African Risk Capacity (ARC) has an innovative public-private partnership structure: it is made up of an international organisation that provides government services and a mutual insurance company that conducts financial operations – ARC Insurance Company Limited (ARC Ltd). Through this structure ARC operationalises pan-Africanism and South-South and Triangular cooperation through a ground breaking financial instrument that is built on solidarity between countries, the private sector and donors. This is a bold step towards transforming the disaster-response paradigm on the continent.

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African Risk Capacity offers an African solution to one of the continent’s most pressing challenges. A Specialized Agency of the African Union, ARC provides Member States the financial tools and infrastructure to improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters. This protects the food security and livelihoods of their vulnerable populations and back-stops critical development gains.

ARC already operates as an example of South-South and Triangular cooperation, demonstrating the following effective characteristics:

**ARC addresses transnational development challenges that would be difficult to manage by individuals**

Over the last four decades, Sub-Saharan Africa has experienced more than 1,000 disasters. This is a major drag on development, putting recent economic gains at risk. As currently structured, the system for responding to natural disasters is not as timely or equitable as it should, or could be, with much of the cost borne by farmers. International assistance through the appeals system is secured on a largely ad hoc basis after disaster strikes, and governments are forced to reallocate funds in national budgets from essential development activities to crisis response. Only then can relief be mobilised toward the people who need it most – and it is often too late.

ARC provides contingent funds linked to early warning systems. ARC works with governments to develop appropriate contingency plans linked with credible national response mechanisms which offer the best solution for delivering more effective and efficient responses to weather shocks in the short term. This can also facilitate longer-term investments in enhancing food security, reducing disaster risk and building climate resilience. This is the value proposition ARC offers. As an innovative pan-African risk management initiative, ARC provides African governments with sovereign level risk insurance against drought and cyclones through its financial affiliate, the African Risk Capacity Insurance Company Limited. Through ARC Ltd countries are able to pool their natural disaster risk into a single portfolio and access risk capacity in the international markets in an efficient and effective manner to support a more timely response to disasters.

For more information, visit africanriskcapacity.org
Benefits a great number of people on the continent

Thirty two African States have signed the ARC Establishment Agreement, representing a transformative moment in African ownership to manage natural disaster risk more effectively. These countries benefit from considerable capacity building support from ARC and the provision of actual financial tools to better support response in the event of a disaster.

In the first year of operation of ARC Ltd, four countries (Kenya, Mauritania, Niger and Senegal) purchased US $129 million in drought insurance coverage from ARC Ltd for a total of US $17 million in premium. Following a poor agricultural season in the Sahel, Mauritania, Niger and Senegal had received payouts from ARC Ltd totalling US $26 million by February 2015 which enabled them to deliver timely assistance to over 1.3 million people and almost a million livestock. This intervention averted a situation that could have forced millions of families to sell off hard-won household assets, take children out of school, migrate, or simply accept that their herds had perished thereby plunging them further into food insecurity.

Valid proof of concept that is scalable

The payout in 2015 by ARC Ltd was a demonstration and validation of the ARC concept. In May 2015, the second ARC risk pool expanded and included: The Gambia, Kenya, Malawi, Mali, Mauritania, Niger and Senegal. Each secured drought coverage for the 2015/16 policy year and combined paid US $24.7 million in premium for US $178 million in coverage.

The ARC pool will continue to grow as the institution actively seeks to match the demand from African governments for innovative, cost effective and contextually appropriate tools to better manage disaster risks on the continent. ARC aims to reach as many as 30 countries with US $1.5 billion of coverage against drought, flood and cyclones, indirectly insuring around 150 million Africans by 2020.

Solidarity and Innovation

ARC is also an effective example of public-private partnership and an efficient mechanism through which donor resources can be leveraged. Support in the form of returnable risk capital to ARC Ltd of approximately US $90 million has been provided equally by the KfW Development Bank on behalf of the German government and DFID for the government of the United Kingdom. This capital allows ARC Ltd to access the international market at a cost effective rate and supports the sustainable growth of the pool.

ARC has leveraged private sector funding by reinsuring itself on the global risk markets. The ARC reinsurance programme has been met with significant interest: 12 major global reinsurers, including Africa Re, participated in the ARC Ltd pool's first year and 18 reinsurers in the second year.

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