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**ACTIVITY REPORT OF THE AFRICAN RISK CAPACITY AGENCY
(ARC)**

**ANNUAL ACTIVITY REPORT OF THE AFRICAN RISK CAPACITY
(For the reporting period: January – December 2019)**

I. SUMMARY

1. The African Risk Capacity (ARC) Agency is a Specialized Agency of the African Union (AU) 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. Through its capacity building programme and index insurance mechanism, ARC enables governments to build resilience and better plan, prepare and respond to extreme weather events by linking cutting-edge early warning tools with contingency planning and modern risk financing instruments.

2. In 2014, ARC launched its initial risk insurance product- drought for Member States through its financial affiliate, the ARC Insurance Company Limited (ARC Ltd), established under Bermuda law. ARC Ltd is a specialized mutual insurance company and Africa's first ever disaster insurance pool. ARC Ltd performs risk pooling, insurance underwriting, interfacing with international markets for risk transfer to achieve the best coverage and pricing for the ARC Member States. Therefore, ARC enables countries to strengthen their disaster risk management systems and access rapid and predictable financing when disaster strikes.

3. Guided by the Strategic Framework 2016-2020, ARC activities are implemented within the scope of its three strategic objectives, namely:

- i. Innovate - Dynamic and Applied Research and Development
- ii. Strengthen - Strengthening Disaster Risk Management and Financing on the Continent
- iii. Grow - Scalability and Sustainability of ARC Operations and Insurance Coverage on the continent

4. In just over seven years since the establishment of the ARC sovereign insurance mechanism, 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 \$600 million in drought risk insurance coverage to the participating Member States that have taken out insurance policies. Since inception of the first ARC risk pool in 2014/2015, there have been a total of six (6) drought risk pools (Pool I-2014/2015, Pool II-2015/2016, Pool III-2016/2017, Pool IV-2017/2018, Pool V-2018/2019 and current Pool VI-2019/2020). Since then, participating Member States received a combined payout totalling US \$60 million from ARC Ltd following poor agricultural seasons from drought. These funds made it possible to provide for the needs of more than 3 million populations affected by disasters with early, planned and appropriate interventions through distribution of food and cash in remote areas before their productive capacities were depleted, and to provide subsidized livestock feed to over 1.4 million livestock.

5. 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, as well as outbreaks and epidemics insurance products, which are currently at an advanced stage of research and development. Additionally, ARC is developing a climate adaptation financing mechanism (referred to as Extreme Climate Facility (XCF) programme) to closely track extreme weather events and, in the event that weather shocks such as, 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.

6. To face its challenges of intensifying, in quality and quantity, its products and services to better and timely serve Member States and populations in the event of natural disasters, ARC launched a reform of its institutional governance as well as a renewed strategy which will bring about the ARC Agency and its affiliated insurance company (ARC Ltd.) to have a unified governance. This will help steer the ARC's operations towards increased efficiency, credibility and strengthening.

7. 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 funds for paying for premiums thus ensuring consistent participation in the insurance pool.

8. To assist Member States overcome these critical challenges of consistent participation in the ARC insurance risk pool, 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 climate risk management programme with a key component of premium financing support that will expand access to ARC's risk transfer facilities to Member States.

II. BACKGROUND

9. African countries are among the world's 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, fuel internal and external African migrations, and therefore increase the risk of political instability.

10. In 2011 and 2012, 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 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 on 26-27 March 2012 and a subsequent decision by the AU Assembly of Heads of State and Government (Assembly/AU/Dec.417(XIX)), adopted on 16 July 2012. 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 currently thirty-four (34)¹ ARC Treaty signatories with the Kingdom of Lesotho being the most recent signatory on 16 December 2019.

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 and other natural disasters 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.

12. The ARC Conference of the Parties (the CoP) is the supreme organ of the ARC Agency. It meets once a year to take key decisions relating to the Agency. CoP meetings are held annually in Member States or at the AU Headquarters in Addis Ababa, Ethiopia

13. Institutionally, the ARC Treaty has been ratified, with the instruments deposited at the AU Commission, by eight (8) Member States to date, namely: Mauritania, Mali, The Gambia, Senegal, Chad, Togo, Guinea and Madagascar. Several other countries are in the process to complete the internal ratification process and deposit of the instruments of ratification at AU.

III. BODY

Overview of the activities

14. Progress has been made towards the three 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.

15. ARC's work and activities are thus reported in the context of the three strategic objectives:

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

16. ARC's Research and Development (R&D) programme has been focused on innovation, improving the reliability and accuracy of the *Africa RiskView* drought software,

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, Lesotho, 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.

and continuing developing new quality disaster risk management products in response to the expressed needs of African Member States' and in line with the Executive Council Decision (EX.CL/Dec.952 (XXX)), such as flood risk insurance, tropical cyclone insurance, outbreaks and epidemics insurance and the Extreme Climate Facility as well as building new strategic partnerships to advance the R&D work.

17. The *Africa RiskView* drought software is the technical engine of the ARC used to underwrite the drought risk pool. A core product of the ARC, *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.

18. Improving and building continued confidence in *Africa RiskView* is a key priority for ARC Agency's R&D department. Since January 2018, ARC redoubled its efforts to meet Member States' needs and refine the *Africa RiskView* software 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 of 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.

19. New datasets were introduced into the software, to support the basis risk identification and quantification. Alternative drought indicators were provided that constitute basis for alternative drought impact modelling as "shadow models", and therefore offer ARC countries the possibility to choose between alternative models that represents better their drought risk profile. Evapotranspiration, soil moisture, land use maps and an additional rainfall dataset, as new datasets introduced into software, have been subject to a specific due diligence process before being released to users.

20. Particular efforts have been made by the R&D department to develop and test the new pastoral index developed for ARC by the International Livestock Research Institute (ILRI). The product is planned to be piloted in the forthcoming short rains season (October to December 2019) in Kenya and will be rolled out in the Sahel and other interested countries during 2020 (Pool VII).

21. Pilot programmes for the validation of the river flood insurance product have been initiated. Ongoing evaluation and validation of river flood index approaches are being conducted in the pilot countries: Côte d'Ivoire, Ghana, The Gambia and Togo, while customisation and validation works have also been initiated in Guinea.

22. The first TRF on the River Flood Model was held with the objective to review and assess the current methodology (including input data, validation, software, index calculation, response cost modelling, risk transfer, basis risk considerations, and potential

value addition), as well as proposing modifications and approaches to better estimate the impacts of river floods on affected populations. Experts concluded that the model was fit for purpose and that the daily ARC Flood Extent Depiction (AFED) responds to the requirements set for insurance purposes.

23. ARC had previously developed a near-complete tropical cyclone model for the Southwestern Indian Ocean (SWIO) region before the ARC Governing Board's decision to deprioritise the pilot activities. However, the recent developments in the region – including the devastating cyclone IDAI that affected Mozambique, Zimbabwe and Malawi - have led to renewed interest to finalize the development of the Tropical Cyclone (TC) model and the need to re-engage with relevant countries. The ARC Governing Board gave the green light to work with the World Bank to jointly review the current TC model and evaluate its readiness to respond to disasters following tropical cyclones.

24. Several development partners have also expressed interest in supporting different aspects of the work on tropical cyclones in the most exposed SWIO region countries. The World Bank has expressed interest in supporting premium financing for Mozambique based on a robust TC model while the AfDB through the ADRiFi programme is mobilising financing to support countries on the continent to strengthen disaster risk management, including supporting risk insurance for tropical cyclones.

25. In line with the Resolution L - 15 on ARC², 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 2018 in Lusaka, Zambia.

26. The first half of 2019 focused on redesigning and revitalising the XCF programme plan which included recruitment of a lead advisor, developing the set of activities for completing Technical and Operational workstreams while commencing the necessary operational readiness activities required for establishing the financing mechanism of the facility. Additionally, two workstreams were introduced to focus on stakeholder engagement and operational readiness.

27. The rebased XCF programme plan currently includes enhancement and finalization of the Extreme Climate Index's framework, Member State engagement, development of the XCF Cost Benefit Analysis, finalization of the standards and

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. 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 ARC Ltd to ensure ARC's value to its members is sustainable and resilient to future climate shifts.

guidelines for adaptation, the implementation of XCF country and partner engagement strategies, defining the legal requirements, financial structuring, and institutional operating model (i.e. governance, processes, resources and systems) to support the financing mechanism. Stakeholder engagement has included partners sensitisation (with Centre for Global Disaster Protection) and discussions with potential catastrophe bond issuers such as World Bank and AfDB.

28. A Technical Review Forum (co-sponsored by UNCCD) on 22nd and 23rd Oct 2019 was the first external expert review of the XCF programme's research results since its inception - dating back to the AU decision in 2014. The results presented at the Forum covered the three main components of the programme i.e. a climate adaptation financing solution that integrates (i) private sector financing, (ii) public policy/in-country programme, and (iii) climate science; and experts were well represented from each area.

29. Next focus areas for year 2020 is to consolidate all the research that has been undertaken, through the support of the Rockefeller foundation, on the investment criteria and underlying indices to culminate into a cost benefit analysis to help inform the viability of the framework ARC has developed. The cost benefit analysis will be shared with several multi-lateral development banks in Africa, international development partners, ARC Member States and other stakeholders.

30. 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).

31. 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 (pilot countries of the O&E products), and other subject matter specialists. The pathogens represent three pathogen families, and over 30 counties in Africa are at risk of an outbreak of at least one of the pathogens.

32. Progress has been made on the technical areas such as Epidemic Risk and Preparedness Profiling and O&E Contingency Planning. Economic studies, insurance product design and placement have also been conducted.

33. The risk profiling component consists of the development of disease emergence risk maps, a narrative analysis of country capacities, and a set of quantitative preparedness index scores. Its objectives are to inform country preparedness, future investments, and contingency/response planning. The analysis findings demonstrated the significant variation in outbreak preparedness at the subnational level in Guinea and Uganda. These gaps have been communicated to countries to inform and guide their outbreak preparedness strengthening. Country specific, and pathogen-specific contingency plans are being developed in Guinea.

34. For the four covered diseases (Ebola, Marburg, Lassa fever and Meningitis), both historical and near-real time data have been assembled. This work will result in outbreak event severity (cases, and deaths), country health system capacity (preparedness index) aggregated into Data index to inform the disease model.

35. The risk modelling has been peer reviewed by an assembly of international and African Experts and a final model will be released later in the year. Also, ARC started conducting a market survey to seek reinsurance support for the O&E product launch. Reinsurance markets and Insurance Linked Securities funds showed interest: Swiss Re, Renaissance Re, Third Point Re, Hudson Capital, Fermat Capital, and World Bank PEF all expressed interest. Discussions are on-going.

36. Lastly, Strategic Partnerships on R&D with several accredited international and continental institutions have been agreed and instituted upon such as with ILRI, the European Space Agency (ESA) – under the Earth Observation for Sustainable Development project, Airbus and Princeton Climate Analytics, – under the MoU with CILSS/Agrhymet, ARC has started the development of a new methodology to try and replicate the Cadre Harmonise estimates to enable *Africa RiskView* to function as ECOWAS's early warning tool and reserve triggering mechanism in case of droughts in the region.

37. ARC was invited to be part of the consortium led by the World Bank and Columbia University for the research on a new and improved generation of drought indexes. The aim is to understand which state-of-the-art datasets, methods, and technologies exist, what their added-value is in the context of parametric drought insurance as well as considering different socioeconomic factor to put the drought hazard into perspective via previous drought impacts or livelihood conditions.

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

38. In line with this objective, ARC's activities focused on interactions with Member States, from the introduction of the ARC concept to new countries, preparing Member States to make informed decisions on transferring some of their disaster risk to ARC Ltd, and strengthening their national disaster risk management capacities. ARC also engaged in policy dialogue, provided technical and institutional support to Member States to ensure that governments gain a clearer understanding of disaster risk insurance and financing including supporting the technical workstreams⁴.

39. In line with ARC's mandate to strengthen disaster risk management and financing on the continent, as of 30 June, 2019, ARC has valid MOU's with 20 Member States 19 of which have established functional Technical Working Groups. A total of 12 Member States have the ARC Certificates of Good Standing (CGS) in both sub-regions of Africa ARC is operating in.

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

40. For the current 2019/2020 agricultural season for the West and Central African (WCA) region, focus was put on coordinating the countries' ARC technical activities with the aim of finalizing issuance of CGS in preparation for Pool VI participation. By May 2019, 10 WCA countries had already obtained their CGS, namely: Cote d'Ivoire, Ghana, Mauritania, Senegal, Chad, Burkina Faso, The Gambia, Niger, Togo and Mali. Out of those 10 countries, 9 (Côte d'Ivoire, Chad, The Gambia, Senegal, Niger, Mali, Togo, Burkina Faso and Mauritania) have drought insurance policies in place, and all have paid in full the associated premiums. In addition, five Replica⁵ policies were issued for WFP and Start Network for Mauritania, Burkina Faso, Mali, Senegal and The Gambia.

41. Engagements continued to drive the pilot flood programme in Côte d'Ivoire, Togo, The Gambia and Ghana and Benin, while new countries, have expressed strong interest in joining the ARC Programme. Engagement with ECOWAS and CILSS was concretized by an initial meeting on the design of a food insecurity insurance product, closely aligned with the region's Integrated Phase Classification for Food Insecurity. In addition, exploration has started with the private sector insurance companies in Ghana, Senegal, Côte d'Ivoire and Burkina Faso to explore opportunities for co-insurance/insurance products to be offered to private sector companies offering index based agricultural insurance.

42. For the Eastern and Southern Africa (ESA) region, country engagement efforts focused on targeting six (6) countries for participation in Pool VI (i.e. Kenya, Malawi, Zambia, Madagascar, Zimbabwe and Mozambique). Three new MOUs were also signed with Djibouti, Mozambique and Rwanda signalling the launch of the capacity building work in those countries. Out of the six (6) targeted countries, Madagascar and Zimbabwe have signed drought insurance policies in place for the 2019/2020 - Pool VI - agricultural season with associated premiums paid. Zimbabwe also has a Replica policy along with signed Government policy. In these regards, a total of 11 countries from the WCA and ESA regions combined (i.e. Burkina Faso, Mali, The Gambia, Mauritania, Niger, Togo, Cote D'Ivoire, Tchad, Senegal, Madagascar and Zimbabwe) are participating in the current agricultural season 2019/2020 - Pool VI - risk pool.

43. Since the inception of the ARC Ltd risk pool in 2014, there has therefore been six (6) risk pools with a total number of 32 drought insurance policies signed and over \$70 million in aggregate premium received sourced from National budgets for a cumulative insurance coverage over \$600 million against drought. Since, four (4) Member States (Mauritania, Niger, Malawi and Senegal) have received a combined payout totalling US \$60 million from ARC Ltd following poor agricultural seasons due to drought and following policies signed over the last six years of ARC operations. These funds made it possible to provide for the needs of more than 3 million populations affected by drought disasters with early, planned and appropriate interventions through distribution of food and cash in remote areas before their productive capacities were depleted, and to provide subsidized livestock feed to over 1.4 million livestock.

⁵ The ARC Replica coverage is an insurance product offered to humanitarian organisations that wish to replicate the ARC insurance policies of an ARC Member State.

44. ARC holds annual lessons learned workshops in its sub-regions. In July 2018 it held with its Member States in the ESA region namely, Comoros, Djibouti, Lesotho, Kenya, Malawi, Madagascar, Mozambique, Rwanda, Swaziland, South Africa, Uganda, Zambia and Zimbabwe to provide an opportunity for feedback from ARC's Member States and further encourage country ownership. The 2019 session held in November in Harare, Zimbabwe. While the Lessons Learned Regional Consultations session for the WCA region held in September 2019, Abidjan, Cote D'Ivoire.

45. 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 AfDB 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.

46. Moreover, ARC strengthened its collaboration with the RECs through the MoUs signed with IGAD in September 2019 and SADC on October 1st, 2019. Workplans have been completed with activities to be launched this year 2020.

47. ARC and the AU Commission (AUC), through the Department of Rural Economy and Agriculture (DREA), jointly organized a successful workshop on "Transforming Disaster Risk Financing Towards Agenda 2063" in November 2018 within the premises of the AUC and ARC has continued efforts to collaborate with DREA in 2019.

48. ARC continues to participate in events hosted by the African Union (namely the African Union Summit), Regional Economic Communities, and the related annual meetings of continental institutions.

Strategic Objective 3: Scalability and Sustainability of ARC Operations

49. In August 2016, ARC launched a process to explore institutional reforms in the ARC Agency and ARC Ltd governance structures, following a Joint Board meeting of the ARC Agency Governing Board and ARC Insurance Company Ltd (ARC Ltd) Board of Directors, which requested for an independent review of ARC's governance and its impact on the operations of the Group. It was noted that even though ARC Agency and ARC Ltd are closely linked by creation and operations, the two ARC institutions have been driven by different strategic priorities and independent governance structures. This has resulted in inefficiencies in the delivery of service to Member States.

50. The Joint Board, assisted by a Committee for the African Risk Capacity Governance and Operations Structural Evolution (Steering Committee), has been examining options that would allow ARC to function as a single entity that is flexible and fully engaged with its Member States. After a series of meetings, the Joint Board reached an agreement on a suitable governance option in May 2019 and it submitted its

recommendations to the extraordinary session of the CoP that was held in Kigali, Rwanda on 28 November 2019.

51. During the extraordinary session of the CoP held in Kigali, Rwanda on 28 November 2019, the CoP received an update on governance reform. The governance option adopted by the CoP has the following key elements: the ARC Agency Governing Board will be expanded to include some representatives from ARC Ltd Board and the Boards of other affiliates as well as other strategic stakeholders and will function as an ARC Group Board; the CoP will have a group mandate; the Secretariat's mandate will also be expanded to group functions with the ultimate creation of a single cadre of staff for the entities within the Group, all with the necessary privileges and immunities; the Director General's Terms of Reference will also be expanded to group functions. In this regard, the DG will assume enlarged responsibilities for all ARC Group components/affiliates; and the Ltd Board will remain responsible for business and commercial activities of ARC Ltd.

52. At the same CoP meeting in Kigali, Rwanda, the CoP took note of the amendments that must be made to the Agreement for the Establishment of the African Risk Capacity Agency (ARC Treaty). All the proposed amendments are not substantive in nature. The amendments relate largely to the institutional structure and operational arrangements within the ARC family of institutions, namely, the ARC agency and its subsidiary ARC LTD. The amendments are not addressed to the states parties and do not require the states to implement them at the national level or to change their laws to accommodate the amendments. In addition, the amendments do not affect the sovereignty, or fiscal policy of states parties and have no financial implications.

53. The CoP will consider the amendments in detail during its session scheduled to be held at the AU Headquarters in Addis Ababa, Ethiopia on 17-18 March 2020.

54. A communiqué regarding the governance reform has been shared with the AUC Chairperson to officially announce the new structure, which will have to be approved at the CoP level and requires the treaty amendments.

55. 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. The deadline for the submission of offers by Member States was 26 April 2019. The Joint Board established a Headquarters Selection Committee to assist the Boards in making well-informed recommendations to the CoP on the selection of a permanent location. The Headquarters Selection Committee will also ensure that the selection process is done in an objective and transparent manner. After the deadline for submission of offers, the Joint Board agreed that a fact-finding mission should be undertaken to Cote d'Ivoire, the only country that met the minimum required criteria and submitted its offer before the deadline. The fact-finding mission was undertaken from 4 -8 November 2019.

56. In conformity with the ARC Treaty and the guidelines adopted by the CoP at its first meeting, including recommending at least three candidates for the CoP to consider, the ARC Agency Governing Board is responsible for conducting the search for the DG of ARC Agency. The current DG took office on 1 September 2015. His four-year term ended on 31 August 2019. At its seventh session, the CoP extended the appointment of the DG for one year, starting from 1 September 2019 to 31 August 2020, in light of the ongoing governance reform.

57. The Joint Board agreed on the List of Candidates to be presented to the CoP for the election of the DG. The List of Candidates is as follows:

NO	NAME	GENDER	COUNTRY	REGION
1.	Ibrahima Cheikh Diong	Male	Senegal	West
2	Mamadou Biteye	Male	Senegal	West
3	William Asiko	Male	Kenya	East

58. However, on 26 November 2019, Mr. William Asiko communicated to the Secretariat of the ARC Agency that he has withdrawn from the process and that he no longer wishes to be considered for the position. He was offered a job somewhere else and he has since accepted the offer.

59. The DG Search Committee and the Joint decided not to add any candidate after the withdrawal of Mr. William Asiko (Kenya) after recalling the concerns expressed by the Interview Panel on the other candidates (lack of strategic vision and lack of understanding of challenges faced by ARC) which would pose a significant risk to the organization should one of them be given this key position.

60. The new Director General will be elected by the ARC Conference of Parties scheduled in Addis Ababa, Ethiopia, between 17 and 18 March 2020.

61. ARC oversaw a great milestone achieved with the approval of the ADRiFi programme by the AfDB. ADRiFi is a climate risk management programme with key component of a premium financing support sub programme that will expand access to ARC's risk transfer facilities. The premium support comes from the possibility for the countries to use their own African Development Fund (ADF) allocations to pay for the premium with The Gambia and Zimbabwe already benefitting. Several ARC Member States have already begun to express interest in participating in the programme. Furthermore, ADRiFi also has scope for other parties to contribute towards digressive premium support and therefore contribute towards closing the protection gap in Africa.

62. ARC Communications has continued to support driving the advocacy efforts of the institution the and there is progress in implementing the ARC Communications Strategy and providing guidance to other units for enhanced advocacy and visibility around the value of ARC's activities with Member States.

63. Crucial activities have been implemented on ARC Monitoring and Evaluation. The M&E department has been extensively working on the development of a refreshed ARC strategy (2020-2024) and the 18-month business plan. In addition to the coordination of the various contributions from the ARC team, the M&E work specifically to develop different tools for the new strategy such as the monitoring and evaluation approach, the revised log-frame with related key performance indicators, the risk register and the mitigating measures.

64. ARC's commitment to ensuring gender equality and women's empowerment is concretized. 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 (6) countries (Ghana, Burkina Faso, Mali, Senegal, The Gambia and Mauritania) were covered in WCA region while three (3) countries (Malawi, Madagascar and Sudan) are programmed in ESA region. 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. ARC concluded work on the elaboration of the gender strategy. The process which commenced with intensive consultation with all categories of stakeholders was finalised with a peer review of the draft Gender Strategy by key partners/stakeholders.

Key Challenges

65. 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:

- *Governance Structure* – the Governance Review process indicated the following; lack of alignment between ARC Agency and ARC Ltd; challenges in the operations of the ARC Ltd; Evolution of the Business Model. The ensuing Governance Reform process proposed a unified governance structure (ARC Group), unified ARC Group Strategy and ARC Group DG.
- *Fiscal Constraints* – 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. Governments face difficulties keeping up with premium payments especially when faced with 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.

- *Political Challenges* – High turnover in government; 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.
- *Inadequate Government Policies* – There is often varying understanding of parametric insurance by member states policy makers. As such, they often overlook the benefits and cost-effectiveness of risk transfer tools.
- *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

66. ARC represents a great opportunity that the African Union can leverage to ensure the success of this unique, African-owned solution in enhancing resilience of vulnerable communities to droughts and natural disasters and in advancing Agenda 2063 and its aspirations in building climate resilience.

67. In light of the above, the following recommendations are made:

- a) To emphasize the important mandate of ARC Agency, an AU 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 support the ARC governance reform process;
- c) Advocate for the adoption of ARC by AU Member States as an African solution for African problems.
- d) Encourage signing and ratification of the ARC Treaty. 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 Commission will be a confirmation of ARC Agency's identity as an African-owned institution.
- e) Further encourage Member States to actively participate in the ARC risk pool and work closely with the institution and ongoing initiatives 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.

DRAFT DECISION ON THE AFRICAN RISK CAPACITY

I. PREAMBLE

RECALLING African Union Agenda 2063, adopted by the AU Assembly in 2015, and its Aspiration 1, specifically the goal which envisages an ‘Environmentally Sustainable and Climate Resilient Africa’;

FURTHER RECALLING the African Union 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;

CONVINCED that; the African Risk Capacity plays a critical role in building financial resilience to extreme weather events and other natural disasters across the African continent, though provision of technical assistance to Member States and the development of innovative risk insurance products;

CONVINCED FURTHER that the African Risk Capacity contributes to building a climate-resilient continent and in enhancing natural disaster preparedness and prevention and thus contributing to protect the vulnerable communities and protecting developments gains.

II. BODY

THE EXECUTIVE COUNCIL NOW HEREBY:

1. **URGES** Member States that have not yet signed and ratified the African Risk Capacity Treaty to accelerate their processes of signing and ratifying of the Treaty;
2. **CALLS UPON** Member States to support the ARC governance reform process in order to ensure that ARC is better able to effectively serve its Member States”
3. **REQUESTS** the African Union Commission to support with advocacy efforts for the ARC mechanism by initiating a process for the selection of a Member State champion at the highest level for the mechanism;
4. **REQUESTS** the African Risk Capacity to submit a progress report on the implementation of this decision and its annual activity report at the January 2021 Summit.

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2020-02-07

Activity Report of the African Risk Capacity Agency (ARC)

African Union

DCMP

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