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Criteria for Granting Certificates of Good Standing

Introduction

The African Risk Capacity (**ARC**) comprises two entities: the ARC Specialized Agency of the African Union (**ARC Agency**), and the ARC Insurance Company Limited (**ARC Ltd**). ARC Ltd provides insurance to ARC Agency member states that have **Certificates of Good Standing** granted by the Governing Board of the ARC Agency (the **Board**).

The Agreement for the Establishment of the African Risk Capacity (ARC) Agency (the **Treaty**) gives the ARC Conference of the Parties (**CoP**) the authority to determine the criteria for granting Certificates of Good Standing to ARC Member states (the **CGS Criteria**).[1] According to the CGS Criteria adopted by the CoP, in order to obtain and maintain a Certificate of Good Standing (**CGS**), a country must: (i) Be a signatory to the Treaty; (ii) Have a **Contingency Plan[2],** approved by the Board, detailing the use of an ARC Ltd insurance payout, as required by the Treaty[3]; (iii) Have completed its review and customization of *Africa Risk View*; (iv) Be up to date in its financial obligations to the ARC Agency; and (v) Comply with its approved contingency plans when using an ARC Ltd payout, as outlined in the Compliance Rules adopted by the CoP. The CoP may establish additional CGS Criteria, as they deem appropriate.

The Board is responsible for applying the aforementioned CGS Criteria and instructing the Secretariat to issue CGS to eligible countries. The Secretariat communicates to ARC Ltd which countries have CGS and are therefore eligible to join ARC Ltd by taking out an insurance policy. The Board has established a subcommittee, called the Peer Review Mechanism (**PRM**) to review the Operations Plans submitted to the Secretariat. In March 2014, the process culminated in granting CGS to a first group of five countries: Kenya, Mauritania, Mozambique, Niger and Senegal followed in May 2015 by Burkina Faso, The Gambia, Malawi, Mali and Zimbabwe. In May 2016, Mauritania, Niger, Kenya and Senegal, had their CGS renewed based on the submission of new contingency plans while Madagascar was granted a CGS for the first time.

Certificate of Good Standing Criteria

Signatory to the Treaty. The Treaty was adopted and opened for signature in Pretoria, South Africa on 23 November 2012 and has been applied provisionally from the same date. Only countries that are signatories to the Treaty are eligible to obtain CGS from the Board. In the future, once the Treaty has entered into force definitively following its ratification by 10 countries, signatory countries will have a two-year grace period to ratify the Treaty before they lose their CGS and the ability to take advantage of the insurance pool.

Approved Contingency Plans. The Treaty requires that countries submit Contingency Plans detailing the intended use of any ARC Ltd insurance payout. The Board has approved Standards and Guidelines for

[1] *See* the Treaty, Article 13, paragraph 2 (l).

[2] An Operations Plan together with the Final Implementation Plan (FIP) submitted in the event of a payout, constitute the Contingency Plans as referred to in the Treaty. Although the CGS Criteria use the term "Contingency Plan," only the Operations Plan must be submitted prior to the application for a CGS.

[3] *See* the Treaty, Articles 13 (h and l) and 15 (k-l).

Contingency Plans (the **CP Standards**), governing the development and approval of Contingency Plans for drought, floods and cyclones. The Board may modify the CP Standards over time as the Board, the CoP, and the participating countries gain greater experience with the Contingency Planning process.

According to the CP Standards, an ARC Contingency Plan should include two parts, an Operations Plan and a Final Implementation Plan (**FIP**) which, together, constitute the Contingency Plans described in the Treaty. Operations Plans are intended to be flexible. Some countries may propose several potential activities that could be funded by an ARC payout with the intention of choosing from among the activities based on the specific situation at the time of a payout. Other countries may include only one activity that they believe will be suitable in any situation. The purpose of the Operations Plan is to delineate the use of an ARC payout in advance so that if a country receives such a payout in an extreme weather situation, it will be prepared to use the funds immediately and effectively, capitalizing on the advantages of early intervention.

Once the Board has determined that some or all of a country's proposed activities meet the eligibility and implementation standards that it has established, it may approve a country's Operations Plan. The Board may approve the entire plan, or a part of it. If the Board partially approves an Operations Plan by approving certain activities but not others, the country may be granted a CGS based on a partial approval of its Operation Plan. In that case, if the country receives an ARC Ltd insurance payout, it may only implement the activities that were approved by the Board. A country will be entitled to resubmit its Contingency Plan as often as necessary to obtain full approval.

When a country has received a CGS, it is eligible to enter into an insurance contract with ARC Ltd. In the event that an ARC Ltd payout is likely[4] in the case of a slow-onset disaster such as drought, or if a payout is triggered in the case of a rapid-onset disaster such as flood or cyclone, a country will be required, in order to receive the funds, to submit a FIP in the format and following the procedures that the Board has established in the CP Standards. While an Operations Plan may include a range of potential activities, the FIP should focus on the specific activity or activities that will be undertaken to address the current situation in the country with a greater level of detail. It should only include activities that were previously approved by the Board as part of the Operations Plan, unless the Board determines that a deviation as justified by the country ahead of implementing that activity and as outlined in the FIP is indeed necessary and an appropriate use of ARC funds.

Customization of *Africa RiskView (ARV)* Parameters. In order to receive a CGS, an ARC member State must have completed its customization and validation of ARV, as reflected in the Customization and Validation Report that has been signed by the Government, and be satisfied that the model adequately describes the country's drought, flood or cyclone risk. ARV is the technical engine of ARC, which allows the entity to pool risk across borders and also reflects the parameters of the insurance coverage. ARV is a software tool that aims to quantify the direct financial impact of natural disasters on vulnerable populations and the governments of affected countries through using a specific methodology for each type of disaster. For example, for drought, ARV monitors weather-related food security risks in Africa by translating satellite-based rainfall information into near real-time agricultural production and grazing impacts. By overlaying these data with information on vulnerability, the Software also estimates drought-affected populations and

[4] Likely in this case is defined as: 1) when the certainty of an insurance payout is greater than 70% within 60-70 days of the potential payout date; or 2) if, at the end of the sowing window defined in the insurance contract, it is determined that a country will be entitled to an insurance payout, regardless of the rainfall conditions for the remainder of the insured season. The Director General may also declare that a payout is likely based on the monitoring of the *Africa RiskView* Software.

therefore response cost estimates. To date the model only focuses on drought risk, but will soon be extended to cover flood risk and cyclone risk.

ARC Ltd insurance policies are indexed to the response cost estimate provided by ARV. At the end of the insurance contract period, should the ARV response cost estimate exceed a pre-defined threshold, a country would be due a payout based on this ARV estimate and as specified by the risk transfer parameters outlined in their insurance policy. Before being eligible for an insurance policy from ARC Ltd, the country and ARC must agree that ARV reflects the country's exposure to drought, floods or cyclones and that the insurance policy is covering the agreed portion of this exposure.

It is therefore important that ARC member states independently review the parameters in the ARV software, customize them as necessary based on available in-country information and in their expert opinion, validate the model's performance to ensure that it reflects the country's specific-hazard risk profile and the method to determine the costs it may incur in responding to such an event. Without this review – that is customization and validation made by in-country experts – the country also runs the risk of basing its insurance policy on inaccurate data or assumptions, and therefore of not receiving an insurance payout when there is a natural disaster or receiving an insurance payout when there is no natural disaster.

Up to date in Payment of ARC Agency Annual Membership Fees. The fourth criterion an ARC Member State must fulfil in order to receive a CGS, is to be up to date in the payment of its annual membership fees to the ARC Agency.

According to the Treaty and regular African Union practice, ARC member states shall pay an annual membership fee to the ARC Agency.[5] The CoP has the authority to determine the membership fees, and to establish penalties should a country fail to pay them.[6] However, such a membership fee will not be assessed until the Treaty has been ratified by 10 countries, and no financial obligations may be imposed on a State Party until it has ratified the Treaty.[7]

Once the Trearty is ratified by 10 countries and has entered into force definitively, it will cease to be provisionally applied to countries that have not ratified. Thus, countries that have not ratified the Treaty when it goes into force definitively will lose access to the benefits available to Parties, and will no longer be eligible to receive a CGS. As mentioned above, Signatory countries will have two years in which to ratify the Treaty once it has entered into force definitively, in order to preserve their CGS and ability to take advantage of the insurance pool. Without this requirement, it would be impossible for ARC member states to receive all the benefits of ARC membership, including participation in the ARC insurance scheme.

In Conformity with the Compliance Rules. The Treaty gives the CoP the authority to adopt rules for ensuring Parties' compliance with approved Contingency Plans (the **Compliance Rules**) and gives the Board the authority to enforce such rules.[8] If an ARC member state deviates from its approved Contingency Plan for the use of an ARC Ltd payout in a manner that violates the Compliance Rules, it will not be eligible to receive a CGS until it has cured the violation, or for a period of time determined by the Board in conformity with the

[5] Treaty, Article 18.
[6] Treaty, Article 13, paragraph 2 (h).
[7] Treaty, Article 26, paragraph 5.
[8] Treaty, Article 13, paragraph 2 (h) and Article 15, paragraph 1 (m).

Compliance Rules, depending on the situation. The specific treatment of such situations is outlined in the Compliance Rules, and final determinations regarding the application of the Compliance Rules and any cure of Compliance Rules violations, should be made by the Board, or, in certain cases, the CoP.

Withdrawal of CGS

A country's CGS may be withdrawn in the following circumstances:

CGS Criteria non-compliance at the time of an Operations Plan Review. ARC member states must submit updated Operations Plans to the Board every two years, in order to ensure that the plans are current. When a country has a new plan to be approved, the Board will also evaluate whether the country continues to meet any other CGS Criteria established by the CoP from time to time. If the Board finds that a country does not fulfil all of the CGS Criteria at the time its new Operations Plan is reviewed, the Board will send a written notification to the country informing it of the Board's intention to withdraw that country's Certificate of Good Standing and giving it a time-frame in which to fulfil the CGS Criteria before the withdrawal occurs.

Violation of Compliance Rules. The Board may withdraw a country's CGS immediately if the Board finds that the country has violated the Compliance Rules. A country may not purchase insurance from ARC Ltd after its CGS has been withdrawn. If a withdrawal occurs after a country has entered into an insurance contract and the policy is still active, any insurance payout that a country is entitled to receive shall be placed in an escrow account. The specific actions to be taken in such a situation are outlined in the Compliance Rules.

Without a CGS, a country may not take out insurance from ARC Ltd. If an ARC member state's CGS is withdrawn, it will cease to be a member of ARC Ltd, as laid out in the Bye-Laws of ARC Ltd.