the management of natural disaster risk by strengthening national capacities to evaluate climate-related risks and

disaster contingency plans; elaborating mitigation measures at national and sub-national levels; helping countries to design disaster risk financing strategies; and providing funding for rapid responses to address climate disasters at national and local levels.

36. The ADRiFi also has scope for other parties to contribute towards digressive premium support and therefore contribute towards closing the protection gap in Africa.
37. Institutionally, the ARC Establishment Treaty has been fully ratified by eight (8) Member States to date, namely Mauritania, Mali, The Gambia, Senegal, Chad, Togo, Guinea and Madagascar. Several other countries have partially completed the internal ratification process. ARC has also launched a process to explore institutional reforms in the ARC Agency and ARC Ltd governance structures. The ARC Agency and ARC Ltd Governing Boards met in February 2018 in Abuja, Nigeria. During the meeting, ARC presented the draft revised Institutional Structures paper, which outlined the steps to address ARC's governance and operational issues, and the Boards established a Steering Committee to explore the institutional reform options and provide recommendations on next steps. The Joint Meeting of the ARC Agency and ARC Ltd Governing Boards in September 2018 agreed on a governance option which would allow ARC to function as a single entity that is flexible and fully engaged with its Member States. This option is being examined further to determine its implications.
38. In anticipation of the definite entry into force of the ARC Treaty, which would allow the COP to select the permanent location of the ARC Agency and ARC Ltd, the COP agreed on the criteria to be used for the selection process and requested the ARC Agency Board to proceed with the headquarters selection process for ARC Agency and ARC Ltd. The deadline for the submission of offers by Member States was set on 31 October 2018, but this has been extended to 26 April 2019. The Joint Boards of ARC Agency and ARC Ltd has established a Headquarters Selection Committee to assist the Boards in making well-informed recommendations to the CoP on the selection of a permanent location for ARC Agency and ARC Ltd. The Headquarters Selection Committee will also ensure that the selection process is done in an objective and transparent manner. Interested Member States are therefore encouraged to submit their offers to the ARC Secretariat on or before 26 April 2019.
39. During the reporting period, ARC leveraged continental events and engagement in high-level fora for increased visibility. In the first half of 2018, ARC enhanced its visibility and internal communications in line with the ARC Strategic Framework 2016-2020. A Communications Strategy outline was developed and approved by two ARC Board Members in April 2018, and a full Communications Strategy was developed and approved by the ARC Governing Board in September 2018.
40. During the reporting period, crucial activities were implemented on ARC Monitoring and Evaluation. Several documents were drafted, such as the M&E guidelines and the M&E

procedure manual, and the section of the ARC Contingency Planning guidelines related to M&E was revised. The procedure manual was drafted to complement the existing ARC M&E plan by providing guidelines on the implementation of M&E activities at both institutional and country level. The procedure manual will be finalized by the end of the year.

41. During the reporting period, ARC's commitment to ensuring gender equality and women's empowerment was concretized by the recruitment of a Gender Advisor. Activities towards strengthening gender responsiveness in ARC's operations both internally and with clients commenced with an internal gender assessment. This was followed by ongoing in-country consultations with partners and stakeholders, including governments, civil society organisations, and the private sector. Six countries (Ghana, Burkina Faso, Mali, Senegal, Gambia and Mauritania) were covered in West Africa while three countries (Malawi, Madagascar and Sudan) are programmed in Eastern and Southern Africa. Results of the various gender assessment activities, including literature reviews, will be analyzed to form the basis for the elaboration of ARC Gender Equality Strategy.

Challenges

42. Despite the significant successes of ARC and Member State interest in accessing parametric insurance coverage, there are significant challenges both the institution and Member States face in fully utilizing the facility. They are as follows:
43. *Premium Funds* - Mobilisation of premium funds is one of the major barriers countries face in ensuring their participation in the ARC risk pool, especially in the early years of participation. Premium payment is often not prioritised by governments who face unprecedented fiscal constraints in some instances. Although there is a recognition of the value of ARC insurance, governments must make difficult trade-offs and often are unable to pay their premiums given other pressing needs. Additionally, there is a sense of fatigue for countries to pay premium from their own resources when they have not received payouts in prior years. This is an issue that also speaks to the need to continue the development of the culture and associated discipline required for efficient risk management. It is an issue which is exacerbated by the moral hazard presented by the traditional humanitarian response system.
44. *Lack of Insurance Culture and Understanding* – Decisionmakers often lack in-depth knowledge and understanding of the value that insurance mechanisms such as ARC play in disaster risk reduction efforts. As such, they often overlook the benefits and cost-effectiveness of risk transfer tools.
45. *Focus on Disaster Response Rather than Preparedness* – Political leaders are too focused on offering disaster relief rather than prioritizing disaster preparedness efforts.
46. *Shifting Priorities* – ARC's programme creates consensus around the importance of index-based weather insurance and the need for better disaster risk financing

mechanisms. Consensus is built through working with policymakers and technicians. However, a change in decisionmakers may result in policy changes and a shift in government priorities.

47. *Diversification of ARC Product Offering* – Given the nature of ARC’s product and that many Member States lack the resources to consistently participate in the mechanism, there is a need to diversify ARC’s product offerings to best suit the needs of Member States.
48. *Acceleration of Capacity Building* – One of the critical aspects and bulk of ARC’s works is building capacities within countries. There is a need to accelerate this process with innovative and integrated approaches.
49. *Inclusion of Country-Based Actors* - ARC is an innovative solution that utilizes market-based solutions to address African problems and thus has the potential to spur the development of the insurance and reinsurance industries on the continent. Currently, there is no participation and involvement of key actors on the continent in the ARC mechanism, including insurance and reinsurance stakeholders.
50. *Ratification* – The pace and rate of ratification has been slow. To date, only eight (8) countries have ratified the Treaty. Some decisions cannot be made if the Treaty has not entered into force definitively.

IV. RECOMMENDATIONS

51. ARC presents a tremendous opportunity that the African Union and international development community can leverage to ensure the success of this unique, African-owned solution. There are specific opportunities which can be leveraged to ensure the success of this African solution.
52. In light of the above, the following recommendations are made:
 - a) Member States should take advantage of premium financing support initiatives. In the context of premium financing support, and following requests from Member States for premium financing support, the AfDB has been working closely with ARC. The overall goal of the collaboration is to support premium financing over a limited period for those countries that have operational capacity to use a payout but lack funding to pay premium. This would sustain pool growth in the early years, which would be tied to commitments on embedding risk management in sovereign systems in the medium term.
 - b) African Union Commission is encouraged to advocate for ARC regarding the support of the international development community towards Members State participation in the ARC mechanism.

- c) Member States are encouraged to sign and ratify the ARC Establishment Agreement. Ratifying the Treaty not only provides benefits to ARC Member States, but it also increases the credibility of the ARC Agency at the continental and global level. The definitive entry into force of the Treaty upon the deposit of the tenth instrument of ratification with the Chairperson of the African Union Commission⁵ will be a confirmation of ARC Agency's identity as an African-owned institution.
- d) Member States are further encouraged to actively participate in the ARC risk pool and work closely with the institution to fully leverage the benefits of this mechanism and demonstrate the commitment to the original vision that led to the establishment of ARC as an African-owned solution that is structured to help Member States better finance and respond to natural disasters.
- e) Member States are encouraged to submit their offers on hosting the ARC Agency and ARC Ltd to the ARC Secretariat on or before the deadline of 26 April 2019.

⁵ See Establishment Agreement, Article 26, Paragraph 8.

**DRAFT DECISION ON THE ACTIVITY REPORT OF THE AFRICAN RISK CAPACITY
SPECIALIZED AGENCY OF THE AFRICAN UNION (ARC AGENCY)
Doc. EX.CL/1131(XXXIV)**

The Executive Council,

1. **WELCOMES AND TAKES NOTE** of the Activity Report of the African Risk Capacity together with the recommendations contained therein;
2. **AKNOWLEDGES** the African Union for its decision (Assembly/AU/Dec.417(XIX)) of July 2012 to establish the African Risk Capacity as an innovative pan-African disaster risk pool and sovereign risk management instrument to better mitigate emergencies caused by extreme weather events and natural disasters;
3. **APPRECIATES and ENDORSES** the Africa Disaster Risk Financing (ADRFi) Programme approved by the African Development Bank;
4. **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 and ratifying the Treaty and actively participating in the ARC risk pool;
5. **FURTHER ENCOURAGES** African regional institutions, as well as regional and international development partners, to extend necessary support, enhance synergy, and collaborate with ARC to achieve its mandate of improving responses to natural disasters on the continent;
6. **REQUESTS** interested Member States to submit their offers on the hosting of the ARC Agency and ARC Ltd to the ARC Secretariat on or before the deadline of 26 April 2019;
7. **FURTHER REQUESTS** ARC to submit a progress report on the implementation of this decision and its annual activity report at the January 2020 Summit.

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