



African Risk Capacity Strategic Framework 2016-2020

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Acronyms

A ² R	Anticipate, Absorb, Reshape
ARC	African Risk Capacity Group (ARC Agency and its affiliates)
ARC Agency	African Risk Capacity Specialised Agency of the African Union
ARC Ltd	African Risk Capacity Insurance Company Limited
AU	African Union
CoP	Conference of the Parties (ARC)
COP21	The 2015 United Nations Framework Convention on Climate Change
DFID	The UK Department for International Development
G7	The Group of Seven
InsuResilience	Initiative on Climate Risk Insurance of the G7
MDGs	Millennium Development Goals
O&E	Outbreak and Epidemic
SDGs	Sustainable Development Goals
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
XCF	Extreme Climate Facility

Definitions

Agenda for Action	ARC's Agenda for Action is a framework that sets out ARC's goal to provide up to 30 countries with coverage of US \$1.5 billion for drought flood and tropical cyclone insurance coverage.
ARC Establishment Treaty	The Treaty, negotiated and signed in 2012, establishing ARC Agency as a specialised agency of the African Union, founded to help AU Member States to better prepare for and respond to natural disasters and extreme weather events.
Attachment Point	An insurance term denoting the minimum severity of an event loss which gives rise to a payment. It is the loss value at which a policy contract is triggered.
Class A Member of ARC Ltd	Class A Members of ARC Ltd are the ARC Agency Member States that have current, active insurance policies with ARC Ltd.
Class B Member of ARC Ltd	A Class B Member of ARC Ltd is a person or entity that has provided at least US \$25 million in capital to ARC Ltd without expectation of repayment
Class C Member of ARC Ltd	A Class C Member of ARC Ltd is a person or entity that has provided at least US \$25 million in returnable capital to ARC Ltd with the expectation that the capital will be returned without interest.
Contingency Funds	Funds secured <i>ex-ante</i> (before the event) to be triggered and released by an event. The funds can be in the form of reserves or financing instruments such as loans or grants, or risk financing instruments such as insurance, reinsurance, derivatives or catastrophe bonds.
Cost-Benefit Analysis	A systematic approach to estimate the strengths and weaknesses of alternatives that satisfy transactions, activities or functional requirements for a programme. A CBA determines which options provide the best approach in terms of benefits in labour, time and cost savings etc. It is also defined as a systematic process for calculating and comparing benefits and costs of a project, decision or government policy.
Diversification	Diversification in finance refers to the variety in geographical or sectoral spread or range of credit quality of assets within a portfolio. In ARC's context, diversification refers to the variety of weather risks across a group (portfolio) of countries in terms of geographical spread and temporal

	characteristics. Portfolio-wide risk is generally reduced as diversification increases.
Exhaustion Point	An insurance term denoting the severity of an event loss at or above which the maximum payment is triggered.
Humanitarian Actors	A wide range of agencies and organisations, financing, supporting and implementing a response to emergencies.
InsuResilience Initiative	The G7 Initiative on Climate Risk Insurance which aims to increase access to direct or indirect insurance coverage against the impacts of climate change for up to 400 million of the most vulnerable people in developing countries by 2020.
Member States	African Union countries that are parties to the ARC Establishment Agreement.
Parametric	Unlike indemnity insurance, which pays out based on an assessment of individual loss, parametric insurance instruments pay out based on measures of a parametric and objective index designed to proxy actual losses. This allows for timely payments by avoiding potentially lengthy and subjective loss assessments. All risk transfer instruments and contingency financing mechanisms can use parametric triggers.
Risk Capacity	The maximum amount of insurance, reinsurance or contingent capital that an insurer, reinsurer, risk taker or risk market in question can accept.
Risk Pooling	The aggregation of individual risks to manage the consequences of independent risks based on the law of large numbers. In insurance terms, this law demonstrates that pooling large numbers of relatively homogenous, independent exposure units can yield a mean average consistent with actual outcomes with a smaller standard deviation. Thus, pooling risks allows an accurate prediction of future losses and reduces the amount of capital that has to be held to cover the most extreme loss scenarios.

Overview of the Strategic Framework

The African Risk Capacity (ARC) Strategic Framework for 2016-2020¹ outlines ARC's vision, mission, and overarching strategic objectives for the coming five years. This framework sets out areas of thematic focus and the principles of engagement. It will guide ARC's organisational operation and prioritise the activities necessary to achieve the stated goals, notably those laid out in its Agenda for Action.

This first Strategic Framework is developed after ARC's first two years of operation. Drawing on this experience the Framework is able to highlight the challenges faced by governments across the African continent in designing and implementing robust disaster risk management regimes. The Strategic Framework positions ARC within a broader policy framework at the national, continental and international levels. It draws from the successes of ARC's on-going work but also seeks to show how ARC will push boundaries with new innovation to address the challenges faced on the continent.

The document also discusses delivery of the Strategic Framework results which is supported by a Results Framework (Annex 1). This describes how ARC's delivery will be measured.

This document is supplemented by additional documents:

- ARC's Agenda for Action
- Strategy for Growth
- Rolling Implementation Work Plan
- Interim Budget
- Interim Organisational and Administrative Structure

The Strategic Framework in Context

The Climate Challenge

African countries are among the most vulnerable to the impacts of natural disasters² and are likely to experience severe and frequent extreme weather events now and even more so 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.

The economic losses caused by natural disasters have been spiralling in recent years and currently stand at approximately US \$250-300 billion per year globally³. These financial needs are often not met or are delayed, adversely impacting those affected⁴.

¹ In 2020, ARC will review its delivery on the current Strategic Framework which will inform development of the second framework for 2021-2025

² UNISDR (2011), Effective Measures to Build Resilience in Africa to Adapt to Climate Change

³ UNISDR (2015), The Human Cost of Weather Related Disasters 1995-2015

⁴ UNOCHA (2015) Global Humanitarian Assistance

Natural disasters can significantly impact populations and too often divert funding away from critical development programmes towards unplanned emergency responses. This leads to government budget dislocations and response delays that increase costs, both operationally and on those affected.

At the macro level, natural disasters pose a great threat to economic development. It is estimated that a 1-in-10 year drought event could have an estimated adverse impact of 4% on the annual Gross Domestic Products (GDP) of a country like Malawi, with even larger impacts for 1-in-15 and 1-in-25 year events⁵.

Increased food insecurity and poverty in the aftermath of a disaster due to late and insufficient response, result in significant additional humanitarian and economic costs which can exacerbate conflict⁶ and displacement. This is further aggravated by low human capital, minimal access to technology, and inadequate access to financial services. For many African states, a small shock in terms of a rainfall deficit or elevated food prices in any year can precipitate a call for a major international humanitarian intervention and emergency response. In cases where governments and the institutional structures are unable to manage the stress and absorb the shock of extreme weather events, these events have a 'multiplier effect', exacerbating underlying social challenges which could overburden states⁷. This is of greatest risk to already fragile states, a category under which 26 sub-Saharan African countries are currently identified⁸.

Climate change is expected to have a significant impact on Africa, with more extreme and more frequent severe weather events, most notably impacting the rural areas and the agricultural sector⁹. Agriculture is one of the most important sectors for African governments, yet one of the most at risk to climate change (Box 3). Poverty and low levels of development across the continent mean low resilience in the face of current weather risks, let alone future climate change.

Risk management alone will not be enough to address the challenges noted above, however, containing the impacts of the events on vulnerable households is one of the continent's biggest challenges. An urgent solution is required to stop the next predictable disaster increasing food insecurity and poverty in already vulnerable nations and to protect their current and future resilience gains.

⁵ Boston Consulting Group (BCG), 2012, African Risk Capacity Cost Benefit Analysis

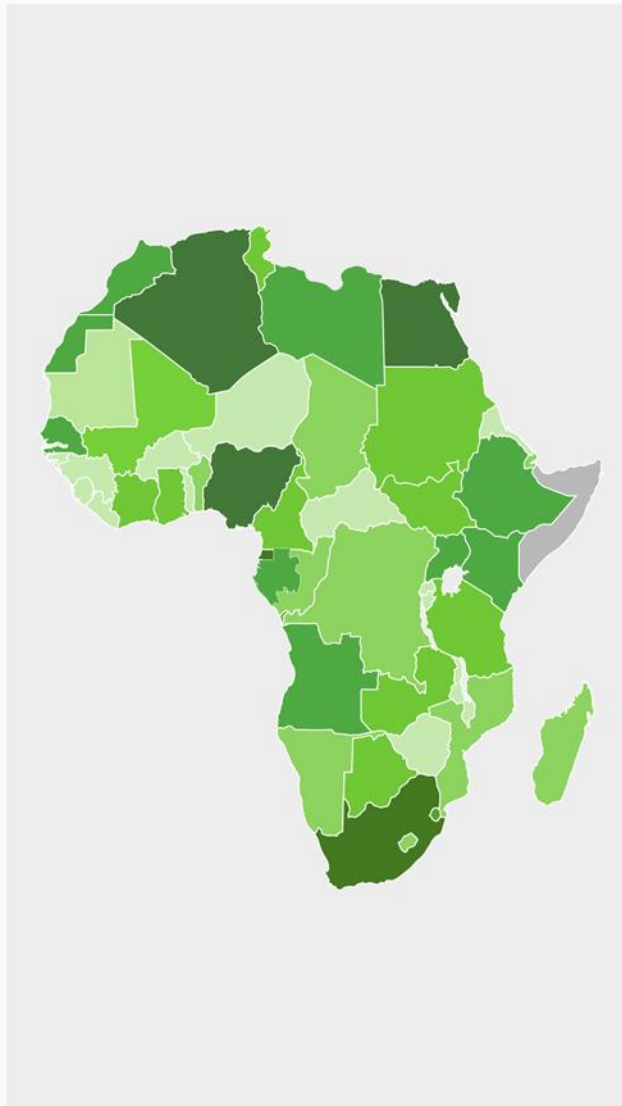
⁶ World Bank (2010), Food Insecurity and Conflict: Applying the WDR Framework, Henk-Jan Brinkman and Cullen S. Hendrix

⁷ The European Union Institute for Security Studies (2015) A New Climate for Peace: Taking Action on Climate and Fragility Risks

⁸ IMF (2015) Building Resilience in Sub-Saharan Africa's Fragile States, Enrique Gelbard

⁹ IPCC (2011), Special Report of the Intergovernmental Panel on Climate Change: Renewable Energy Sources and Climate Change Mitigation

Box 1: Agriculture in Africa, a critical sector at risk



Agriculture is one of the most important sectors in Africa



Agriculture accounts for 32% of the continent's Gross Domestic Product (GDP)

*Smallholder farmers provide 80% of food consumed on the continent



70% of Sub-Saharan Africans are engaged in subsistence farming

Impact of climate change



Longer droughts



Increased flooding



Strong storms and cyclones

Low resilience of households to weather related shocks



of population in Sub-Saharan Africa are below the poverty line (US \$1.90 per day)

*e.g. in a country such as Niger, to withstand a 1-to-5 year drought event, the income of the most vulnerable households would have to grow by an annual average of 3.4% over the next 5 years in real terms to build sufficient resilience to adequately cope without requiring external assistance.

The impact



Percentage of reported affected people by disaster type in Africa

● drought 80% ● epidemic 4%
● food 13% ● storm 3%

*It is estimated that a 1-in-10 year drought event would have an estimated adverse impact of 4% on the annual GDP of a country like Malawi

Africa's response to the Climate Challenge

In light of the magnitude of the challenge outlined above, it is a humanitarian and economic imperative to develop innovative financial mechanisms and to continue investing both in risk reduction and more efficient risk management measures in order to rapidly and efficiently address risks to natural disasters. This should be centred on protecting critical investments in resilience at the sovereign and household levels.

ARC Agency, established by a Heads of State decision at the African Union summit in July 2012¹⁰, is a comprehensive, integrated solution that transfers weather risk away from governments – and the vulnerable households they protect – to ARC. This enables governments to build resilience and better plan, prepare for and respond to extreme weather events. ARC brings together four critical elements to create a powerful and sustainable value proposition for its participants and their partners:



ARC Insurance Company Limited is the first financial affiliate of the African Risk Capacity Specialised Agency of the African Union. Together, the organisations form a coordinated public-private initiative that provides an innovative finance mechanism to transfer risk to international risk markets. As a Bermuda regulated insurance company, ARC Ltd provides technical, finance and insurance capacity and operates on mutual insurance principles, issuing policies to participating governments and interfaces with the reinsurance markets. By allowing ARC Member States to capitalise on the natural diversification of weather risk across the continent and access the international risk markets as a single pool, ARC Ltd reduces transaction costs and premiums to the lowest level possible while remaining financially sustainable. By doing this ARC Ltd substantially leverages the premium income from ARC Member States and donor capital/Official Development Assistance (ODA) contribution to scale access to timely disaster response finance. Additional affiliates or subsidiaries of the ARC Agency may be established by the Conference of the Parties of the ARC Agency in response to other disaster risk financing needs.

¹⁰ See Annex 5 for AU Decisions

The Strategic Framework

Vision

Protect the livelihoods of vulnerable people in Africa against the impact of natural disasters through home-grown, innovative, cost-effective, timely and sustainable solutions.

Mission

Create pan-African natural disaster response systems that enable African governments to protect the livelihoods of people at risk from natural disasters.

Goal

Indirectly insure 150 million people in Africa against the impact of natural disasters with US \$1.5 billion in coverage across 30 countries and channel a further US \$500 million in climate adaptation financing by 2020.

Strategic Objectives

ARC will build on its achievements to date and work towards three key strategic objectives:

Objectives		
01 Innovate Dynamic and Applied Research and Development	02 Strengthen Strengthening Disaster Risk Management and Financing on the Continent	03 Grow Scalability and Sustainability of ARC Operations and Insurance Coverage on the Continent

Strategic Objective I: Innovate - A Dynamic Approach to Research and Development

ARC is a global leader in applied research and the development of tools that monitor and trigger financing to respond to natural hazard risks. Innovation and constant renewal of research and development is a strategic priority for ARC and will ensure the organisations' products are improved, remain relevant and continue to meet the needs of ARC's Member States.

ARC will develop partnerships across the continent and collaborate with leading global knowledge centres to enhance and expand its own R&D work.

There will be three key technical areas of focus:

i. *Africa RiskView* and New Product Development

Africa Riskview, ARC's core product and technical engine, will remain the primary focus, recognising the need to continue to refine and improve the product, including developing additional components for other risk, such as flood and tropical cyclone, which have been requested by ARC Member States¹¹.

ii. Contingency Planning Standards and Guidelines

ARC Contingency Planning Standards and Guidelines will be reviewed periodically and updated. This process will be informed by data gathered through ARC's programme cycle and through additional research conducted or commissioned by ARC.

iii. Innovative financial mechanisms.

ARC will further develop mechanisms to strengthen its existing products and crowd-in further financing from public and private sectors to support the sustainability of ARC.

i. Africa RiskView and New Product Development

Africa RiskView, the technical engine of the ARC risk pool, underpins ARC Ltd's insurance policies and is the core risk management product of the ARC Agency. To date, *Africa RiskView* has focused on drought. It combines existing operational rainfall-based, early-warning models for agricultural drought in Africa with data on vulnerable populations to form a standardised approach for estimating drought-related food insecurity response costs across the continent – information that is critical for developing a parametric risk pool and trigger early disbursement of funds. This tool has been tried and tested, triggering early payouts to three participating Member States in the Sahel following a poor agricultural season in early 2015. ARC will continue to refine this tool and to determine how it can increase its utility in serving the early warning needs of Member States.

Building on the success of the drought model and in response to demand from ARC Member States, ARC is developing additional *Africa RiskView* modules for floods and tropical cyclones. The ARC Agency is driving this work through its Secretariat and in close collaboration with ARC Ltd. Like drought, these risk models will be used to underpin ARC Ltd's parametric insurance policies across the continent.

In modelling disaster risk, a model needs to accurately map the impact of events on the ground. Continuous research and development around ARC risk models and their limitations is therefore critical to improving the models and minimising basis risk.

The increasing impact of climate change, and the rising possibility of an increase in extreme weather events and their intensity, threatens ARC's business model and the sustainability of the risk management infrastructure in the future. As the impact of climate change is better known, it could lead to an increase in the premiums that countries will need to pay for the same coverage from ARC Ltd. To protect against this potential additional cost, ARC's Research and Development Department

¹¹ Decisions of the Third Meeting of the Conference of the Parties, January 2015, Addis Ababa, Ethiopia

is designing the Extreme Climate Facility (XCF) which will closely track extreme weather events. If weather shocks, such as extreme heat, droughts, floods or cyclones, increase in occurrence and intensity across the continent, the facility will trigger funding to countries which are already managing their weather risk through ARC Ltd. The funds would be used to boost climate adaption measures and therefore increase national resilience to future weather shocks. This in turn would reduce volatility in premium pricing. XCF payouts would be a powerful tool to signal that enhanced adaptation efforts are required and to geographically target early funding flows (see Annex 4).

In addition, ARC's Research & Development Department is committed to developing an outbreak and epidemic (O&E) insurance product in order to effectively meet the demands of Member States in the aftermath of the Ebola epidemic. Like ARC's current insurance offering, the O&E insurance product will be based on objective and transparent triggers that track outbreaks. Initially it will be developed to cover several pathogen families with payouts linked to well-defined contingency plans that target containment of the pathogen's spread.

ii. Contingency Planning and Early Response

In September 2012, through a Contingency Planning Peer Review exercise, Member States presented best practices in contingency planning and emergency response. This, together with two cost-benefit studies commissioned by ARC, established ARC's Contingency Planning Standards and Guidelines, a strong foundation for ensuring ARC's early financing is channelled to the affected populations in a timely and effective manner to protect livelihoods. ARC will continue to refine these standards and guidelines in three ways:

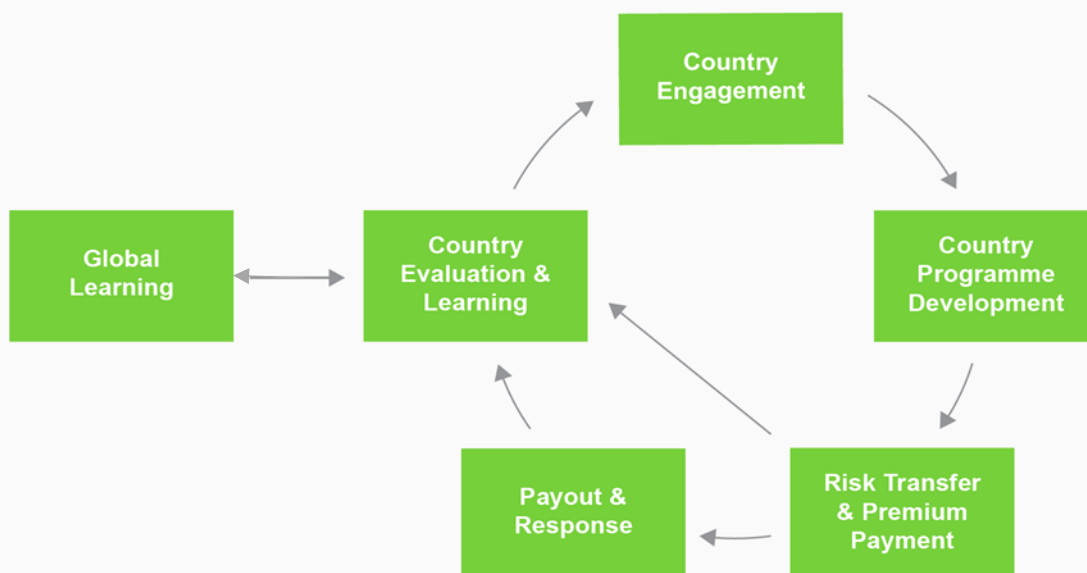
a. Country Evaluation and Learning: The results of the evaluations and audits which take place following the implementation of ARC Contingency Plans following a payout will feed into ARC's programme cycle (see Box 2). This ensures that evaluation processes and lessons learned are informing the future planning process of ARC programmes.

b. ARC Research: To date ARC has commissioned two cost-benefit analyses that provided critical learning on the impact of a delayed emergency response on the livelihoods of affected populations. The studies provided insight into the optimal interventions that could safeguard livelihoods of the most vulnerable. ARC will pursue additional research as required to ensure that ARC response payouts have maximum impact.

c. Global Learning: ARC will integrate relevant global research in the refinement of its Contingency Planning Standards and Guidelines, leveraging this to improve delivery of ARC's mission.

ARC's programme cycle (see Box 2) ensures that systems are in place to encourage learning and development of best practices which shape all aspects of ARC's work and inform research and development both within the ARC and in the global arena.

Box 2: ARC Programme Cycle



iii. Financial Innovation through ARC Ltd

ARC Ltd, as a financial affiliate of ARC Agency, has underwritten more than US \$300 million of drought risk based on *Africa RiskView* since 2014 and transferred a significant portion of this into the global risk markets. ARC Ltd is strategically positioned to match ARC Member States' need for cost-efficient risk transfer, to the growing demand from the international risk markets for scale and diversity in their portfolios. Working closely with the ARC Secretariat, ARC Ltd will underwrite more risk at the lowest cost possible in the years ahead, transferring much of it to the markets when it is financially efficient to do so. This additional risk will be in the form of greater drought coverage but also new flood, tropical cyclone, XCF and O&E risks.

ARC Ltd will continue to test new financial mechanisms and tools to strengthen ARC's existing insurance products. For example, during the period covered by this framework, ARC Ltd will pilot Licensing for Development (L4D). The initiative will make *Africa RiskView* available for underwriting non-State actor insurance in Africa, initially with a controlled group of partners. The aim is to seek additional development impacts in local communities and to strengthen domestic insurance markets in developing the products to meet their clients' needs. ARC will additionally benefit from licensing fees through L4D, which will provide a new and innovative source of income to support the maintenance and continued research and development of *Africa RiskView*.

Partnerships

In addition to the three technical areas of focus, ARC will pursue key partnerships with leading research institutions globally to advance its own research and to develop applicable tools for Member States. Through this work, ARC will seek to establish strong technical partnerships and collaborations to facilitate dialogue and linkages with national and regional institutions across Africa and to introduce

risk management thinking into shared research agendas. There are numerous national and regional research institutions in Africa undertaking research in the thematic areas of ARC. Integrating these institutions in the work of ARC will be critical for improving the understanding and management of disaster risk and for increasing ARC's value as a practical risk management tool for the continent.

ARC will strengthen existing partnerships and establishing new ones in early warning analysis and dissemination, using ARC's comparative advantage and that of other expert groups. To date, Regional Economic Communities and local early warning and research organisations across the continent have been participating in ARC's processes and dialogue. This has allowed ARC to cross reference early warning tools and ensure they are technically sound.

Strategic Objective II: Strengthen - Strengthening Disaster Risk Management on the Continent

The ARC portfolio will grow steadily over the coming five-years, and contribute significantly to the G7 InsuResilience initiative. Growth will stem from ARC's ability to expand coverage to additional threats, and to an increasing number of participating Member States.

To achieve ARC's goal, there is a need to harness a holistic approach to risk management in ARC's Member States, ensuring steady ARC Ltd portfolio growth, including additional perils and the participation by increasing numbers of Member States. The foundations of this work and a key strategic focus of ARC's activities will be capacity building, both to ensure understanding of disaster risk insurance by governments and to support the development of their operational capacity to transform the risk financing paradigm to one that harnesses a proactive approach, using ARC and other risk financial tools, in support of great country resilience.

ARC's in-country work is always country-led in order to build capacity and encourage sustainability. The work completed prior to an insurance transaction is therefore critical to ensure that ARC experts are established within key ministries. These officials can then understand, learn and make an informed decision on insurance and the positioning of ARC within the national context, harnessing ownership by the government of the programme. ARC will continue its core work around primary areas of capacity building and country dialogue as summarised in Box 2.

Box 3: ARC Capacity Building Programme

Member States interested in purchasing insurance first enter into a Memorandum of Understanding with the ARC Agency which commits them to a 9-12 month Capacity Building Programme. Through this programme government experts complete milestones in risk modelling, contingency planning and risk transfer. The programme's work streams consist of:

- i. **Introduction to Disaster Risk Financing and Country Engagement:** Technical experts and senior political officials are introduced to the concepts and approach of ARC. The ARC Capacity Building Programme is designed with the help of technical experts. Relevant programmes and existing platforms within the country are identified to ensure that ARC programmes are embedded within national programmes.
- ii. **Risk Modelling:** Technical experts in key ministries and departments are trained in the use and customisation of *Africa RiskView*. The software application was developed to define the country's weather risk profile, underpin ARC Ltd parametric insurance products and trigger early disbursements of funds. This key step allows governments to develop a country risk profile and through this to determine the relevance and appropriateness of using various risk management tools such as ARC.
- iii. **Contingency Planning:** ARC works with in-country technical experts in emergency response and social protection to explore existing contingency funding mechanisms in the country that could be complemented by ARC and to look at supporting the scale up of existing social protection programmes. ARC can help protect gains made under these regular programmes from being wiped away by weather-related risks.
- iv. **Risk Transfer:** Finance and disaster management experts in key government departments are introduced to risk transfer concepts and ARC insurance. Particular emphasis is placed on building an understanding on how risk transfer fits into the broader risk management framework for the country. This work stream covers the relationship between the country's risk profile and a government's considerations in deciding to transfer risk via insurance policies to ARC Ltd. Finally, it also looks at how risks not covered by ARC are managed.

i. Risk Modelling and Early Warning

Africa RiskView can be continuously refined and developed, and as new risk modules are launched, will become increasingly relevant to both existing and new Member States. ARC aims for Member States to use *Africa RiskView* and to integrate it into national early warning systems. To develop this national capacity, ARC seeks to identify qualified candidates within key government ministries who can benefit from the capacity building work. ARC further supports these experts to integrate ARC into national early warning information as it is disseminated.

The ARC Secretariat further supports the Member States with regular dissemination of early warning information from *Africa RiskView*. This information enables decision makers to better anticipate and

plan for natural disasters and informs the development of contingency plans and selection of ARC risk transfer coverage by a Member State.

Finally, ARC can strengthen and facilitate new partnerships between key national, regional and international organisations engaged in early warning analysis and dissemination of information. This allows Member States to see the full benefits of *Africa RiskView* and ensures a harmonised approach to early warning and disaster preparedness within the country. This also ensures harmonisation of analysis and integration of *Africa RiskView* into these national, regional and international tools.

ii. Contingency Planning

Contingency Planning is a critical feature in ARC's work with countries. The plans developed with each Member State ensures an early response is implemented effectively once a payout is triggered. It is essential to continue building capacity in this area, ensuring that best practices are continuously integrated into ARC's work.

ARC identifies key experts within government ministries and works to develop their contingency planning capacity. The experts are then able to renew the contingency plans on a bi-annual basis, a requirement for participating in ARC's risk pools.

There is a concerted effort to integrate ARC's plans within the national contingency plans, where they exist, to ensure that ARC is embedded within the national programmes and emergency response.

iii. Risk Financing

ARC will continue to develop capacity in risk financing, ensuring that key government experts have a concrete understanding of ARC's insurance products and the crucial role that they can play within a national risk management portfolio.

ARC will work with Member States to determine sources for financing the ARC Ltd insurance premium. This could be financed directly from national budgets or potentially with short-term support from partners. Support ensures continued participation in ARC risk pools while appropriate risk management activities and expenditures are fully integrated with national budgetary processes.

ARC Ltd will continue to seek opportunities to strategically access private sector insurance and finance markets, ensuring Member States are provided with the most competitive pricing for their insurance coverage.

ARC requires that each Member State entering the ARC risk pool - by purchasing an insurance policy- nominates a senior individual to attend all ARC Ltd Annual General Meetings alongside the ARC Government Coordinator. This ensures continuity in the discussions of these meetings and also ensures that sufficient expertise and understanding of ARC Ltd is developed within each Member State.

Strategic Objective III: Grow - Increased Scalability and Sustainability of ARC Operations and Insurance Coverage

To support ARC's vision of effective disaster risk management and financing systems for national

governments, the third strategic objective encourages scaling up of ARC's operations on the continent. Growth will stem from increasing Member State membership in ARC Ltd and increased and consistent risk transfer transactions. This expansion will enable ARC to develop a more sustainable financing structure for its core operations, allowing ARC Agency to move away from dependence on donors.

i. Increasing Participation

ARC will continue its dialogue with African Union States which are not yet members of ARC, in order to expand its membership. Increased membership will strengthen ARC's position as the continental leader in disaster risk management and financing, both within Africa and globally. In parallel, ARC will continue to provide technical support to its Member States to encourage their timely ratification of the ARC Establishment Treaty.

ii. Replica Coverage

For participating Member States, the share of coverage secured through ARC against the country's total disaster funding requirements, ranges from less than 10% to 30%. The remainder is largely funded through the UN appeals process. While African states are evidently willing to allocate more domestic resources to disaster funding, Member States will still need access to international support until the time they can fully manage their own risks. This dependency will continue to absorb significant international resources through the humanitarian appeals system.

Countries which lack the financial and operational capacity for greater coverage expansion beyond what they've purchased from ARC, would benefit from UN Agencies and other humanitarian actors (including NGOs / Civil Society) providing both increased insurance-based funding and scaled, coordinated and timely operational execution. ARC will offer Replica Coverage to humanitarian actors which matches countries' insurance coverage, potentially doubling the number of people covered by climate risk insurance. Humanitarian actors can leverage ARC's country-built risk management architecture to scale up coverage and boost timely response capacity.

iii. Extreme Climate Facility

Climate change presents a significant threat, potentially causing a rise in weather risk and therefore an increase in the price paid to cover for it. ARC's value proposition could be undermined if countries had to pay more for the same coverage from ARC Ltd. ARC's XCF could help mitigate this volatility in pricing by triggering funds that would be used by countries to boost climate adaption measures and to increase national resilience to future weather shocks.

ARC must help its countries secure the funds required to adapt to a changing climate. This will ensure its insurance products remain effective and affordable for Member States in the long run and will protect the growth and resilience goals enshrined by the G7 and SDGs. With Africa leading the way in innovative climate finance, XCF aims to secure up to US \$500 million of initial climate adaptation capital from the private markets for ARC Member States in 2017.

iv. Scalability and Sustainability of National Programmes

ARC will work with governments to map out the process for embedding ARC within national systems. This will ensure sustainable engagement of Member States and over time, reduce their need for capacity building support from ARC. The programme will focus on: the strategic policy dialogue necessary for integrating ARC into national budgets; national contingency plans; and the integration

of ARC's models into national early warning systems. This process will also determine a government's strategy for financing premium that could initially include donor or International Financial Institution funded support secured bilaterally by the Member State. Where such support is secured, ARC will work with governments to develop a strategy for phasing it out and moving to a system of sustainably financing premiums themselves.

The comprehensive approach will ensure national ownership of ARC and encourage governments to place ARC within a broader national risk management framework, further enhancing its value to Member States. ARC will adhere to this sustainable approach throughout its country programmes.

v. ARC Institutional Structure

ARC will continue to assess its evolution in the context of the group's co-operative public-private structure through ARC Agency and ARC Ltd. ARC will undertake an analysis of its structure over 2016 to 2018, producing the following documents in support of this:

- Cost-benefit analysis focusing on the natural hazards covered by ARC
- Impact evaluation of ARC Agency and ARC Ltd
- Institutional and process audits
- Strategic workforce planning
- Membership fees scale of assessment analysis

The work above will form the basis for the design of the institutional evolution of the ARC Group, which will be developed by 2020 with the objective of moving towards administrative and financial sustainability. This analysis will be presented to the ARC Conference of the Parties for consideration.

Areas of Thematic Focus

While pursuing its Strategic Objectives, ARC will contribute to a number of thematic areas which relate to its specific mandate issued by its Member States

Drought, Flood and Tropical Cyclones	Building on the success of the <i>Africa RiskView</i> drought model, Member States have requested that models also be developed for flood and tropical cyclone. Floods occur frequently with devastating effects and tropical cyclones pose a great hazard to Mozambique and the Indian Ocean islands ¹² .
Climate Adaptation	ARC is developing the Extreme Climate Facility (XCF), a mechanism by which African states can gain access to financing to scale their responses to the impacts of increased climate volatility.
Loss and Damage	Loss and Damage was formally recognised by the COP21 as a pillar of climate policy. It encompasses the impacts of climate change that materialise despite efforts to reduce greenhouse emissions and to adapt to climatic changes. Loss and Damage events, although likely, are unpredictable in terms of timing and magnitude. Financing tools such as ARC are well positioned to absorb the burden of these risks, diverting them away from governments and the vulnerable households that they protect.
South-South Cooperation	ARC is based on pan-African solidarity, capitalising on the natural diversification of weather patterns as it shares risks across the continent. As an African Union platform driven by Member States, ARC facilitates collaboration among African countries, offering opportunities for peer-to-peer learning and establishment of best practices.
Public Private Partnerships	Through ARC Ltd, ARC leverages limited donor financing to access private risk and insurance capital, creating effective public-private partnerships. Such partnerships are cost-effective and promote the sustainability of ARC programmes. The success of this public-private partnership is expected to help the organisation become sustainably self-funded over time.
Resilience	Investments in building resilience have been a key focus of policy dialogue on poverty alleviation, food security and climate adaptation. Yet these investments stand to be compromised by natural disasters, which further lower the resilience of governments and vulnerable households to future shocks. ARC protects investments in resilience, protecting the most vulnerable households from natural disasters and safeguarding development gains.

¹² GFDRR (2010) Report on the Status of Disaster Risk Reduction in Sub-Saharan Africa

Insurance	Insurance can be an efficient tool for providing Member States with reliable financing after a natural disaster. Such events are likely but unpredictable. ARC has proven it can deliver results through its insurance products which, in early 2015 following a significant drought in the Sahel, helped mobilise an early response to three Member States; Mauritania, Niger and Senegal.
Early Warning and Seasonal Monitoring	Countries need to build appropriate early warning tools and ensure on-going seasonal monitoring in order to respond to disasters. ARC's dedicated Research and Development Unit has effectively delivered an innovative and useful early warning tool, <i>Africa RiskView</i> , to model impact of rainfall deficit on crop production and food security. ARC will continue to advance this tool, developing insurance products for flood and tropical cyclones, and creating additional tools that provide critical information for better planning and response to extreme weather events as well as outbreaks and epidemics.
Outbreak and Epidemic	Emerging infectious diseases pose an increasing threat to health and development in Africa. Slow, unpredictable funding amplifies both the risk and impact of outbreaks. Following the Ebola crisis that ravaged West Africa, the ARC Secretariat was requested to develop a product addressing countries' financing needs for containing outbreaks of viruses and diseases common to the African continent, and in the event of spread or secondary transmission. The request was made by the Conference of the Parties of the ARC Agency and the African Ministers of Finance in January and March 2015 respectively.

Principles of Engagement

Principle 1: A Differentiated Approach

i. Country-specific approach for all Member States: ARC specifically focuses capacity building services on the needs of the country by establishing in-country technical working groups which guide a national ARC programme.

Member States complete a 9-12 month programme with ARC to map out: the risks faced by a country; existing programmes; and a strategic framework for ARC participation. This ensures that ARC's programme is government-owned and is integrated into existing systems and frameworks as well as a broader national strategy. ARC is committed to a differentiated approach in supporting its clients, based on working in partnership with each country on disaster risk management priorities, institutional and policy environment and existing programmes.

ii. Differentiated Approach to Gender and Youth: Closing the gender gap is central to achieving the SDGs and, in the context of ARC, recognising the important role of women in agriculture and in disaster response is essential for food security and economic growth. ARC considers the promotion of women's empowerment and gender equality, in field operations and at the professional level, an important factor in creating long-term impacts and sustainability. Accordingly, ARC will vigorously ensure that its operational responses and its capacity building work have a differentiated approach to gender. ARC will systematically build a gender perspective into its operations and policies - including human resource policies, and monitoring and evaluation policies. At the operations level it will ensure that the Contingency Planning work stream integrates gender sensitive targeting of beneficiaries and report on this through its monitoring and evaluation structures.

ARC will develop a gender policy to be monitored by the Director of Policy and Technical Services. ARC will utilise benchmarks set by leading gender-focused organisations and strive to establish a methodology that ensures that gender-balanced approaches can be mainstreamed across all ARC work streams and activities.

Under the Strategic Framework, ARC will integrate youth development in Africa by working with universities on research projects that advance ARC's objectives and by developing the next generation of African risk managers and analysts. ARC will commit to providing internship opportunities for African youth.

Principle 2: Aligning with Continental and Global Policy and Knowledge

ARC will build on its existing partnerships and advocacy efforts by seeking opportunities to participate in and align its work with continental and global climate change policy and disaster risk financing dialogues. ARC will continue to share knowledge and best practices within the global policy fora and help to shape the development agenda towards one that better serves Member States.

Principle 3: Effective Partnerships

Developing key partnerships is an important part of ARC's operations and future growth and success. ARC emerges as a leading organisation in risk financing in Africa with a proven track record - a key entity with which to collaborate. ARC can rise to the challenges set out in this Strategic Framework, firstly through effective partnerships with its Member States and then across national, regional and

international organisations. These will include government bodies, academic and research institutions, development partners and the private sector.

ARC will partner specifically with African research and academic institutions in its development of innovative tools and with regional economic communities to harmonise services to government clients. ARC will also focus on facilitating links between African and global research institutions.

Looking beyond technical and political partnerships, public-private partnerships have formed the foundation of ARC's programmes to date. ARC's public-private partnership structure has enabled it to leverage premium paid by Member States to access additional risk/response payout capital from the reinsurance markets. ARC Ltd will continue to explore innovative ways of strategically accessing private finance and insurance markets to ensure that ARC remains a cost-effective risk transfer tool operating to the benefit of its Member States.

Principle 4: Sustainability

Through this Strategic Framework ARC commits to working in a sustainable manner with a focus on developing national capacities rather than growing the size of the ARC Agency Secretariat. This will create national ownership, sustainability and lower the operational costs of the organisation. ARC also commits to consolidating its own institutional and financial sustainability.

In order for the capacity building ARC undertakes to be sustainable and have lasting impacts, ARC will focus on government ownership. Through integration of ARC's early warning tools, contingency planning and risk transfer strategies into national structures and policies; ARC will be embedded within national programming and budgets. ARC will also support governments with the development of a disaster risk financing strategy. This ensures that governments can sustainably participate in ARC even after receiving support from donors for their premium financing for an initial period.

Through its public-private institutional structure, ARC will develop a road map towards becoming a self-financing ARC Group by 2018. Options for optimal institutional structuring and the path to sustainable self-financing will be explored.

ARC's Comparative Advantage

Member State Ownership

By being Member State-driven, programmes are developed to be aligned with national strategies and embedded within national programmes. This ensures that ARC is tailored to the needs of a given country and complements existing initiatives, thereby strengthening national capacities. By linking early warning, contingency planning and contingency financing, ARC is well positioned to make tangible contributions to the areas of disaster risk management, early response and climate change adaptation, and to do so in response to the demand from Member States.

Member States are invested in the ARC programme, with country experts involved in the review, customisation and further development of *Africa RiskView*, and the establishment of best practices in contingency planning and risk management more broadly. Member States that purchase insurance coverage become members of a mutual insurance facility, ARC Ltd, thereby participating actively in its governance functions. Such dynamics result in a programme that is demand-driven, context-specific and 'owned' by the Member States, harmonising the public and private functions required to serve Member State needs.

In-country working groups enable integration of ARC's early warning tools into national early warning systems; similarly ARC contingency plans can be viewed as a component of a broader contingency plan to be developed for the different risk layers a country faces. In-country discussions on risk transfer have resulted in governments considering how best to manage risks not transferred to ARC and looking at other risk management and mitigation tools available. ARC leads countries to discuss the development of a broader, holistic risk management framework.

An Inter-Disciplinary Approach

By combining early warning, contingency planning and insurance, ARC takes an approach that breaks down silos and creates a comprehensive package with tangible applicability. *Africa RiskView* organises existing data in an innovative and pragmatic manner in order to provide governments with meaningful indicators that inform planning and response, and can underpin ARC's parametric insurance policies. By linking this early warning tool to pre-approved contingency plans and insurance, the information received can be converted into concrete action.

An Objective and Transparent Approach

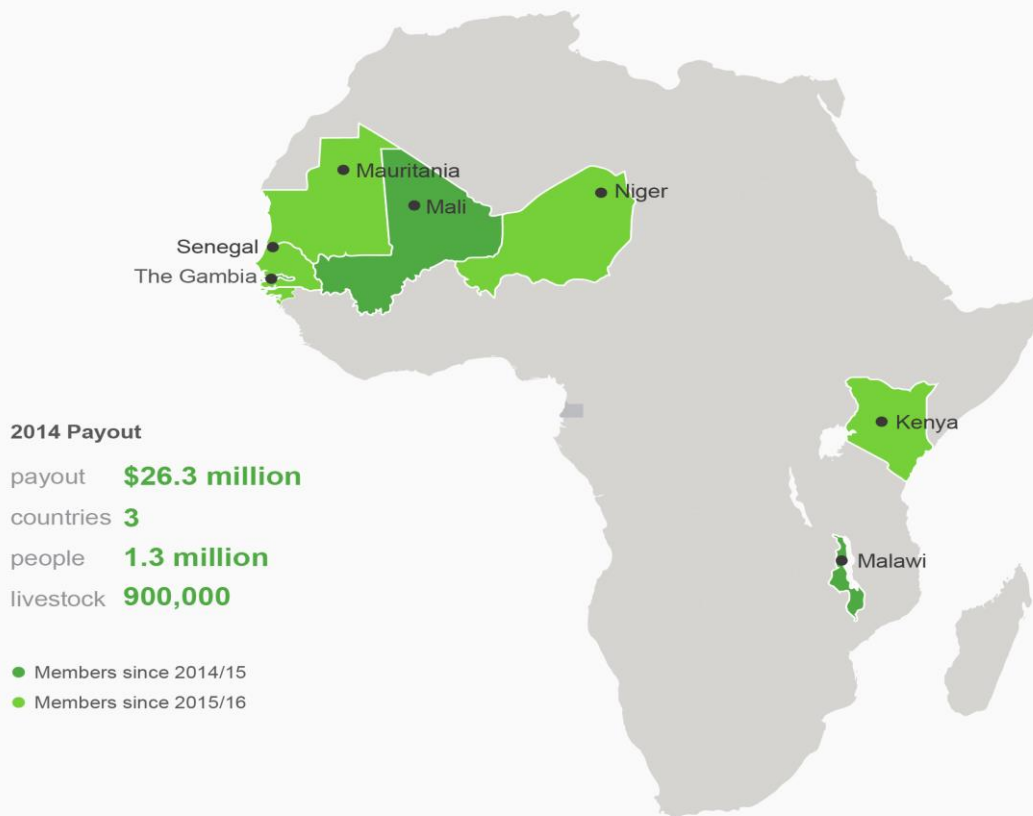
ARC's use of objective and transparent parametric triggers brings impartiality to discussions around disaster risk management and climate change, which are often highly political in nature. ARC's scientific approach to modelling risks and climate change add much needed objectivity and transparency, particularly with respect to the causes and drivers of food insecurity and other disaster impacts.

A Cost-Effective Model

One of ARC's key comparative advantages is its cost-effective use of donor funding. By leveraging small amounts of donor capital, ARC has been able to access additional private risk capital through reinsurance. The impact of the initial donor funding is further amplified by ARC's framework through

which countries can define mechanisms to channel response payout funds within short periods of time to mobilise early response. This ensures the value of ARC to its Member States.

Box 4: ARC in the Spotlight



In 2015, ARC paid out more than US \$26 million to Mauritania, Niger and Senegal which were affected by drought in the Sahel. The three countries had paid combined premiums of US \$8 million for drought insurance. The funds, disbursed within a couple of weeks of the trigger being met, arrived well ahead of any other humanitarian assistance and allowed governments to spearhead relief operations to the affected populations. The funds benefited an estimated 1.3 million food insecure people and more than half a million of their livestock.

Prior to taking out insurance, ARC Members must have peer-reviewed contingency plans put in place. After Final Implementation Plans for each country were certified by the ARC Agency Governing Board through its Peer Review Mechanism, payout funds were released. Use of payout funds were audited after implementation, to ensure appropriate use and to enable learning from each implementation to feed back into updated and improved contingency plans.

ARC within the Global Disaster Risk Management Landscape

The table below lists key initiatives in the area of disaster risk management to which ARC contributes:

The United Nations

Sendai Framework for Disaster Risk Reduction 2015-2030	A UN Member State agreement on managing natural disaster notes the importance of insurance as one of its key priorities, stressing the need to “promote mechanisms for disaster risk transfer and insurance, risk-sharing and retention and financial protection, as appropriate, for both public and private investment in order to reduce the financial impact of disasters on Governments and societies, in urban and rural areas” ¹³ .
Loss and Damage in the Paris Agreement	ARC’s unique position as a Member State-led, public/private risk management initiative that provides timely, targeted financial risk management tools to buffer against adverse climate impacts, was recognised at the global level. ARC played a key role in demonstrating the value of such tools so that they became enshrined in the Loss & Damage sections of the Paris Agreement.
Anticipate, Absorb, Reshape (A2R)	The UN Secretary General launched A ² R to support countries to anticipate hazards, absorb shocks and reshape development to reduce climate risks. An embodiment of A ² R’s philosophy, ARC builds capacities of governments to better prepare, plan and respond to natural disasters.
Sustainable Development Goals 2015-2030	<p>No Poverty (SDG1) ARC contributes to protecting the poor from natural disasters, thereby helping to break the poverty cycle</p> <p>No Hunger (SDG2) ARC enables a timely response following an extreme natural disaster, protecting against food insecurity before it becomes critical</p> <p>Promote Economic Growth (SDG8) ARC helps countries, communities and individuals to maintain their economic productivity in the face of climate disasters, thus supporting sustainable development</p> <p>Protect the Planet (SDG13) ARC provides an objective measure of climate change and channels financing from the private sector to Member States for climate adaptation</p> <p>Partnerships for the Goals (SDG17) ARC builds strategic partnerships with international institutions, government actors and the private sector, recognising that sustainable solutions are dependent on such partnerships</p>

¹³ UNISDR (2015) Sendai Framework for Disaster Risk Reduction 2015-2030

World Humanitarian Summit - “One Humanity Shared Responsibility”	<p>In his report for the World Humanitarian Summit, the UN Secretary General highlights the following core responsibilities:</p> <ol style="list-style-type: none"> 1. The need to scale insurance coverage for countries against natural disasters, strengthening local and more effective response capacities as a core responsibility. 2. To fully employ risk pooling and risk transfer tools, in addition to other financial options, within the international system to support the shift to financing from funding and to complement national and local efforts <p>ARC is uniquely positioned to respond to and meet these challenges.</p>
High Level Panel on Humanitarian Financing	<p>In order to address the widening gap in financing the needs of humanitarian interventions, the UN Secretary General appointed a panel of experts to explore potential solutions. The panel recognised ARC as an initiative that crucially contributes to building financial capacity of governments to meet post-disaster financing needs and humanitarian action¹⁴.</p>

The G7

G7 – InsuResilience	<p>In 2015, the G7 committed to provide 400 million poor people with insurance (direct and indirect) against climate risks by 2020 and identified ARC as a key programme to be strengthened in order to achieve this global target.</p>
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African Institutions

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

Aid Effectiveness

Busan Partnership Agreement - Aid Effectiveness	<p>In light of the multitude of initiatives that exist, it becomes critical to hone in on the principles of aid effectiveness outlined in the Busan Partnership Agreement, endorsed to date by more than 100 countries as the blueprint for maximising the impact of aid. ARC's cost-effectiveness reduces the immediate costs of responding to emergencies.</p>
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¹⁴ High Level Panel on Humanitarian Financing Report to the Secretary General (2016), Too Important to Fail – Addressing the Humanitarian Financing Gap

The above initiatives represent a convergence in the policy thinking around disaster risk management, namely that in order to achieve the development goals that we have committed to, there is a need to develop better risk management and financing systems. ARC offers a package of tools, from early warning to contingency planning and risk financing, which complement the efforts of its partners in driving a transformation of the disaster risk management paradigm. ARC focuses on building partnerships within the development community and working through national governments. ARC embeds its programme within a national holistic risk management framework, while ensuring its initiatives are integrated into the broader framework of development, thereby adhering to the principles of the aid effectiveness agenda.

Delivering Results on the Strategic Framework

To deliver the Strategic Framework, ARC will build on the ARC 20 Year Logframe developed in 2013 and the Agenda for Action developed to respond to the G7 InsuResilience initiative. ARC will continue to ensure effectiveness, high quality of work and a results-driven approach, with a focus on increased government ownership and support of ARC's programmes as well as more efficient use of resources.

Increasing ARC Membership and Ratification

ARC will continue its dialogue with African Union States which have not yet signed the Agreement for the Establishment of the African Risk Capacity Agency (the Treaty) in order to expand the membership of ARC. An increase in Membership will strengthen ARC's role as a representative body of African countries. In addition, ARC will continue to support its Member States towards Treaty ratification.

Managing for Results

ARC's progress depends on strengthening its organisational effectiveness. To this end, ARC's work will be guided by country strategies, developed by the Government Services team and regularly reviewed by the ARC Secretariat senior management, government and other stakeholders.

The Results Framework is designed to enable the ARC Agency Secretariat to monitor and evaluate its work according to the strategic objectives embodied in this Strategic Framework.

ARC will produce an annual report on its activities to all stakeholders, reporting against outcomes and outputs listed in the Strategic Framework. This single report will be shared with all donors and partners, rather than individual reports for each donor and partner, to ensure transparency and a harmonised reporting system, as well as the efficient use of ARC's human resources.

Managing Quality

To fully realise the objectives in this framework, ARC will need to demonstrate a consistently high quality of programme work and design. ARC will develop well-informed strategies throughout the engagement with countries. This will ensure customised, appropriate and high quality work is well documented and fed into the advancement of the programme, and that lessons learned throughout.

Quality management begins at the earliest stages of engagement with Member States and is an integral part of ARC's on-going external and internal processes. One key example is ARC's contingency

planning process. To be eligible to take out insurance, Member States are required to submit Operations Plans detailing how a potential ARC pay-out can be channelled through existing country programmes to reach the food insecure populations. This Operations Plan goes through several levels of review prior to approval. When the plan is approved by the ARC Agency Governing Board, the Member States are awarded a Certificate of Good Standing, which qualifies them for participation in ARC programmes.

ARC will strengthen its monitoring and evaluation processes through a dedicated unit. The unit is responsible for standardising monitoring and evaluation processes within the organisation, establishing best practices and institutionalising this across the full scope of ARC's work. The Monitoring and Evaluation unit will enhance ARC's reporting systems, ensuring the timely collection of qualitative and quantitative data. This will help measure ARC's progress against the results framework and make sure ARC is on track to meet its overall goals.

ARC will internally review its processes through the learning loop and feedback from its Member States. ARC's tools and processes will be streamlined and improved regularly.

ARC will ensure quality control of its processes through arms-length reviews. To date, ARC Agency has commissioned two independent cost-benefit analyses, with a third analysis being planned and others to be commissioned as required. Such research as well as independent audits ensure that ARC is consistently reviewing its effectiveness and delivering to a high quality standard.

Managing Efficiency

While the measures described above will help ensure effective programming - ARC is doing the right thing at the right time, and doing it well, ARC will also need to ensure that its work is being managed as efficiently as possible.

ARC will develop a budget formulated on a set of pre-defined objectives and expected results. The resource requirements will be derived from and linked to outputs required to achieve the overarching goals of the Results Framework. This will help ensure programme efficiency.

ARC will review its own processes to determine their cost-effectiveness that will guide the future programming of the organisation. The review will require quantifying costs of ARC programmes as they relate to specific results and using this as a benchmark for determining each programme's cost-effectiveness. An independent review to develop these procedures will be commissioned by ARC.

To reach the objectives and goals in this framework, ARC will develop a workforce plan. It will review the current workforce and assess the effectiveness of the current structure, identifying gaps and projecting the level of staff growth required to meet the framework's targets. The strategy will map out: existing capacities within the ARC Agency and ARC Ltd teams; areas for development; and gaps to be filled by additional staff members.

A clear strategy will be developed to determine which tasks should be outsourced or retained as part of the programme. To date, ARC has outsourced some of its work including research programmes to provide cost-benefit analyses of ARC, external audits, as well as reviews of programmatic areas.

Partnerships and Resource Mobilisation

Working effectively with strategic partners has been key to ARC's successes to date. The urgent need for transformative solutions to address the changing context of climate change and disaster risk management cannot be tackled by one organisation alone. Important partnerships should be developed given the multifaceted nature of the required solutions and the comparative advantages of the various organisations in the space. Together, greater results can be achieved. ARC will continue to seek opportunities to develop strategic partnerships and advance its current partnerships across all thematic areas and levels. This includes partnerships at the global, continental, regional and national levels.

ARC will direct special focus to securing multi-year financing for the ARC Agency's operational costs. ARC will continue to work with donors and international financial institutions to develop a strategy for premium support for countries interested in acquiring insurance coverage from ARC Ltd through 2020. ARC will also look to raise funds for the operational support required to embed itself within national programmes. ARC will support governments in developing a holistic risk management framework, ensuring sustainability of its programme and of its investments in Member States.

Communications and Advocacy

Responding to the challenges of climate change and disaster risk management requires Member States and the international community to adopt innovative approaches. Communication and advocacy for: ARC's innovations; its experiences within countries; and its lessons learned, will be essential to achieving ARC's overarching goals. ARC must be positioned within the broader global dialogue that will set the development agenda for the coming years.

ARC has recruited a senior level communication specialist to ensure a consistent and effective communications strategy across all work streams, including those of ARC Ltd. ARC's Government Services Team will also benefit from capacity building in this area. Communications and advocacy form a component of all of ARC's work.

ARC's existing policies and strategies on communication and advocacy, as well as internal communication and learning management, will be reviewed and developed.

Supporting Documents to the Strategic Framework

To measure how well ARC delivers on its strategic objectives, ARC has developed a Results-Based Framework and Logframe for 2016-2020 (see Annex 1). Outcomes, outputs and performance indicators are listed for each objective using 2015 baseline figures and target milestones for each year until 2020. ARC will measure its performance against these indicators through annual reporting, continuously monitoring its progress.

A Risk Register has also been developed to anticipate risks ARC is likely to face through to 2020 (see Annex 2). These risks have been classified in terms of the probability of their occurrence and the severity of their impact. The register also lists mitigation actions for each risk.

Finally, various supporting documents are provided (see Annexes 3-5) to give further context to ARC including on the key AU decisions that led to its establishment, ARC's country engagement process and the XCF.

Additionally, to support implementation of the Strategic Framework, ARC has developed several documents:

- **Strategy for Growth:** this document lays out ARC's strategic plan to achieve the goals laid out in the Strategic Framework
- **Rolling Implementation Plan:** this document provides an outline of the work plan through which ARC will achieve the goals laid out in this framework
- **Interim Budget:** this document was developed on the basis of the implementation plan to show the cost of delivery.
- **Interim Organisational and Administrative Structure:** this document provides an outline of the administration and organisational structure of the ARC Agency Secretariat. It provides information on the organs of the ARC Agency and associated roles and responsibilities and operational framework.

While the Strategic Framework is a document covering a five-year period, the supporting documents are living documents that will be reviewed either annually or biennially.

Annex 1: Results Framework

The ARC Results Framework for 2016-2020 sets out four to five anticipated outputs for each of ARC's three strategic objectives outlined in the Strategic Framework. Each output is assigned a number of performance indicators for measuring ARC's progress. Based on these indicators, annual target milestones have been set for 2016 to 2020 using 2015 figures as a baseline. The data source for each indicator and the lead within the organisation on measuring this are also provided in the Results Framework.

Result Level	Result Statement	Performance Indicator	Data Source/Mean of Verification	Assumptions
Impact	AU Member States are better equipped to manage the impacts of natural disasters on the livelihoods of vulnerable populations in a timely manner and build resilience to climate related shocks	Impact Indicator 1: Number of people that are indirectly insured through ARC insurance policies	ARC Ltd issued policies	
		Impact Indicator 2: Number of countries participating in ARC using objective EW indicators, robust CPs and insurance to enable an early response	Annual country survey; ARC Ltd issued policies as well as countries with budgeted premiums, national disaster contingency plans or specific country strategies	
		Impact Indicator 3: Number of people who receive assistance through timely ARC-financed interventions compared to those identified in the FIP	Process Audits following implementation; country reports	
Outcome 1	Dynamic and Applied Research and Development that provides improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Outcome 1 Indicator 1: Number of risk management and analysis tools and insurance products available to AU Member States	ARV and supporting tools provided to countries as part of the customisation and validation work programme	There is political will to participate in ARC at national and continental level for countries and their partners; Basic capacities exist within member countries to
Output 1.1	ARV platform improved for better performance and to include new hazards/products	Output Indicator 1.1a: Number of hazard modelling products developed and included in the ARV	ARV	

		Output Indicator 1.1b: Number of new or improved features integrated into ARV and supporting tools to improve model and to minimise basis risk	ARV and supporting analysis tools shared with ARC countries; ARC annual donor reports	develop, refine and deliver credible contingency plans and engage in ARV review, customisation and validation; Countries will share learning to increase national and continental capacity to understand weather risk faced (utilisation of early warning systems like ARV), and design and deliver credible drought response plans; Donors continue to support risk sharing and risk transfer initiatives like ARC; ARC technical outputs are well understood and used appropriately.
		Output Indicator 1.1c: Percentage of users satisfied with ARV	Annual country survey	
Output 1.2	CP Standards and Guidelines remain relevant to their purpose	Output Indicator 1.2: Annual review by ARC Agency of CP Standards and Guideline based on TRC and PRM recommendations and in country activities	Completion of Annual Review	
Output 1.3	Research and technical partnerships established with regional, continental and international initiatives and knowledge exchanged with African research institutions	Output Indicator 1.3a: Number of partnership agreements established for Early Warning	MoUs and agreements signed	
		Output Indicator 1.3b: Number of technical and research partnerships established (e.g. risk modelling, climate adaptation etc.)	MoUs and agreements signed	
		Output Indicator 1.3c: Number of new external organisations using ARV for research and operational purposes	Annual survey of external clients	
Output 1.4	Extreme climate facility (XCF) proof of concept, including Extreme Climate Index (ECI), and adaptation plan (AP) methodology developed	Output Indicator 1.4a: XCF design and operational details fully developed, and the facility established and funded	ARC press releases	
		Output Indicator 1.4b: Amount of funding secured to cover XCF risk transfer costs	Contracts signed with donors, ARC press releases	

Outcome 2	Strengthening Disaster Risk Management on the Continent through enhanced AU Member State ability to anticipate, plan for and respond to natural disasters in an efficient and effective manner	Outcome 2 Indicator 1: Percentage of countries that have received an ARC payout within a month of it being triggered	Payment confirmation receipt from the country	Planning and delivery builds government systems, ownership and management of drought response; Countries invest in the ARC process and increase capacity to understand weather risk faced and design and deliver credible drought response plans; African ownership of weather risk management increases; Basic capacities exist within member countries to develop, refine and deliver credible contingency plans and engage in ARV customisation and validation; AU countries are willing and see the added value in participating in ARC; There are no delays in FIP approvals and release of payouts and no delays in the release of funds and start of activities in countries.
		Outcome 2 Indicator 2: Number of AU Member States who execute ARC-financed interventions starting within 120 days after payout and completed within 180 days of starting the activity	Process audits following implementation	
		Outcome 2 Indicator 3: Percentage of payout receiving AU Member States who execute ARC financed interventions in compliance with the FIPs	Process audits following implementation and country reports	
Output 2.1	ARV platform is continually disseminated through the provision of training and technical support to member states	Output Indicator 2.1a: Number of AU Member States using ARV to support early seasonal analysis and responses to affected populations	Country survey; ARC annual donor reports	
		Output Indicator 2.1b: Number of countries provided with training and workshops on ARV	Attendance sheets of various trainings	
Output 2.2	Robust CPs are developed in collaboration with Member States through the provision of training and technical support	Output Indicator 2.2a: Number of approved a) OPs and b) % FIPs developed in AU Member States with payouts	TRC and PRM Reports following meetings of the TRC and PRM	
		Output Indicator 2.2b: Number of countries provided with trainings and workshops on CP	Attendance sheets of various trainings	
Output 2.3	CPs are reviewed and approved by the TRC and PRM in an efficient manner	Output Indicator 2.3a: Percentage of AU Member States with an OP approved by the TRC and the PRM within established timeframes (and issued with a CoGS)	TRC and PRM Reports following meetings of the TRC and PRM	
		Output Indicator 2.3b: Percentage of AU Member States with a triggered payout that have a FIP approved by the Governing Board within established timeframes	TRC and PRM Reports following meetings of the TRC and PRM	

Output 2.4	In-depth and comprehensive training provided on the selection of risk transfer to policy makers and technical experts in ARC Member States	Output Indicator 2.4a: Number of trainings or country discussions provided on the selection of risk transfer parameters	Attendance sheets of various trainings	
		Output Indicator 2.4b: Completion of Country Strategy document and signed MOUs	Copies of strategy documents and MOU documentation	
Output 2.5	Policy dialogue is carried out in order to enable countries to make informed decisions on disaster risk financing	Output Indicator 2.5a: Number of AU Member States which integrate disaster risk financing options in their national budgets.	Correspondence with AU Member States (letters or email). Annual budgets from Treasury.	
Outcome 3	Increased scale and sustainability in ARC operation and insurance coverage	Outcome 3 Indicator 1: Increase in coverage of ARC Ltd portfolio	ARC Ltd portfolio documentation	Countries are members in good standing of ARC Ltd; Political support for ARC at country level is maintained / increases; Positive influences of ARC prompts improvements in national weather risk management through new policies and systems development; ARC Ltd remains solvent and benefits from portfolio growth; ARC Ltd is able to make use of reinsurance markets; ARC Ltd investment policies and risk profile grows company assets; Countries have political will to allocate finance to purchasing insurance policies each year and
		Outcome 3 Indicator 2: Percentage of countries that continue to purchase ARC insurance after their initial purchase	ARC Ltd policy documents; any meeting minutes as relevant	
		Outcome 3 Indicator 3: Average score (out of 5) by countries rating satisfaction with ARC based on its (a) quality and appropriateness of support (b) timeliness of support provided	Annual country survey	
Output 3.1	ARC achieves operational and administrative independence and the governance and operational structures of ARC Agency and ARC Ltd are aligned	Output Indicator 3.1a: Percentage of administrative and operational policies and procedures that are final and ready for when ARC begins to function independently	ARC Agency documentation on administrative policies	
		Output Indicator 3.1b: Number of AU Member States that have ratified the ARC Treaty and deposited the instrument of ratification with the AU	Office of the Legal Counsel, AUC	

		Output Indicator 3.1c: Completion of CBA, strategy documents and audit procedures necessary to determine the future structure of ARC	Documentation proposing structure of ARC moving forward	can afford to pay them; Humanitarian and other DRM actors want to engage in the ARC process; Donors continue to support mechanisms like ARC; There is coordinated interaction between ARC Ltd and ARC Agency
Output 3.2	A strategy for sustainability of the organisation is identified and developed	Output Indicator 3.2a: A framework for lessening dependence on external grant funding is in place	ARC Agency documentation	
		Output Indicator 3.2b: A framework for self-sustainability is in place	Copies of policy documents	
Output 3.3	ARC Ltd insurance pool continues to grow	Output Indicator 3.3: Number of new insurance policies that are purchased by AU Member States	Joint ARC Ltd and Agency Business Plan	
Output 3.4	A growth strategy is implemented by embedding ARC's activities and processes in the countries' disaster management systems	Output Indicator 3.4a: Number of AU Member States that use ARV or ARC analysis for other DRM programmes (not ARC financed interventions)	Annual Country Survey	
		Output Indicator 3.4b: Percentage of AU Member States that use ARC CPs which are linked to or integrated with the national CPs	Annual Country Survey; National Country Strategy Documents	
		Output Indicator 3.4c: Percentage of ARC Ltd equity owned by Class A members	Notes in ARC Ltd end of year financial statements	
Output 3.5	ARC has standard operational administrative and operational procedures.	Output Indicator 3.5: Documented procedures on administration and operations	ARC Manuals	

Annex 2: Risk Register

The Risk Register lists 22 potential risks that could impact ARC reaching its strategic objectives. The risks fall under the categories of financial, institutional, managerial, reputational, political and technical risks. Each risk is given an inherent risk score based on the probability of occurrence and the severity of the impact to ARC. The register then provides a detailed description for control measures that ARC will undertake for each risk along with a lead within the organisation.

					Scoring the Risk (Probability Rating x Impact Rating)			
					Manageable (1-4)	Material (5-10)		
					Significant (12-24)	Severe (32-80)		
Description of Risk					Inherent Risk			Target
Risk #	Short Description (cause, event)	Consequences	Outcome	Proximity	Probability - How likely that risk will occur?	Impact - how severe will the impact be?	Inherent Risk Score	Target risk
1	Lack of long term funding and the ability of the organisations to carry out necessary programmatic activities and retain staff	Lack of pool growth and slow, non responsive institution	Outcome 3: Increased Scale and Sustainability of ARC in operation and insurance coverage	Throughout ARC's operational lifetime	Low/ Medium - Unlikely (2)	High/ Medium (8)	16	8
2	ARC Agency Board incurs delays in assessing the FIP with consequent payout's delays	Delays in payments to countries - preventing ARC Ltd from performing its function to provide first response capital and delaying the countries' ability to reach its clients	Output 2.3: CPs are reviewed and approved by the TRC and PRM in an efficient manner	Throughout ARC's operational lifetime	Medium - Possible (3)	Medium (4)	12	8
3	Uncoordinated interaction between ARC Agency and ARC Ltd	Resulting in lack of alignment and inadequate service delivery	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	24	8
4	Lack of ratifications	Limited Pool growth and potential constriction of the pool; ARC unable to levy fees on Member States	Outcome 3: Increased Scale and Sustainability of ARC in operation and insurance coverage	Until 2020	Medium - Possible (3)	High/ Medium (8)	24	16

5	An inefficient transition from an Administrative Services Agreement with WFP to its own independent policies and guidelines	Resulting in less favorable headquarters agreement; redefinition of staff contracts; changes in costs of goods and services.	Outcome 3.2: An exit strategy from external grant funding is identified and developed	From 2020	Medium - Possible (3)	High/ Medium (8)	24	8
6	Lack of robust protocol for integrating improvements into the Africa RiskView model	ARC Products do not adequately perform resulting in loss of clients and confidence in the system	Outcome 1: Improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	24	16
7	Countries are not able or willing to sustain annual participation fees or premiums and donors are unwilling to pay.	Lack of pool growth and sustainability	Output 3.3: ARC Ltd Insurance continues to grow; Output 2.5: Policy dialogue is carried out in order to enable countries to make informed decisions on disaster risk financing	Throughout ARC's operational lifetime	Medium/ High - Likely (4)	High/ Medium (8)	32	16
8	Change of country staff and/or government results in slow progress and limited transfer of knowledge to new technicians and decision makers	Result that the country is unable to complete the necessary activities to join the risk pool and/or decision makers need to be resensitised or no longer support the work	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Medium - Possible (3)	High -Severe (16)	48	32
9	Country chooses not to follow the FIP and uses money for other things or is unable to execute the FIP well	The needed response is not executed and the country is out of compliance	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Project lifetime (+ election years)	Medium - Possible (3)	High -Severe (16)	48	16
10	ARC Board decides not to approve a FIP or make payout for specific countries (e.g. because of new risk of corruption)	Results in drop in participation and lack of trust in ARC	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Low/ Medium - Unlikely (2)	High/ Medium (8)	16	8

11	No severe droughts triggering a payout occur, which leads to less participation by African governments and decisions not to participate in the pool (due to lack of understanding)	Reduce participation in pool. Insufficient spread of risk. ARC Ltd is not viable.	Output 3.3: ARC Ltd Insurance continues to grow	Throughout ARC's operational lifetime	Medium - Possible (3)	High -Severe (16)	48	8
12	Delay in funds being processed through government systems due to administrative bureaucracies	Delay in delivery of response	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	When ARC Payout has been made	Medium - Possible (3)	High -Severe (16)	48	16
13	Misuse/ Misinterpretation of ARV technical outputs	Lack of confidence in ARC and its systems	Outcome 1: Improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Throughout ARC's operational lifetime	Medium - Possible (3)	Low - Negligible (1)	3	3
14	Africa Risk View does not act as an adequate proxy for risk in a given member country.	ARV does not trigger payout when drought is significant on the ground, not providing a payout when most needed, and causing stakeholders not to participate in another year (could reduce participation in pool).	Outcome 1: Improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	32	16
15	Data that is basis of ARV and real time assessment of drought situation (e.g. satellite rainfall and evapotranspiration) ceases to be available mid way through an active policy year	1) ARV is unable to operate and ARC Ltd is unable to determine if parametric triggers have been met/ payout is required. 2) Countries systems will be out of date.	Outcome 1: Improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Throughout ARC's operational lifetime	Low - Rare (1)	High -Severe (16)	16	16

16	Unable to deliver to countries suitable new products to support new growth and maximise the efficiency of the pool due to technical constraints	No pool growth	Outcome 1: Improved access to innovative tools and insurance products for AU Member States to effectively manage their natural disaster risk	Throughout ARC's operational lifetime	Low/ Medium - Unlikely (2)	High -Severe (16)	32	24
17	National monitoring systems are not sufficiently robust to track delivery and how funds are used in the event of a payout.	Difficult to monitor flow of funds, beneficiaries of payouts. Low transparency = low accountability to vulnerable communities, & low trust by Member States and donors	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	24	8
18	Inadequate service delivered by the World Food Programme through the Administrative Services Agreement	ARC is unable to carry out its activities; activities move more slowly than needed to meet client needs	Outcome 3: Increased Scale and Sustainability of ARC in operation and insurance coverage	Through the term of the ASA	Medium - Possible (3)	High/ Medium (8)	24	8
19	Business disruption due to Headquarters change	Need to slow down operations or stop, costs to the Agency	Outcome 3: Increased Scale and Sustainability of ARC in operation and insurance coverage	Until a permanent headquarters is found	Low/ Medium - Unlikely (2)	High/ Medium (8)	16	8
20	Attempt by other entities in Africa to establish a new institution with the same mandate	Competing interests and fragmenting of business	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	24	8
21	Attempt by commercial entities to establish a risk pool for African governments	Competing interests and fragmenting of business	Outcome 2: Enhanced AU Member State ability to anticipate, plan for and respond to natural disaster in an efficient and effective manner	Throughout ARC's operational lifetime	Medium - Possible (3)	High/ Medium (8)	24	8

22	Climate change leads to increased drought risk over time, increasing premiums and making ARC less sustainable (or affordable)	Increased premiums	Output 3.3: ARC Ltd Insurance continues to grow	From 2020	Medium - Possible (3)	Medium (4)	12	4
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Risk register totals

	Low - Negligible (1)	Low/Medium (2)	High/Medium (8)	High (16)
High - Almost Certain (5)	5	10	40	80
Medium/High - Likely (4)	4	8	32	64
Medium - Possible (3)	3	6	24	48
Low/Medium - Unlikely (2)	2	4	16	32
Low - Rare (1)	1	2	8	16

Managing the Risk

Risk #	Short Description (cause, event)	Risk Owner	Decision on Action to manage risk	Description of Control Measure	Status of Control Measures	Control Owner	Broad Risk Category
1	Lack of long term funding and the ability of the organisations to carry out necessary programmatic activities and retain staff	ARC Agency	Reduce impact & Likelihood	The ARC Agency is working with its donors on a four-five year funding plan based on the Agency's strategic framework and results based framework as well as actively engaging donors following commitments made at the COP21 in Paris. In addition ARC is planning to grow at a measured pace and explore an exit strategy from donor financing.	In progress	ARC Agency	Financial/ Institutional
2	ARC Agency Board incurs delays in assessing the FIP with consequent payout's delays	ARC Agency	Reduce likelihood	In the Second Meeting of the Governing Board it was agreed that the board would take one of three actions when a government submits a FIP: 1. Call a Board Meeting 2. Hold a remote board meeting using telecommunication 3. Delegate authority to a committee to approve the FIP This decision will be made on a case-by-case basis to avoid delays in approving FIPs. With the high-speed introduction of FIPs for TC and Flood, the risk of delays is higher given the need for a fast turnaround on the quick FIP. ARC also will work to give the Board sufficient notice in order to properly finalise the approval of the plans and to organise meetings in a convenient in a timely way relying on the three options listed above. ARC communications staff - in the rare event that there is a delay in CP approval- will control the framing of the story in media and with stakeholders.	Existing	ARC Governing Board	Institutional
3	Uncoordinated interaction between ARC Agency and ARC Ltd	ARC Agency and ARC Ltd	Reduce impact & Likelihood	ARC Agency is completing a joint strategic framework with ARC Ltd. This strategic framework and the resulting work planning will encourage and guide coordination. ARC Agency and ARC Ltd have annual joint Governing Board meetings, and the Chair of the ARC Ltd Board and the ARC Agency Board communicate frequently regarding matters of mutual interest. ARC management and the management of ARC Ltd speak and coordinate their work on a regular basis.	In progress	ARC Agency	Institutional

4	Lack of ratifications	ARC Secretariat	Reduce likelihood	Ratifications are being encouraged through the COP, political engagements and other interactions through the AU.	Existing	ARC Secretariat	Institutional/ Financial
5	An inefficient transition from an Administrative Services Agreement with WFP to its own independent policies and guidelines		Reduce impact & Likelihood	When ARC becomes independent from WFP, it will need to negotiate its own headquarters agreement. The ARC Legal Counsel will develop criteria for hosting the ARC Agency that will ensure that the new headquarters location will offer the same advantages as the current location. ARC will utilise outside consultants and experts as needed to determine appropriate policies and practices.	In progress	ARC Agency	Management
6	Lack of robust protocol for integrating improvements into the Africa RiskView model	ARC Secretariat	Reduce likelihood	The Africa RiskView software is under constant refinement as new data becomes available. The model is flexible and parameters can be changed to adjust the model to match data sets. Due to this flexibility, new data may result in changes to the model but cannot entirely undermine the model. Additionally, the ARC in-country capacity building programme allows for deep discussion and debate on the accuracy of the data long before a contract is written. ARC has a rigorous review and customisation process on ARV after each insurance pool to ensure performance is monitored and adjusted. ARC is establishing R&D partnerships on ARV across Africa and internationally to ensure ARV remains at the cutting edge of new EW and modeling technologies so that the annual review process remains impactful and valuable	Existing	ARC Secretariat	Managerial
7	Countries are not able or willing to sustain annual participation fees or premiums and donors are unwilling to pay.	ARC Agency and ARC Ltd	Accept	The ARC Secretariat will continue to endeavor to keep premiums competitive. The ARC Secretariat has also included incorporating regular premium payments into the national country budgets as part of the standard pre-participation program. In addition ARC will seek to partner with IFIs and governments to integrate disaster risk management into national systems.	In progress	ARC Ltd	Political

8	Change of country staff and/or government results in slow progress and limited transfer of knowledge to new technicians and decision makers	ARC Agency	Accept	Ensure continuity by putting in place materials and training technicians in case of government change. Ensure that ARC is integrated into systems and that activities will be implemented even through change of government.	Existing	ARC Agency	Political
9	Country chooses not to follow the FIP and uses money for other things or is unable to execute the FIP well	ARC Agency	Reduce likelihood	Introduce process through which countries can submit an updated FIP. The FIP will be judged on its implementability, this will take into account the current context, the capacity of the government and its partners to implement the plan and the existing mechanisms and frameworks. Independent process and financial auditors are also in place to discourage misuse of funds. In addition, the Board has adopted the Mid-Implementation Mechanism that will facilitate Secretariat and Board intervention to assist countries that are out of compliance during the implementation of an insurance payout and the CoP has adopted Compliance Rules outlining the steps that ARC Agency should take if a country has not followed its FIP.	Existing	ARC Agency	Political/ reputational
10	ARC Board decides not to approve a FIP or make payout for specific Countries (e.g. because of new risk of corruption)	ARC Agency and ARC Ltd	Reduce likelihood	ARC has a strong Governing Board and structures in place to build confidence of Member States in its decisions and ARC's Governing Board has sufficient experience to manage the evaluation process. Strong guidance also needs to be provided to countries through the Compliance Rules and there is a strong relationship between the country team and ARC.	Existing	ARC Agency and ARC Ltd	Political/ reputational
11	No severe droughts triggering a payout occur, which leads to less participation by African governments and decisions not to participate in the pool (due to lack of understanding)	ARC Agency	Reduce impact & Likelihood	ARC capacity building programs build sufficient capacity in government to understand the risk profiles of the country and the need to take insurance even in times of no payout. ARC Ltd and ARC Agency increase the value propositions of the institutions to offer on-going value to countries.	In progress	ARC Agency	Reputational

12	Delay in funds being processed through government systems due to administrative bureaucracies	ARC Agency - Peer Review Mechanism or ARC Secretariat and ARC Ltd	Reduce likelihood	More thorough review of government financial/payment systems; planning in place in advance to ensure that payments are made through timely channels; Explore with each country ways to channel funds directly to institutions in charge of implementation (and with control measures in place including Treasury involvement) and possibly without the funds channeled to Treasury	In progress	ARC Agency and PRC	Reputational
13	Misuse/ Misinterpretation of ARV technical outputs	ARC Agency	Accept	The ARC Agency has a policy of transparency and most of these documents will already be shared publicly, therefore the impact of this is very low. ARC regularly issues bulletins and there is ongoing engagement with countries and their partners on technical outputs of ARV etc. so that data is not misinterpreted; ARV is only accessible by licensed users.	Existing	ARC Agency	Reputational
14	Africa Risk View does not act as an adequate proxy for risk in a given member country.	ARC Agency + ARC Ltd	Reduce Impact	Continued customisation of ARV to minimise basis risk (real and perceived) as well as ongoing education with countries on model limitations, advantages and implications. In addition there is a rigorous review and customisation refinement process of the model year on year and regular, transparent ARV bulletins are shared widely to explain results and investigate discrepancies with other EW systems and reports; discrepancies are noted in ARV customisation reports and actioned for further investigation/solution. ARC is establishing R&D partnerships on ARV across Africa and internationally to ensure ARV remains at the cutting edge of new EW and modeling technologies and that model limitations as identified can be addresses. In 2016 ARC Agency will also establish an ARV Expert Advisory Panel to advise on further model refinement, development and the use of other models to underwrite risk.	Existing	ARC Agency + ARC Ltd	Technical/ Political and Reputation
15	Data that is basis of ARV and real time assessment of drought situation (e.g. satellite rainfall and evapotranspiration) ceases to be available mid way through an active policy year	ARC Ltd	Accept	1) Request NOAA provide advance notice of changes/ending of data. 2) There are three potential data sources of rainfall: RFE2, ARC2 and TAMSAT. These datasets are generated at three different facilities. However, all three data sets are based on the same data stream from the METEOSAT satellite. So, we heavily depend on METEOSAT. There are always backup satellites for this data stream and service has never stalled for more than a day (acceptable for us). In the unthinkable event that METEOSAT stopped providing data, which is not likely, we would have to stop the insurance cover and repay premiums.	Existing	ARC Secretariat	Technical/ Political

16	Unable to deliver to countries suitable new products to support new growth and maximise the efficiency of the pool due to technical constraints	ARC Agency and ARC Ltd	Reduce likelihood	COP and Board have shown themselves to be very proactive in suggesting ARC new products according to the Members' needs. Technical work needs to follow best practice and continued investment in R&D in order to ensure products are available.	In progress	ARC Agency	Technical
17	National monitoring systems are not sufficiently robust to track delivery and how funds are used in in the event of a payout.	ARC Secretariat	Reduce impact & Likelihood	The COP adopted Compliance Rules in November 2013, outlining the consequences associated with intentional and unintentional deviation from the FIP, and of varying degrees. Additionally, the Secretariat has contracted an independent firm to design and conduct both a process and financial audit for all ARC-funded relief operations that will both reduce likelihood of risk and impact by having a deterrent effect and to provide needed information in lieu of national monitoring systems. A final audit put in place by an external company has also the objective to provide advice and recommendations on how each country can improve final controls and checking for example.	Existing	ARC Agency	Technical
18	Inadequate service delivered by the World Food Programme through the Administrative Services Agreement	ARC Secretariat	Reduce impact & Likelihood	ARC will work to foster good working relationships with the WFP as well as formalise the terms of services provision.	In progress	ARC Agency	Institutional
19	Business disruption due to Headquarters change	ARC Secretariat	Reduce impact & Likelihood	Work with the ARC Governing Board and CoP to pick appropriate location for ARC Headquarters with adequate planning.	In progress	ARC Agency	Institutional
20	Attempt by other entities in Africa to establish an new institution with the same mandate	ARC Secretariat	Reduce impact & Likelihood	Ensure the work of ARC is embedded in the AU Executive Committee decisions; work with partners and Member States to demonstrate ARC's role on the continent	In progress	ARC Agency	Institutional

21	Attempt by commercial entities to establish a risk pool for African governments	ARC Secretariat	Reduce impact & Likelihood	Continuous dialogue with private companies and Member States	In progress	ARC Agency	Institutional
22	Climate change leads to increased drought risk over time, increasing premiums and making ARC less sustainable (or affordable)	ARC Ltd and ARC Agency	Transfer	If droughts become more frequent, the threshold for payouts will be adjusted to ensure the solvency of the risk pool. Additionally, the ARC Agency is currently designing the Extreme Climate Facility (XCF) to provide additional cover for countries through a catastrophe bond like instruments to finance those events driven by climate change, providing additional financing for States already managing their weather risk through ARC Ltd for adaptation.	Existing	ARC Ltd and ARC Agency	Technical

Annex 3: ARC Country Engagement Overview

Client Engagement

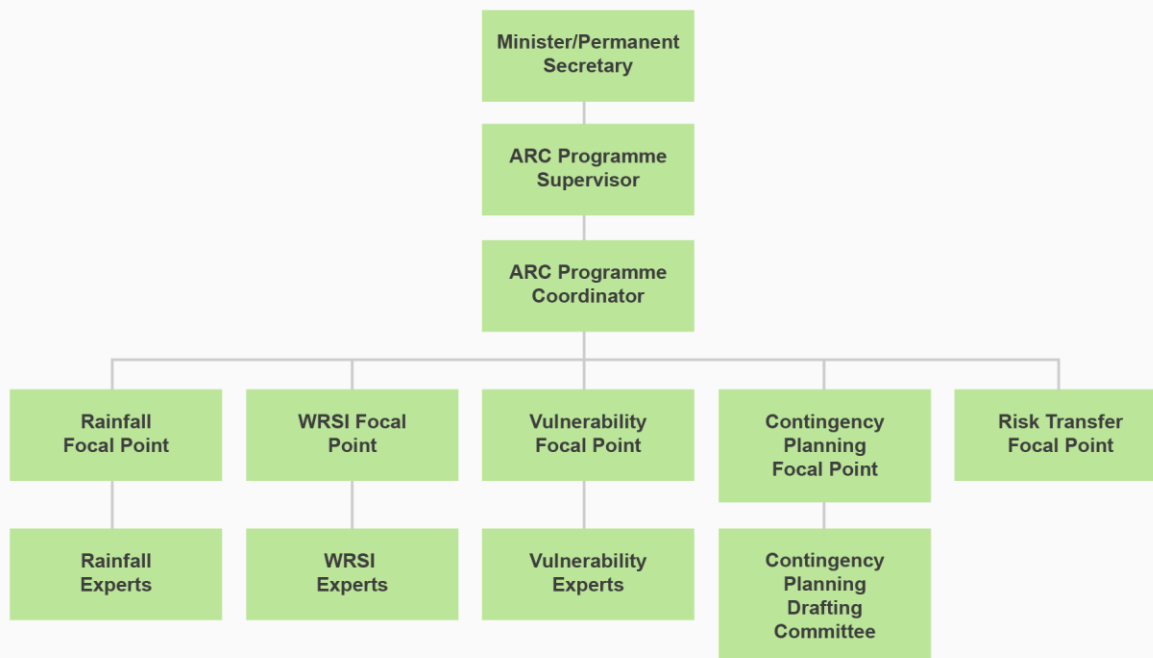
ARC Secretariat identifies Member States to be targeted for potential recruitment to ARC. These countries are selected on the basis of their risk to a given peril and assessed interest in ARC.

Once identified, an initial Scoping Mission is organised to be dispatched to the country. During the 3-5 day Scoping Mission, the ARC Secretariat briefs key government stakeholders and their partners to introduce the ARC concept and gathers information about the country, including historical weather data and associated vulnerability data, information about existing contingency financing tools and emergency response mechanisms. Based on the Scoping Mission, ARC prepares a Strategic Paper shared internally with key departments within the ARC Secretariat. Together, the ARC Secretariat determines the strategy of engagement in a given country. Through the Strategy Paper and Scoping Mission, the ARC Secretariat determines if and how ARC could create efficiencies for a given country. It also determines the government's level of interest in ARC for transferring risk through insurance policy transactions via ARC Ltd. If both these indications are positive, the ARC Secretariat will begin discussions around establishing a Memorandum of Understanding (MoU).

As a first step, it is necessary to identify the coordinating ministry for the ARC programme. In some countries it is relatively easy to determine since the government structure is centralised and the coordinating ministry clearly defined. In other countries there may be several ministries contesting for the role. In such cases, it is important for the ARC Secretariat to delicately navigate the discussions so that all concerned parties reach a consensus about their respective roles in ARC and all identify the appropriate coordinating ministry. Typically, the coordinating ministry for ARC is either the Office of the President, the Office of the Prime Minister, the Ministry of Finance or the Ministry of Agriculture.

Country Team

The ARC Secretariat works with the coordinating ministry to mobilise government experts to form a Technical Working Group. This group will be tasked with completing the milestones of the ARC programme in-country in preparation for taking out insurance with ARC Ltd. The ARC MoU is normally signed by a Minister or Permanent Secretary of the relevant Ministry. The Minister identifies a Programme Supervisor who is typically at the level of a Permanent Secretary or a Director. The ARC Supervisor is responsible for overseeing the ARC programme activities in the country. An ARC Programme Coordinator, also referred to as a Government Coordinator, is responsible for the day-to-day work on the ground and coordinates the Technical Working Group. A focal point is identified for each work stream; a rainfall, drought and vulnerability expert for the Risk Modelling component, and experts in Contingency Planning and in Risk Transfer for these components. These focal points are responsible for coordinating additional experts to support the work.



Risk Modelling

Technical experts in key ministries and departments are trained in the use and customisation of *Africa RiskView*. The Technical Working Group is then tasked with gathering historical rainfall data, historical crop production data, and information about specific crops, current vulnerability data, and past impact of weather events. Guided by the ARC Secretariat, experts refine the parameters of *Africa RiskView* through several iterations to best reflect the reality on the ground. Results of the analysis are presented to a broad group of government experts and development partners for consensus to be reached on the optimal parameter settings. The ARC Secretariat supports the Technical Working Group by documenting this process in a report which is signed off by a senior official indicating the government's approval of the parameter settings.

The process of customising *Africa RiskView* also allows the Technical Working Group to develop a risk profile for the country. The profile will be used to guide discussions around the most appropriate risk transfer options for the government.

Contingency Planning

As part of the Scoping Mission, the ARC Secretariat gathers information on potential activities eligible for ARC's Contingency Plans. The ARC Secretariat then convenes a workshop to explore existing contingency funding mechanisms in the country that could be complemented by ARC, through supporting the scale up

of existing social protection programmes. The audience for this workshop is relatively broad, extending to experts in: disaster management; social protection; finance and planning; nutrition; agriculture and livestock; development planning; and women, among others. Key NGOs, farmers' organisations, civil society and representatives of regional bodies participate.

This group reaches consensus on the activities to be selected in accordance with ARC's Contingency Planning Standards and Guidelines. A sub-drafting group is identified and coordinated by a nominated Contingency Planning Focal Point. The ARC Secretariat supports the drafting committee with the completion of its Operations Plan through workshops and through remote support by reviewing versions of the Operations Plan. The ARC Secretariat recommends changes and facilitates meetings with in-country experts to collect required information for completing the Operation Plan.

If a payout is anticipated, the ARC Secretariat supports the country in the drafting of the Final Implementation Plan by convening a workshop, reviewing the plan, and providing suggestions for improvements.

Risk Transfer

In preparation for risk transfer, the ARC Secretariat convenes a workshop for finance and disaster management experts in key government departments. The workshop introduces risk transfer concepts and the process for determining optimal levels of risk transfer. Once *Africa RiskView* has been customised it generates a historical risk profile which is used as a basis for setting the risk transfer parameters. The Operations Plan also serves as an indication of the level of financing that would be required and the absorption capacity of the selected activities. During discussions and workshops convened by the ARC Secretariat, the technical experts concerned with customisation of *Africa RiskView*, together with Contingency Planning and finance experts, reach a consensus on the recommendations for risk transfer. This is documented in a report and presented to the Minister of Finance who communicates the selected risk transfer parameters to the ARC Agency which then transmits the information to ARC Ltd.

The ARC Secretariat also works with the government to identify premium payments, support the national process of inclusion of premium in the national budget, and Insurance Regulatory approval.

Annex 4: Extreme Climate Facility (XCF)

The ARC Agency was specifically requested by the African Union Conference of Ministers of Finance in March 2014 to develop a proposal for a mechanism by which African states could gain access to financing to respond to the impacts of increased climate volatility¹⁵. ARC is an ideal platform from which to develop such a concept. It provides the infrastructure required to ensure the investments countries are making in ARC, and the valuable proposition it offers to its members, is sustainable and resilient to future climate. The Extreme Climate Facility (XCF) initiative was formally launched by Dr Ngozi Okonjo-Iweala, the ARC Governing Board Chair, at the Secretary General's Climate Summit in New York in September 2014¹⁶.

What is XCF?

XCF is an insurance-like mechanism designed to access private capital to help ARC member countries secure access to additional funds should climate volatility increase in Africa. Using a state-of-the-art multi-hazard extreme climate index to track weather events, XCF will trigger the release of funds to eligible countries early, should the index indicate an increase in the frequency or intensity of extreme weather activity in a given region. Funds, if triggered, would be used by countries to boost pre-defined climate adaptation efforts or scale existing risk management mechanisms to build national resilience to future weather shocks. Funds would target measures that aim to manage a country's vulnerability profile and therefore offset the increases countries could be seeing in their ARC insurance premiums. Country adaptation measures would be approved by an ARC review mechanism prior to the release of funds to ensure that adaptation funds are used efficiently and effectively.

Countries that are already managing their weather risk through ARC as members of ARC Ltd would be eligible to join XCF and donors would pay the costs to secure access to private capital through XCF. XCF, in turn, would access private capital through insurance, bonds and other financial instruments. This would allow public funds to leverage private capital in order to diversify the sources and increase the amount of international funding that could be made available if climate related event indices worsen. The facility would secure direct access for African governments to climate index-triggered payouts to provide finance based on the demonstrated needs for enhanced adaptation measures.

The World Bank estimates an adaptation investment cost need of US \$14-17 billion per year over the period 2010-2050 for sub-Saharan countries to adapt to an approximately 2°C warmer climate by 2050¹⁷. To date, funds have not been forthcoming at the level required and it is recognised that innovative and diverse sources of financing will be required to meet the identified needs of the continent and the uncertainty in terms of how, where and when climate change will happen. Moreover, in the event of large climate shifts – which could happen quickly and have happened before (Figure 1) – actions and funds assessed today may become insufficient. As adaptation finance investment grows, it will be critical to have an early, objective detection mechanism for the allocation and distribution for such financing to help prioritise the geographical location of the available investment flows. XCF payouts would be a powerful

¹⁵ Resolution L15/Rev.1.

¹⁶ http://www.africanriskcapacity.org/documents/350251/844579/XCF_Press+Release_EN_20140919_v8FINAL_CR.pdf

¹⁷ World Bank, 2010: Economic of Adaptation to Climate Change: Synthesis Report (accessible online at <http://documents.worldbank.org/curated/en/2010/01/16436675/economics-adaptation-climate-change-synthesis-report>)

signalling tool that enhanced implementation efforts are required, helping to geographically target and prioritise funding flows early to catalyse action.

Current Status

The XCF was announced at the UN Climate Summit in New York on 23 September 2015. ARC Agency is currently leading the XCF R&D program, working with African States and their partners. This work will determine country eligibility and the standards for climate change adaption plans, create the data-driven extreme climate indexes and thresholds that will be used to trigger payments to countries, and define the financial and legal structures necessary to use both public and private funds to finance XCF obligations.

Annex 5: ARC Establishment and Key AU Decisions

ARC originated as a joint project of the African Union (AU) and the UN World Food Programme (WFP), intended to explore ways to establish a regional disaster risk financing facility for drought management in Africa¹⁸. Through the joint project, the ARC team within WFP worked closely with AU leadership and the AU Department for Rural Economy and Agriculture to determine the most favourable structure and method to address the impacts of natural disasters and extreme weather events in Africa. In 2012, the African Finance Ministers called upon the African Union Commission (AUC) to convene a plenipotentiary meeting to consider and legally establish the ARC as a specialised agency of the AU¹⁹. This decision was followed, in July 2012, by a decision of the AU Assembly of Heads of State and Government (the AU Assembly), requesting the AUC to elaborate a legal agreement for the establishment of ARC, in collaboration with the ARC Secretariat²⁰.

Pursuant to these two decisions, a Conference of Plenipotentiaries was convened in South Africa, on 19-23 November 2012, and attended by representatives of 41 AU Member States. At the end of the Conference, the Agreement for the Establishment of the African Risk Capacity (ARC) Specialised Agency of the African Union (the Treaty) was opened for signature and signed by 18 AU Member States, allowing it to go into force provisionally. As of March 2016, 32 countries have signed the Treaty which will be applied provisionally until such time as the tenth instrument of ratification, acceptance or approval is deposited with the Chairperson of the AUC.

ARC Agency held the first session of the Conference of the Parties (CoP) in Dakar, Senegal, in February 2013. At that meeting, the CoP decided to establish ARC Ltd, ARC Agency's financial affiliate²¹, for the purpose of providing insurance and other risk transfer mechanisms to ARC Agency Member States. The

¹⁸ See, the Agreement on the African Risk Capacity Project Special Arrangement concluded on June 24, 2011 between the AUC and WFP.

¹⁹ Resolution XVI on "African Risk Capacity (ARC): Sovereign Disaster Risk Solutions" adopted by the Fifth Joint African Union Conference of African Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development, held in Addis Ababa, Ethiopia 26-27 March 2012.

²⁰ Decision adopted by the Assembly of Heads of State and Government (Assembly/AU/Dec.417(XIX)) of 16 July 2012 "that the ARC shall be established as a Specialized Agency of the African Union..."

²¹ Article 11 of the Establishment Agreement vests in the Conference of the Parties the authority to establish subsidiary or affiliated entities of the ARC Agency for the purposes of carrying out the functions of the ARC Agency.

CoP further decided that ARC Ltd should be established under the laws of Bermuda, until an “equally favourable legal and regulatory regime exists in an AU Member State.”²² ARC Ltd was established and became operational in March 2014.

ARC Agency is an independent specialised agency of the AU. As such, it works closely with the AUC, but raises its own funding and has its own independent governance structures: the CoP including all of the ARC Agency’s Member States; and the ARC Agency Governing Board (the Board), which comprises high level government officials, former officials and other leaders. ARC Agency reports to the AU Executive Council annually, as required by the Treaty, and is on the agenda of the African Ministers of Finance Conference held annually in March.

2012	<p>AU Assembly of Heads of State and Government Decision to Establish the ARC as a Specialised Agency of the African Union taken in Addis Ababa, Ethiopia 16 July 2012.</p> <p>DECIDES that ARC shall be established as a Specialised Agency of the African Union and accorded the privileges and immunities specified in the OAU General Convention on Privileges and Immunities.</p> <p>Fifth Joint AU Conference of African Ministers of Economy and Finance, Planning and Economic Development and ECA Conference of African Ministers of Finance, Planning and Economic Development held in Addis Ababa, Ethiopia on 27 March 2012 Resolution 16 to Establish the ARC.</p> <p>RECOMMENDS that ARC should be established as a Specialised Agency of the African Union and accorded the privileges and immunities specified in the OAU General Convention on Privileges and Immunities.</p>
2011	<p>Fourth Joint AU Conference of African Ministers of Economy and Finance, Planning and Economic Development and ECA Conference of African Ministers of Finance, Planning and Economic Development held in Addis Ababa, Ethiopia on 29 March 2011.</p> <p>RECOGNISING the decision taken by the Third Joint African Union Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development, held in Lilongwe, Malawi, in March 2010 (EX. CL/596(XVII)), to “support efforts towards enhancing national and regional capacities to mitigate exposure to disaster risk through institutionalising effective financial and other instruments such as strategic grain reserves, budgeted contingency funds as well as through sharing risk across regions”:</p> <ol style="list-style-type: none"> 1. Welcomes the African Union Commission’s proposal to work towards the establishment of African Risk Capacity, an African-owned pan-African disaster risk pooling facility that would provide contingency funds to participating African Union Member States in the event of extreme weather shocks and appreciates the Commission’s leadership in exploring the feasibility and design of such a facility, that would complement and not duplicate existing structures and initiatives;

²² See Report and Decisions of the First Conference of the Parties of the African Risk Capacity (ARC) Agency (ARC/COP1/D016.0904_13), Paragraph 8 (f).

2. Supports the proposed consultation to be held with African Union member States in South Africa in early May 2011, where the findings to date will be shared and discussed, and the results of which will inform the Commission's report to the Executive Council at the June 2011 African Union Summit, to be held in Malabo, Equatorial Guinea;
3. Invites African Union member States to support the Commission's efforts through contributions to the design phase of the Risk Capacity project;
4. Endorses the interactive process in question and commits to providing support to the above-mentioned discussions at the country and regional levels.

Decision on Disaster Risk Reduction taken by the African Union Executive Council at the AU Summit in Addis Ababa, Ethiopia on 27 January 2011.

FURTHER REQUESTS the Commission to accelerate action on the feasibility study to create an AU-led, African owned Pan-African Disaster Risk Pool that would allow Member States to share risk across regions, and to put in place, the necessary administrative arrangements, pending the completion of the feasibility study.

2010

Second Africa Ministerial Conference on Disaster Risk Reduction held in Nairobi, Kenya on 16 April 2010 – endorsed at AU Summit of African Heads of State and Government in Addis Ababa, Ethiopia January 2011.

TO CALL UPON Member States, under the auspices of the African Union Commission, to explore the feasibility of continental financial risk pooling in working towards the creation of an African-owned Pan-African disaster risk pool, building on existing and emerging tools and mechanisms for financing disaster risk reduction.