

Inputs provided by: African Risk Capacity (ARC) Secretariat – Johannesburg, South Africa

1. General description of mandates and objective(s) of your organization / associated network with institutional structure

(Please provide information on organizational mandates and objective(s) of the organization / associated network with organizational/institutional structure, as explicitly and/or implicitly relevant to addressing loss and damage associated with climate change impacts, including extreme weather events and slow onset events. Please feel free to expand the boxes as needed throughout the template.)

Vision: The African Risk Capacity was established as an African Union Specialized Agency by a Conference of Plenipotentiaries. It is a treaty based organization created to help Member States of the African Union improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters.

Mission: The objective of the ARC Agency is to assist AU Member states to reduce the risk of loss and damage caused by extreme weather events and natural disasters affecting Africa's populations by providing targeted responses to disasters in a more timely, cost-effective, objective and transparent manner. (See ARC Establishment Treaty Articles 2 and 3)

To achieve the above, the African Risk Capacity (ARC) is setting up a groundbreaking extreme weather insurance scheme designed to help African Union (AU) member states resist and recover from the ravages of drought at first with other hazards to be incorporated later. This African-owned, AU-led financial entity will use *Africa RiskView*, an advanced satellite weather surveillance and software – developed by the UN World Food Programme (WFP) – to estimate and trigger readily available funds to African countries hit by severe drought. Because such droughts do not happen in the same year in all parts of the continent, pan-African solidarity in the creation of a disaster risk pool like ARC is financially effective. Pooling risk across the continent could significantly reduce the cost to countries of emergency contingency funds, while decreasing reliance on external aid.

2. Relevant operational framework(s)

(Please provide information on the relevant operational framework(s) (e.g. programming principles, resource allocation strategies, coordination mechanism for operations at different levels etc.) within your organization/associated network as relevant to implementing work related to risk management for loss and management associated with climate change impacts)

In accordance with a decision taken in July 2012 by AU Heads of State and Government, the ARC will be a two-tiered institution consisting of a Specialized Agency of the AU and a financial affiliate, ARC Ltd. The Agency provides strategic guidance, political oversight and capacity building services to governments interested in participating in the insurance scheme in the following areas: 1) risk quantification; 2) contingency planning; 3) risk finance and risk transfer education. ARC Ltd, the financial affiliate, will be incorporated for a temporary period in Bermuda this year as a private, not-for-profit company regulated in accordance with the jurisdiction's regulator.

ARC is governed by a Conference of the Parties (COP), a Governing Board and supported by a Secretariat. The COP is the supreme organ of the Agency, with the Governing Board and the Secretariat reporting to it at least semi-annually. The Governing Board oversees several strategic functions on behalf of the COP, including the Peer Review Mechanism, which approves ARC member states' Operations Plans, thereby allowing them to take out

insurance. The Secretariat implements the ARC in-country capacity building programme, conducts the Agency's day-to-day business and, crucially, will build the ability of member states to comply with approved Operations Plans Standards and other programme requirements prior to their submission to the Governing Board's Peer Review Mechanism.

The roles and responsibilities are outlined in detail in the *Agreement for the Establishment of the African Risk Capacity Agency* (Establishment Agreement): <http://www.africanriskcapacity.org/documents/policydecisions>

The Agency's budget will be broken down into the following three trust funds, hosted initially by WFP for the duration of the 18-month administrative services agreement between WFP and ARC: 1) Agency Operations, 2) Capacity Building and 3) Research and Development.

The ARC financial affiliate, the African Risk Capacity Insurance Company Limited (ARC Ltd), provisionally based in Bermuda, will handle ARC's insurance and other financial functions, including managing a portfolio of risk and transferring risk to the markets. ARC Ltd will be governed by a Board of Directors composed of seven expert and qualified individuals, as required by the Bermuda Monetary Authority. Day-to-day management of ARC Ltd will be provided by professional managers contracted by the Board of Directors of ARC Ltd. These management services would include: asset management and insurance management, including the settings of premiums and ensuring regulatory compliance, carrying out ARC Ltd's insurance portfolio risk management, including the annual placement of reinsurance, as well as the oversight and management of the company's day-to-day operations.

ARC Ltd will be capitalized initially by external donors and investors. The ARC dynamic financial analysis (DFA) results for the initial portfolio indicate that in order for ARC Ltd to operate with an acceptable level of sustainability and generate significant risk pool savings for member countries to make risk pooling financially efficient, ARC Ltd requires an initial capitalization of at least USD 100 million. Thereafter, premium payments from ARC member states and ARC Ltd's investment income will provide sufficient resources to ensure the continued solvency and sustainability of the facility.

3. Focus areas of risk management for loss and damage associated with climate change impacts

(Please provide information on the areas of work in relation to the items included in decision 3/CP.18 as listed in the introductory note as well as any additional focus areas, that your organization/associated network has been mandated to address. These could include relevant institutional policy statements/operational guidance documents etc. Please provide web links where further details can be found.)

(a) Assessing the risk of loss and damage associated with the adverse effects of climate change, including slow onset impacts;

- The ARC secretariat has collaborated with its in-country counterparts to create comprehensive risk profiles for all of its member states that have requested initial scoping missions by the Agency. The ARC Technical Team has also worked with counterparts in a select group of countries interested in taking out insurance (and with whom the ARC Agency has an MoU) to customize *Africa RiskView* using historical data and simulating the response costs of similar drought events were they to occur today.

(b) Identifying options and designing and implementing country-driven risk management strategies and approaches, including risk reduction, and risk transfer and risk-sharing mechanisms;

- As a sovereign weather insurance scheme and continental risk pool, risk transfer and risk sharing compose the core of ARC's approach. Countries will decide on risk transfer parameters, pay the necessary premiums to ARC Ltd, and then receive an immediate payout in the event of rainfall shortfall during the agricultural season, as calculated by predetermined settings in *Africa RiskView*. The payout will be used to scale-up social safety nets and other response programmes as indicated in each country's Operations Plan, which seeks to optimize the use of early funds, and which will have to be pre-approved by the ARC Agency Governing Board peer review mechanism.
- All ARC member states will pool their risk, once transferred to ARC Ltd. As ARC will cover up to nine discrete rainfall seasons across Africa, a continental risk pool's exposure to covariant drought risk would be significantly smaller than a given country's or region's exposure. Therefore, the sum of the contingent funds each country would need to have in reserve in order to be able to respond to an extreme drought emergency in any year is substantially greater than the contingency funds required by a group of countries to respond to its worst-case scenario.

(c) The systematic observation of, and data collection on, the impacts of climate change, in particular slow onset impacts, and accounting for losses, as appropriate;

- *Africa RiskView* will track and estimate the impacts of droughts (and later floods, cyclones, etc.) on African populations, measured both in lives and dollars. The ARC has been working with the Italian National agency for new technologies, Energy and sustainable economic development (ENEA) on inputting newly available data from regionally downscaled climate models into *Africa RiskView* as a type of climate change "stress test" in Africa. This work is currently ongoing.

4. Geographic coverage

All 54 AU member states – every country on the African continent with the exception of Morocco – are eligible to participate in the ARC. As of July 2013, 22 countries have signed the Establishment Agreement: Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Djibouti, The Gambia, Guinea, Kenya, Liberia, Libya (with reservation), Malawi, Mauritania, Mozambique, Niger, Rwanda, Sahrawi Arab Democratic Republic, Senegal, Togo and Zimbabwe.

For map of and updates on ARC signatories: <http://www.africanriskcapacity.org/arceestablishment>

We anticipate that the first pool of countries going to market for coverage of seasons beginning in 2014 will include: Kenya, Malawi, Mozambique, Niger, Senegal and Mauritania.

5. Key stakeholders

First and foremost, the key stakeholders are the governments of the AU member states that have signed the Establishment Agreement (see above). Additional stakeholders within the AU include:

- The Bureau of the Chairperson – responsible for appointing 2 members to the Agency Governing Board
- The Department of Rural Economy and Agriculture
- The Bureau of the Deputy Chairperson
- The Commission's Office of the Legal Counsel – the Depository of the Treaty

The ARC has benefited from the consistent administrative and technical services provided by WFP throughout its design and, by request of the CoP, recently signed an agreement for administrative services with WFP through December 2014.

The following donor governments and organizations that have partnered with the ARC during its design phase (through June 2013):

- The United Kingdom's Department for International Development (DFID)
- The Swedish International Development Cooperation Agency (SIDA)
- The Swiss Agency for Development and Cooperation (SDC)
- The Rockefeller Foundation
- The International Fund for Agriculture and Development (IFAD)

The following have made or are considering contributions to the Agency's operations:

- The United Kingdom's Department for International Development (DFID)
- The Swedish International Development Cooperation Agency (SIDA)
- The Swiss Agency for Development and Cooperation (SDC)
- The Rockefeller Foundation

The ARC is currently negotiating with additional partners to assist in the initial capitalization of the ARC Ltd. Germany's KfW has committed to providing a significant investment in the facility. Some of the design phase donors are also planning to make contributions, investments and/or guarantees to ARC Ltd.

6. Implementation modality / delivery mechanisms

The ARC Agency will implement its programmes through the governments of its member states, via different in-country focal points identified in the pre-participation process (e.g. ministries of agriculture, disaster risk management, finance, etc.).

ARC Ltd will operate according to the regulatory requirements set forth by the Bermuda Monetary Authority. It will purchase reinsurance on the international markets. Payouts will be transferred to the member state's Ministry of Finance, Central Bank or other public financial institution, as agreed upon in their insurance policy.

Please provide information related to the technical, financial and institutional support mechanism

Technical: the ARC's technical work is supported by the Secretariat's Technical Team, which consists of agro-meteorologists, statisticians, atmospheric physicists, GIS specialists, financial mathematicians and computer scientists. This team works in close cooperation with in-country technical working groups, consisting of civil servants, consultants and academics in many of those same fields.

Financial: to date the ARC's activities have been supported by several donors to the Agency's design phase (see stakeholders above). These same donors support the extensive in-country work undertaken by the Secretariat, including travel, workshops and salaries for Government Coordinators seconded to the ARC during the pre-participation period. Moving forward, the Agency's budgets will be divided into three trust funds, to be supported by donors to the operationalization of the Agency (see operational framework above).

Institutional: the ARC is supported financially by the partners listed above, with leadership and administrative support from the AU and WFP. It is a Specialized Agency of the former, and the latter is currently contracted to

provide administrative services on its behalf for 18 months.

Please provide information related to reporting, if any

The Chair of the Governing Board or the Director General will report annually to the AU Executive Council.

Within the ARC Agency, the Director General, on behalf of the Secretariat, will report regularly both to the Governing Board and to the COP. The Chairperson of the Governing Board will also report regularly to the COP.

The Agency will ensure that payouts from ARC Ltd to countries are used in ways that align with the objectives of ARC. Member states receiving payouts will be required to submit a final financial and operational report detailing the implementation of the Operations Plan.

ARC Ltd will provide the ARC Agency with copies of all reports as soon as possible after they have been distributed.

7. Key activities / outputs to date

Institutional: In July 2012, AU Heads of State decided in a specific decision on ARC to establish it as a Specialized Agency of the AU and called for a conference of plenipotentiaries before the end of the year. 41 countries came together in Pretoria, South Africa to negotiate and adopt the ARC Establishment Agreement. 18 countries signed, bringing it provisionally into force and assuming the governance of the entity. Four additional countries have since signed the treaty. The first Conference of the Parties (COP) was held in Dakar, Senegal 25-28 February, during which the parties elected a governing board and selected Bermuda as an interim jurisdiction for the financial affiliate.

Since the COP, the ARC Governing Board has met twice, in February and June 2013. Work has also begun on the establishment of ARC Ltd with the Bermuda Monetary Authority. Both the ARC Agency and its financial affiliate are expected to be operational by the end of 2013, and the latter is expected to engage in insurance transactions with ARC member states in the first months of 2014.

ARC policy decisions: <http://www.africanriskcapacity.org/documents/policydecisions>

ARC Agency Governing Board: <http://www.africanriskcapacity.org/about/arcagencygoverningboard>

Country outreach: The ARC secretariat conducted 18 scoping missions to AU member states, and followed up with additional technical workshops in the majority of them. This culminated in 10 countries signing PPAs with the Agency – which committed them to participate in a year of capacity building activities with the intent to take out insurance. The Secretariat currently expects six of these countries (Kenya, Malawi, Mauritania, Mozambique, Niger and Senegal) to be ready to purchase insurance by early 2014, with the others likely to join the second risk pool. To prepare these countries, the Secretariat has engaged in extensive in-country consultation with technical working groups to customize *Africa RiskView*, thereby ensuring optimum performance of the software during the rainfall season. The ARC Agency has also convened workshops on operational planning and risk transfer. The six aforementioned countries will aim to have their insurance policies finalized by the end of 2013.

8. Any additional information and contact details

For any additional information, please contact:

Ms. Fatima Kassam

Chief of Governmental Affairs and Policy

fatima.kassam@africanriskcapacity.org

Tel: +27 (0) 11 517 1640

Mob: +27 (0) 832 977 226

Mr. David Goodman

Policy Officer

david.goodman@africanriskcapacity.org

Tel: +27 (0) 11 517 1868

Mob: +27 (0) 829 081 332