

Independent Evaluation of the African Risk Capacity (ARC)

Annex B: Organisational Review

27th October 2017

Acknowledgements

The Evaluation Team would like to extend thanks to a number of individuals who have contributed to this Formative Phase 1 evaluation. These include Nicky Jenns and Gareth Moore at DFID, and all the staff and board members at ARC Agency and ARC Limited who have given up their time to answer our many questions and respond to our requests for help. Special thanks go to Abou Diaby who is our main link at ARC Agency, and Lucy Nyirenda and Fatou Diagne who were a great help in coordinating our fieldwork. Thanks are also due to the national consultants who participated in the fieldwork teams: Yahia Ould el Houssein and Mohamed Lemine Selmane in Mauritania; Caroline Riungu and Esther Murigu in Kenya; and Darlen Dzimwe and Sirys Chinangua in Malawi. Also, we really appreciate the help of the Government Coordinators in these countries; Moustapha Cheikh Abdallahi, Nelson Mutanda and Hastings Ngoma respectively. Finally, we are especially grateful to all those 'Key Informants' from across Africa and the rest of the world, who gave up their time to discuss their experiences and views or to participate in our survey. Your thoughtful reflections, honesty and ideas have been invaluable.

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This material has been funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.

This assessment is being carried out by e-Pact. The Team Leader is Marcela Tarazona, though the Team Leader for the first Formative Evaluation was Zoe Scott. The remaining team members are Claire Simon, Jesse McConnell, Emilie Gettliffe, Rick Murnane, Paula Silva Villanueva, Felicity Le Quesne and Ashira Perera. For further information contact Felicity Le Quesne at felicity.lequesne@opml.co.uk.

e-Pact	Level 3, Clarendon House 52 Cornmarket Street Oxford OX1 3HJ United Kingdom	Tel +44 (0) 1865 207300 Fax +44 (0) 1865 207301 Email admin@opml.co.uk Website www.opml.co.uk
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Executive summary

In 2015, the UK Department for International Development (DFID) funded a long-term Independent Evaluation of the African Risk Capacity (ARC). ARC is an African-owned index-based weather risk insurance pool and early response mechanism that combines the concepts of early warning, disaster risk management, and risk finance. ARC Group comprises of two organisations: ARC Agency and ARC Limited. ARC Agency is the capacity-building and advocacy arm and ARC Limited is the mutual insurance company. The 10-year evaluation includes a two-stage formative evaluation and a two-stage impact evaluation. The first formative evaluation design framework identifies three workstreams: an organisational review, a 3-country case study analysis, and a global review. This report presents findings and recommendations from the organisational review workstream of the first formative evaluation.

Key findings

In total we conducted 20 in-depth interviews with staff and Board Members from ARC Agency and ARC Limited. Key findings are presented by activity area (e.g. country engagement, ARC products, governance, etc.) and summarised below.

ARC Structure

ARC Agency is in transition from a start-up to a more mature agency and is experiencing common growing pains. Whether, and how, ARC Agency addresses these challenges will be critical to its long-term success. Some of the key issues include:

- For the size and scope of its activities, ARC Agency may be understaffed; though, ARC has recently hired or is actively hiring for several key positions including a COO, a Head and Deputy Head of R&D and Quality Control Managers;
- There are signs that the relationship between ARC Agency and ARC Limited is strained. The key challenges appear to be around communication, joint coordination and workplans, and the in-country roles and responsibilities of each institution¹;
- There is a clear need to improve and standardise internal operational processes, although recent improvements are acknowledged;
- The organisation has some challenges with institutional memory around its ARV product in that the relevant knowledge is highly concentrated among a few individuals; however, there are signs this issue is improving.

Country engagement

While ARC is building a presence across Africa, the ARC insurance risk pool is shrinking rather than growing, raising concerns about the long-term viability of the organisation. The challenges with engagement and building the risk pool suggest the business model and/or Theory of Change may need to be revisited.

¹ Reviewer comments point to recent improvements in these relationships that will be considered in the second formative evaluation.

- The ARC Agency has 32 signatories, 4 ratifications and Memoranda of Understanding (MOUs) with 17 countries. 16 countries have either started or completed the initial capacity building process and 14 have contingency plans (CPs) in place².
- Country engagement is uneven and takes a long time. ARC Agency has found that getting countries to sign and ratify the ARC Treaty, sign an MOU, complete the capacity building programme, and sign a policy, often takes many years rather than months of active engagement. Even those countries with policies require ongoing engagement to adjust ARV and take out successive policies year-on-year. These challenges raise questions regarding how ARC Agency staff should prioritise their time use and how long they should work with a country before moving on.
- ARC's views towards premium payment support have evolved. Once considered counter-productive to sustainability, today it is viewed as necessary for ARC's survival.

Country capacity-building programme

ARC has a reasonably well-defined capacity building programme and there are some positive signs that Member State capacity around issues related to Early Warning (EW), Disaster Risk Management (DRM), and risk financing is improving. However, the current programme is in need of strengthening in light of lessons learned to date.

- The contingency planning process of design and review has gone through multiple iterations which have led to positive adaptations and improvements, as evidenced by reports from the Technical Review Committee (TRC) and Peer Review Mechanism (PRM). Given recent issues in Malawi with ARV customization, ARC Agency is now considering implementing an 'expert' review process similar to that done for the CP process;
- There are evolving discussions around some of the ARC Agency programming. For example, (i) value and role of the Government Coordinators; (ii) value of regional workshops; (iii) how to make training products more individually customised.
- There is general agreement among those interviewed that technical understanding around DRM and risk finance has improved in Member Countries going through the capacity-building process. For example, those interviewed point to the following: (i) increasing sophistication in the discussions around ARV configuration; (ii) broader utilisation of ARC contingency plans; (iii) improving continental awareness of ARC, DRM and risk finance issues.

ARC models and insurance

ARC is managing several products that are either active or under design, including models for drought, cyclones, floods, and outbreaks and epidemics along with several financial mechanisms intended to help grow the risk pool. ARV, the signature drought model, is thought to be complicated to configure, requires detailed input data, and is sensitive to changes in data. There is a tangible tension between the need to grow by expanding into new areas and focusing to make sure that existing products function correctly.

- While most people internal to ARC consider ARV to be an effective tool, several limitations were identified: (i) it is impossible to accommodate all the requests for customisation coming from countries and still maintain a functioning product; (ii) ARV naturally will produce results that vary from other models who use different input data; (iii) high quality

² Note these figures are for a fixed point in time

input data is important; (iv) challenges with disaggregation of vulnerability data (as due to drought);

- There is some concern that ARC Agency, by addressing multiple products simultaneously, is losing its focus. However, the counter argument is that a broad product offering is needed to capture Member State interest and expand and diversify the insurance risk pool.
- ARC Agency is also actively engaging higher income African countries who do not fit the typical ARC profile. These countries may already have insurance products that adequately cover citizens or perhaps have the financial mechanisms to respond to weather disaster without needing additional insurance. ARC is trying to find ways to leverage its products to serve these outliers. Here again is a question of balance between growing the risk pool and holding to the mission. Does a focus on these markets stray too far from the key goal of the programme– protecting the most vulnerable?
- To date, reinsurance markets are still very interested in the ARC products and see them as a way to access Africa and diversify their risk pools;
- ARC has been flexible on deadlines for premium payment, a practice that may serve as a disincentive for countries to pay their premium on time. ARC Limited has recently implemented a new structure for reinsurance that allows a quarterly review to adjust premiums so that payments reflect overall risk.

ARC resourcing

ARC Agency resources are limited given the scope of their mandate. While donor funding has been growing, there remains a larger question of ARC Agency sustainability in the future.

- In addition to donor support, the ARC Group has discussed several other potential funding sources for ARC Agency: (i) ARC Limited pay a brokerage fee to ARC Agency; (ii) charge countries membership fees for ARC Agency services; (iii) find a way to monetise ARC Agency vulnerability and drought data. All these options come with opportunities and issues that are under ongoing discussion;

Monitoring and Evaluation

In-house Monitoring and Evaluation (M&E) capacity was only addressed in 2017. Since these processes are just now taking shape, we will evaluate progress on M&E activities and the effectiveness of these activities in the next formative evaluation.

- There are several proposed positive improvements to M&E: (i) increased guidance and support to countries around M&E during the capacity building programme; (ii) standard indicators per intervention type; and (iii) focus on gender mainstreaming via use of gender responsive indicators.

Governance

Overall those interviewed feel that the Boards of the two organisations are effective in helping guide decision-making and direction. While overall the two Boards communicate, some feel this is largely due to the relationship between the two Chairs rather than due to well established processes and procedures.

- One issue of tension is the distinct gap in board perspectives. While the Agency Board is comprised of government officials who focus on development and social issues, the Limited

Board is made up of insurance and finance experts, focusing on financial sustainability. These different perspectives can come into conflict when the organisations face shared challenges, as evidenced by the issues in Malawi where there were disagreements on the best course of action for resolving the ARV issue.

Outreach and Communication

There is growing recognition by many of those interviewed that ARC Group needs to better manage both its internal and external communications:

- ARC Agency is focused on building strategic partnerships of different kinds that can help: (i) improve the functioning of the ARV model; (ii) educate about ARC products and services; and (iii) grow the risk pool. To this end they are signing MOUs with various organisations such as the African Development Bank (AfDB).
- ARC's relationship with donors is strained, and in mid-2017 a key donor placed ARC Agency under a Performance Improvement Plan (PIP). There are issues on both sides; ARC Agency feels the donors impose overly burdensome requirements while donors feel they are not apprised of key issues in a timely manner. Recently there are signs that these relationships have improved.
- Several of those interviewed believe donors support programmes that directly conflict with ARC objectives. These include: (i) provision of contingency funds for disasters; (ii) direct product competition (e.g. World Bank Cat DDOs); (iii) disconnected local in-country programming.
- ARC Agency has been challenged in how to respond to negative press by NGOs and other organisations.

Recommendations

There are several steps that we recommend ARC consider so as to facilitate this transition:

- Consider a management retreat including Board members to work through the implications of this review and to critically analyse ARCs current strategy and business plan in light of lessons learned to date. A suggested list of topics/questions to discuss include:
 - Revisit the MOU between ARC Agency and ARC Limited to discuss the scope, mission, and interaction between the two agencies, including their governance structures;
 - Discuss questions such as: are we spreading ourselves too thin? Is there value in focusing on just a few products, perfecting them and then adding on; or does the current market demand we continue to rapidly diversify? If the latter, how can we best manage this process both operationally and financially? Given the challenges of political traction within countries vis-à-vis the role of insurance, are we offering the right set of products and services to address the longer-term goals of the organisation(s)? For example, will our products and services in their current design help AU countries to grow in spite of shocks and stresses through effective risk management and financing system?

- Develop a comprehensive communications plan that outlines types of communications and channels of communications and defines processes for the escalation and approval of communications;
- Reflect on ARC's relationship with donors and consider what steps might be taken to rebuild this important partnership.
- Revise and strengthen Standard Operating Procedures (SOPs) and processes of decision-making around key components of ARC programming. Some suggestions include:
 - Country engagement: design an operational process that allows for the assessment and update of the short and long-term growth plan on a regular basis;
 - Final Implementation Plan (FIP) approvals: Strengthen the processes around submitting and approving FIPs;
 - Staff training: Expand SOPs into training manuals that will assist new staff in learning how to do their jobs.
- Discuss and weigh the implications of moving the ARV product to an open source platform where it might benefit from broader set of technical experts and reduce the perception of the tool as a 'black box;'
- Consider reviewing and strengthening the capacity-building programme. Some possible suggestions might include:
 - Design and pilot a set of interactive training materials that include built-in testing using real scenarios to make the training more hands-on. Consider ways of rewarding success. For instance, successful pass rates of different modules by TWG members could possibly be linked to various rewards at either the country, regional, or COP-level;
 - Revisit the role of the Government Coordinator. Perhaps facilitate a workshop session (either at the country or regional level) on how to best strengthen this position, leveraging insights from existing Member States' experiences;
 - Develop a more robust country engagement strategy to help focus ARC engagement to make it financially sustainable. Such a plan could include a more detailed definition of different thresholds of engagement in different areas that include guidelines of when to put engagement on hold and when to forge ahead. These discussions could then be part of the regular management meetings;
- Establish regular (e.g. annual) workshops where ARC Agency and ARC Limited come together to discuss lessons learned and strategise for how to feed those lessons back into programming. This exercise could be part of the regular M&E processes around the reporting of log-frame metrics.

Table of contents

Acknowledgements	i
Executive summary	ii
Key findings	ii
Recommendations	v
List of tables, figures and boxes	ix
List of abbreviations	x
1 Introduction	1
2 Methods	2
3 Organisational Structure	4
3.1 ARC Agency	5
3.1.1 Structure	5
3.1.2 Staffing and capacity	7
3.2 ARC Limited	10
3.3 Cooperation between ARC Agency and ARC Limited	11
4 Country Engagement	13
4.1 Overview of the engagement process	13
4.2 Status of ARC engagement	15
4.2.1 Status of the ARC risk pool	17
4.3 Key challenges to country engagement	17
5 Country Capacity Building Programme	20
5.1 Overview of country capacity	20
5.2 Effectiveness of the capacity building model	22
5.3 Key challenges with the capacity-building model	23
6 ARC Models and Insurance	25
6.1 Africa RiskView	26
6.2 Other models and financing products	27
6.3 Reinsurance	29
7 ARC Resourcing	31
7.1.1 Donor funding	31
7.1.2 Other potential revenue streams	32
8 Monitoring and Evaluation	34
8.1 ARC Agency M&E plan	34
8.2 Monitoring tools	35
8.3 Evaluation tools	36
9 Governance	37
9.1 ARC Agency board	37
9.2 ARC Limited Board	38
9.3 Relationship between the two boards	38
10 Outreach and Communications	40
10.1 Strategic partners	40
10.2 Relationship with donors	42

10.2.1	ARC reporting	42
10.2.2	Conflicting donor priorities	42
10.3	Non-member states	43
10.4	International capital markets	43
10.5	Other stakeholders in disaster risk management and relief	43
11	Conclusions and Recommendations	44
	References / Bibliography	Error! Bookmark not defined.

List of tables, figures and boxes

Figure 1: ARC Signatories and Ratifications	5
Figure 2: ARC Agency organogram	6
Figure 3: ARC Limited organigram	10
Figure 4: ARC Agency in-country engagement	15
Figure 5: Evolution of the ARC insurance risk pool	17
Figure 6: ARC Agency logical model.....	35
Table 1 : Breakout of ARC organisational review interviews	2
Table 2 : ARC document collection	3
Table 3: ARC Agency departments.....	6
Table 4: Constraints to ARC staff capacity	8
Table 5: ARC signatory countries.....	16
Table 6: ARC Agency models and financing products.....	28
Table 7: ARC agency donors	31
Table 8: ARC Agency strategic partners	41
Box 1: Example of country engagement as a non-linear process.....	13

List of abbreviations

ARC	African Risk Capacity
ARV	Africa RiskView
AU	African Union
CEM	Country engagement manager
CEO	Chief executive officer
COGS	Certificate of good standing
COO	Chief operating officer
COP	Conference of parties
CP	Contingency planning
DRM	Disaster Risk Management
EW	Early Warning
FIP	Final implementation plan
GC	Government coordinator
IPTT	Indicator performance tracking table
M&E	Monitoring and Evaluation
MOU	Memorandum of understanding
O&E	Outbreaks and Epidemics
PIP	Performance improvement plan
PRM	Peer review mechanism
R&D	Research and development
SOP	Standard operating procedure
TA	Technical assistance
TRC	Technical review committee
TWG	Technical working group
WFP	World food programme
XCF	Extreme climate facility

1 Introduction

The African Risk Capacity (ARC) was established by the African Union (AU) in 2012 as an African-owned, index-based weather risk insurance pool and early response mechanism that combines the concepts of early warning, disaster risk management, and risk finance. ARC's mission is to develop a pan-African natural disaster response system that enables African governments to meet the needs of people at risk to natural disasters (ARC 2016). The ARC Group is comprised of two entities: ARC Agency and ARC Limited. The ARC Agency is the capacity building, educational, and advocacy arm of ARC, responsible for making AU Member States and the broader public aware of ARC's mission and goals. Engagement of countries with ARC includes a 9-12 month capacity building programme on the elements of early warning, risk modelling, contingency planning, disaster risk management and risk financing. ARC Limited is a sovereign-level mutual insurance company that provides weather-related insurance coverage to Member States.

The expected impact of ARC is, firstly, through a pooled insurance model, it should offer African countries competitive pricing for insurance products. At the national level, it should improve the ability of governments to better anticipate, plan, and respond to disaster risk by strengthening capacities, awareness, and action around DRM. Finally, at the local level, vulnerable households should be more resilient to disasters through the receipt of timely support.

In 2015, the UK Department for International Development (DFID) awarded Oxford Policy Management (OPM) the contract for an Independent Evaluation of ARC from 2015 to 2024. There are two components to the evaluation - a two-stage formative evaluation; and a two-stage impact evaluation. This report relates to the first formative evaluation.

The objective of the first formative evaluation is to test early stages of the ARC Theory of Change and provide an assessment of whether ARC is on the right trajectory towards achieving its outcomes³. The evaluation uses Contribution Analysis, a structured but flexible type of analysis that lends itself to the complexities and uncertainties inherent in the ARC programme. Typically, the 'impact statement' of a contribution analysis approach emerges through the creation of a 'contribution story' rather than the result of a measured 'impact'. The formative evaluation design framework identifies three workstreams falling under the theory-based paradigm: an organisational review, a 3-country case study analysis, and a global review.

This report describes the findings from the organisational review workstream. After a brief discussion of methods, the report addresses the key components of the ARC Group organisation which include: (i) organisational structure and capacities of the two sister organisations (ARC Agency and ARC Limited); (ii) Country engagement; (iii) ARC's capacity-building programme; (iv) ARC's models and insurance products; (v) Resourcing; (vi) Monitoring and Evaluation; (vii) Governance; and (viii) Outreach and communications. The report concludes with a set of recommendations. The key findings are presented at the beginning of each section and linked to a result in the overall ARC Theory of Change.

³ For more information on the ARC Theory of Change and the evaluation design, see OPM's ARC Evaluation Inception Report.

2 Methods

To conduct the baseline organisational review, we developed an interview guide, identified our set of key informants, and collected and reviewed a variety of internal documents. These data were then analysed and coded to link findings to result levels on the ARC Theory of Change.

Interview Guide: To develop the interview guide, we generated a detailed list of interview questions based on the evaluation questions and their links to different components of ARC operations (e.g. country engagement, contingency planning, capacity, outreach, governance, resourcing, insurance, etc.). These questions were refined and discussed among team members to ensure consistency with questions being asked in the other workstreams.

Selection of key Informants: For the initial set of interviews, we leveraged a joint meeting of ARC Agency and ARC Limited Boards that took place in Johannesburg in January of 2016. Since a large number of ARC Agency and ARC Limited staff were attending the meeting, it represented an ideal time to collect data. The initial list of key informants was identified in planning discussions with DFID and ARC Agency and included representatives from all areas of the business (e.g. country engagement, risk transfer, ARV, contingency planning, insurance etc.). In addition, given that the bulk of the interviews were done at the very start of the formative evaluation, we conducted several follow-on interviews later in 2017 with a few key staff members from both ARC Agency and ARC Limited. In total, we conducted 20 in-depth interviews with members of ARC Agency staff (13), ARC Board members (4), and ARC Limited staff (3) (see Table 1). We entered interview data into a master Excel spreadsheet where responses could be reviewed and analysed collectively across each question.

Table 1 : Breakout of ARC organisational review interviews

Area	# of interviews
ARC Agency staff	13
ARC Agency board	2
ARC Limited staff	3
ARC Limited board	2
Total	20

Document Collection: Over the course of the evaluation period we also collected several internal documents on various aspects of ARC operations (see Table 2). These documents were reviewed as part of the overall analysis.

Table 2 : ARC document collection

File Name	Description
01_ARV	Contains four folders, one for each training module (rainfall, drought, vulnerability), an example of a payout monitor that visualises the level of estimated payouts, along with examples of customisation notes for Kenya
02_CP Docs	Contains all the information on the contingency planning process including PRM and TRC reports, CP guidelines, and CP/FIP Training materials
03_Strategy Notes	Contains strategy notes for Senegal, Mali, Zimbabwe,
04_SOPs	Includes the ARC Agency standard operating procedures (SOPs) for ARV customization, CEM, Risk Transfer, CP
05_Back office reports	Back office reports for a scoping mission in Mali and a validation workshop in Zimbabwe
06_Country allocation	Shows all the countries, the CEM and Technical leads and the status for different types of insurance (e.g. drought, flood, etc.). Otherwise known as 'allocation suduko'
07_MOU	Example of an MOU with CIMA
08_M&E Materials	Includes the latest M&E Plan and an indicative indicator performance tracking table.
09_Growth Strategy	Growth strategy report, created in 2016 and updated in 2017
10_organograms	Latest version of the ARC Agency organogram

Source: Authors

Analysis and linkage to the Theory of Change (ToC): As a final step, the findings from each area of the review were linked to a result on the ARC ToC. This process allows us to critically examine the ToC to determine whether the theory holds and evaluate ARC's contribution to the process.

3 Organisational Structure

Key message: ARC Agency is in transition from a start-up to a more mature agency and is experiencing common growing pains; how they address challenges will be critical to their long-term success.

- The relationship with WFP for back-office services, including hiring, makes it difficult for ARC Agency to attract and hire fulltime staff. As a result, they rely on many contract positions.
- There is a clear need to improve and standardise internal operational processes. For example, there is no formal employee induction programme nor any type of formal staff training programme⁴.
- The organisation has some challenges with institutional memory (e.g. deep understanding of ARV is concentrated with a few individuals), although there are positive signs this issue is improving.
- The review has raised several internal staff tensions (i) who should have responsibility over different areas of the organisation; (ii) tensions over different cultural and working styles; and (iii) questions about the ability of junior (or young) Country Engagement Managers (CEMs) to successfully engage in high-level political discussions. Some key new hires are expected to mitigate many of these issues.
- For the size and scope of their activities, ARC Agency may be understaffed. ARC has recently hired, or is actively hiring, for several key positions including a Chief Operational Officer (COO), Deputy Head of Research and Development (R&D) and Quality Control Managers. In addition, they have opened an office in West Africa to better support the active Member States in that region.
- In early 2017, when asked about the relationship between ARC Agency and ARC Limited, the responses were generally positive. However, later in the year, there are signs that the relationship between the two organisations is strained. The key challenge appears to be around communication, joint coordination and workplans, and the in-country roles and responsibilities of each agency⁵.
- ARC Limited is small in comparison to ARC Agency. Its plan to develop the organisation has been put on hold due to the small size of the risk pool. ARC Limited, now also based in South Africa (SA) faces challenges with bureaucracy related to national employment law.

The African Risk Capacity (ARC) is a specialised agency of the African Union (AU) whose mission is to promote the learning and use of risk financing mechanisms, including ARC insurance products, to assist member countries to better respond to climate-related natural disaster. ARC was formed as a treaty organisation of the AU. As such, to be officially recognised under international law, ARC must have a minimum of ten countries ratify the treaty. The process of country ratification generally involves two steps, the initial signing of the treaty by a Head of State to become a treaty signatory and then the official ratification of the treaty via a vote in parliament. Currently ARC has 32 signatory countries (see Figure 1). These countries make up the Conference of Parties (CoP) that serves as part of the governance structure and sets overall policy direction. In the ARC lexicon, signatories are called 'Member States'.

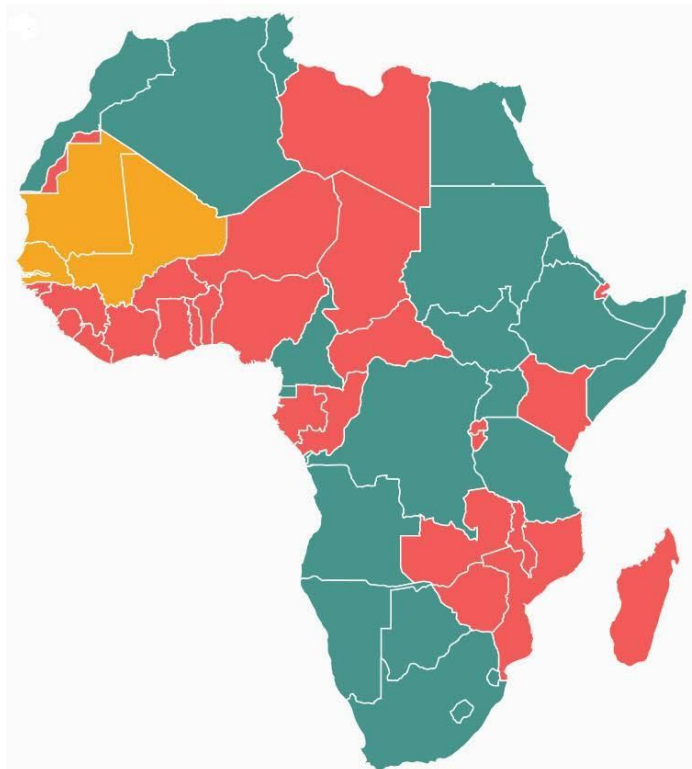
⁴ Reviewer comments note that as of the end of 2017 there is now an induction process in place. This theme will be revisited in the second formative evaluation.

⁵ Reviewer comments suggest that this relationship is improving, but information came too late to be included in this report. This theme will be revisited in the second formative evaluation.

In addition, four countries have taken the second step and ratified the treaty: Senegal, Mali, Mauritania, and The Gambia. There are a few other countries (Chad, Togo, Guinea) that are well into the process of ratification. Once ten countries have ratified the treaty, the other signatory countries have a two-year grace period to push through ratification or lose all their benefits of membership⁶.

Figure 1: ARC Signatories and Ratifications

ARC signatories in red, ARC ratifications in amber.



Source: Authors, using Piktochart⁷

3.1 ARC Agency

The ARC Agency is the capacity building, educational, and advocacy arm of the ARC Group that is responsible for making Member States and the broader public aware of ARC's mission and goals. Its mandate is to bring African Union member states on board the insurance platform and to strengthen member states' capacities around early warning, disaster risk management and risk financing.

3.1.1 Structure

ARC Agency is organised around different functional areas (research & development, programmes, advisory, corporate) which in turn breakdown into different services such as country engagement, contingency planning, technical/ARV (see Figure 2 and Table 3). As of October 2017, ARC had 50 employees of which 19 are full-time salaried positions and the remainder are contract positions. ARC Agency is also actively hiring for 24 more positions, of which four are to

⁶ Per reviewer comments, we acknowledge that our statistics come from a point in time and are evolving.

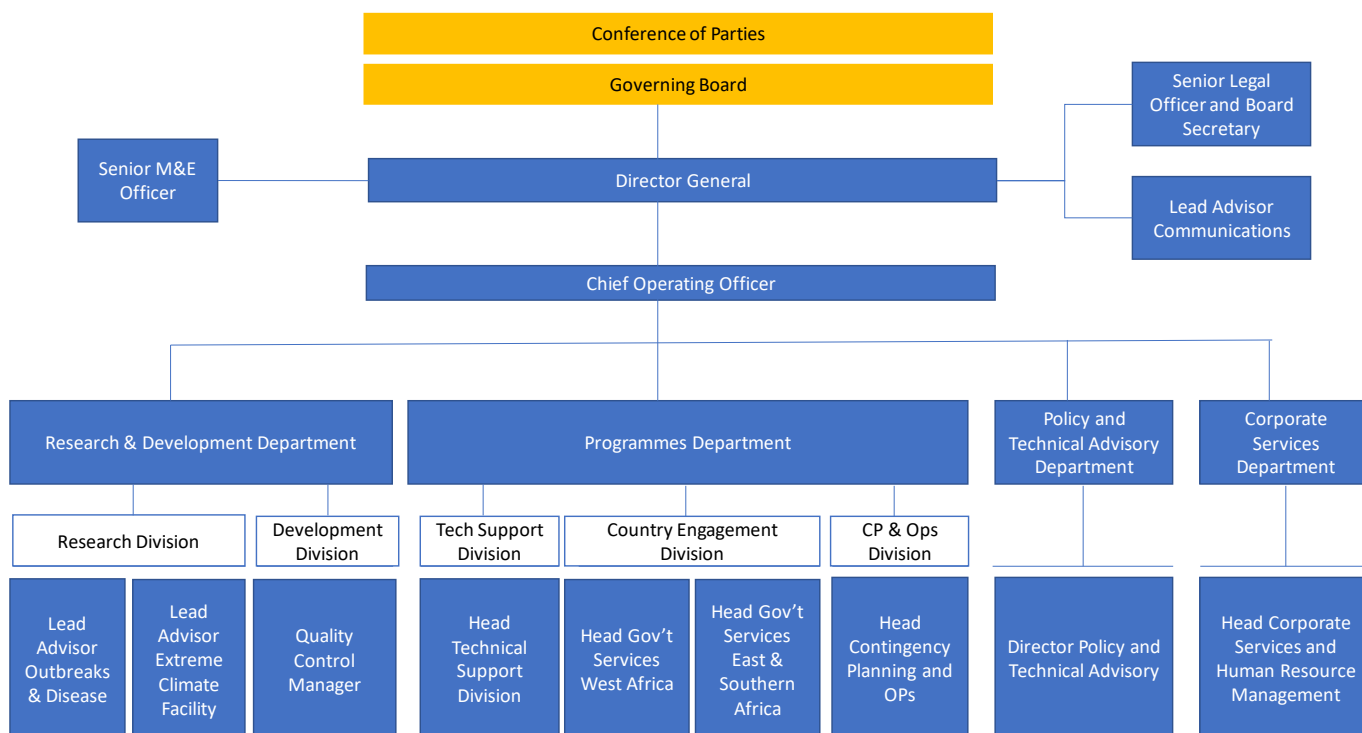
⁷ Map missing Comoros Islands and Sao Tome and Principe.

be full-time salaried employees. ARC is continuing to flush out the organisational structure and is actively hiring or had just filled several positions including:

- Director of R&D
- Deputy Director of R&D
- Quality Control Manager;
- Three Risk Analysts under the Technical Support Division
- One senior and one junior staff member under country engagement division;
- One Senior Manager under contingency planning;
- One Senior Economist under Policy and Technical
- Communications Head
- One analyst under M&E

While based in South Africa, the ARC Agency recently opened an office in West Africa to support the needs of the Member States who have consistently joined the risk pool.

Figure 2: ARC Agency organogram



Source: Streamlined from the ARC Agency organogram as of September, 2017

Table 3: ARC Agency departments

Department	Division	Description
Monitoring and Evaluation	Monitoring and Evaluation	Under the overall policy and management guidance and direct supervision of the Director General (DG), the Senior Monitoring and Evaluation Officer, is responsible for operationalising and managing the M&E programme. S/he oversees and manages all M&E activities within the M&E programme.
Legal	Legal	The Legal Services Unit works closely with ARC Agency and ARC

		Limited Senior Management and is responsible for providing high level legal services and authoritative advice to the governance organs, DG and Senior Management of ARC Agency on a range of issues.
Communications	Communications	The Communications Unit is responsible for all corporate and internal communication activities of ARC. It ensures coherence and consistency in ARC's corporate messaging and communication outputs, as well as enables cost-effectiveness in the use of communication-related resources across ARC.
Research and Development	Research	The Research and Development Department is responsible for undertaking all research and development activities of the Agency and ensuring that all Research & Development outputs are used to inform improvements to ARC products, programme and process design and Agency policy and function. Innovation and constant renewal of research and development is a strategic priority for ARC and will ensure ARC's products are improved and remain relevant to and continue to meet the needs of ARC's Member States.
	Development	Responsible for the management and ongoing development of ARV and other product models. The full description of the role is under development.
Programme Department	Technical Support	The Technical Division is one of the three divisions of the Programs Department (Country Engagement Division; Technical Division; Contingency Planning and Operations Division). The technical work programme provides vital activity for ARC by ensuring refinement and improvement of the tools, providing technical services to the Country Engagement Team and in-country Technical Working Groups. The work programme also includes additional quantitative and analysis work required to deliver on the ARC's core objectives, including operating on an effective pan-African insurance pool.
	Country Engagement	The Country Engagement (CE) Division, is one of the three divisions of the Programs Department. It takes a strategic approach in designing the country programmes and provides Member States with capacity building services to better plan, prepare and respond to extreme weather events and disasters and to assist food insecure populations.
	Contingency Planning	The Contingency Planning and Operations Division is one of the three divisions of the Programs Department (Country Engagement Division; Technical Division; Contingency Planning and Operations Division). The Contingency Planning is a critical feature in work of the African Risk Capacity Secretariat. Under the ARC Capacity Building Programme, 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.
Policy Technical Advisory Department	Technical Advisory	The Policy and Technical Advisory Department aims to strengthen the quality of ARC's portfolio of country engagement programmes as regards technological, institutional and policy aspects. It is responsible for ensuring quality knowledge and learning enhancement within the ARC Secretariat and consolidating partnerships with regional and international bodies in line with the ARC vision and goals. This knowledge management provides the basis for the Policy and Technical Advisory Department's quality assurance of the ARC's programmes and partnership development to support and advise African Union member states in their efforts to better manage their natural hazard risks and adapt to climate change.
Corporate Services	Corporate Services	The Finance and Administration Department has the responsibility of leading, managing and coordinating the financial and administrative functions of ARC, which includes the global financial management, general administrative services; facility management; strategic resource planning, including human resources and budget; procurement, information technology management and enterprise risk management.

Source: Authors

3.1.2 Staffing and capacity

When asked about the capacity and skills of the ARC Agency team, the responses were generally positive and that people worked hard. That said, there are several constraints on staffing (see Table 4). The most commonly mentioned constraint on ARC capacity was a limited number of

staff. While many acknowledged this issue was common for any start-up in transition, several also pointed to the greater than initially envisioned technical assistance required by countries (see section 4.2). With more countries and more products anticipated, the challenge of staffing will only increase.

Another key issue related to staffing is the relationship between ARC and the World Food Programme (WFP). ARC is on an administrative services agreement with WFP until 2019 which means they are subject to United Nations rules for recruitment and hiring.⁸ ARC Agency indicated they struggle to recruit staff using WFP systems. The issues cited with WFP recruiting were as follows: (i) the process takes too long; (ii) ARC hires are of lower priority than WFP staff; (iii) long waits for background checks prior to extending an offer lead to the loss of promising candidates who in the interim take other positions; (iv) candidates found by WFP are of poorer quality than ARC could recruit on its own; (v) under UN rules, ARC cannot promote people who are in non-rotational posts (and of ARC positions are fixed in South Africa, i.e.: non-rotational)⁹.

When ARC was first established, the attitude towards staffing focused on short-term hires (per UN rules, 11 month fixed-term contracts with a one month 'break' before possibility of return). However, these people were in effect long-term employees because they continued to be re-hired and often worked through these UN-mandated breaks. The new Director General is focused on transition existing employees and new recruits to be permanent staff. However, for many reasons largely related to the UN rules, this transition is difficult. As such, often the strategy is to hire candidates as consultants and then move them to fixed term contracts once they have proven themselves.

Another underlying issue regarding recruitment centres on the challenge of finding the 'right' candidate. Several of those interviewed expressed the idea that the 'right' ARC candidate is bespoke. As such we heard several statements such as: "*we need staff that have some dynamism which is hard to find. [We] don't want people that are engrained to do things in a certain way;*" or "*[there] has to be an element of technical skills but politically savvy... [it's] hard to attract that kind of person within the WFP pay scale.*" Or "*[We] need people who are willing to take a risk, have vibrancy...*"

Finally, a few employees raised issues of internal staff tensions related to (i) who should have the responsibility over different areas of the organisation; (ii) different cultural and working styles; (iii) questions about the ability of junior (or young) CEMs to successfully engage in high-level political discussions. Over the course of this review, ARC hired a senior African Chief Operating Officer (COO) to replace the Programme Director. The COO is expected to mitigate many of these issues.

Finally, a few people also indicated concern that the ARC Agency staff is scattered across the globe with people in Johannesburg, the US, the Netherlands, and Geneva. The feeling is that Agency staff should be "*under one roof*" in Africa.

Table 4: Constraints to ARC staff capacity

Constraints	# of responses	Examples
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⁸ Under this agreement WFP performs most of ARCs back office functions.

⁹ Interestingly, one person interviewed thought it was important to remain within a large diplomatic organisation, primarily to allow for diplomatic passports for travel indicating getting visas to certain countries would be problematic without this assignation. Currently only ARC Agency is under purview of WFP and thus the UN.

Not enough staff	6	<ul style="list-style-type: none"> – <i>‘For the ambition [of ARC] the capacity is quite small’</i> – The technical team has a spreadsheet they call <i>‘Allocation Sudoku’</i> on how to distribute the work – which they revise several times a year. – Original idea was for each CEM to bring on board 1-4 countries each year. But this requires lots of visits, min. of 6-10 visits per country. Also, the original assumption was that ARC could work intensively with a country for one year and then simply be in maintenance mode (or transitioned to ARC Limited client relationship manager). This has not played out as countries have required much more support.
Issues with WFP recruitment	5	<ul style="list-style-type: none"> – WFP system of recruiting is flawed and does not work well for what ARC is trying to do. – Issue that there are not that many people involved in the DRM risk financing space. ARC is competing with other more established institutions (length of contract, benefits,).
Lack of team cohesion/ communication	4	<ul style="list-style-type: none"> – <i>“When an org is only a few people it’s easy but now need systems for communication”</i> – Management styles of some senior staff members were described as <i>‘demotivating’</i>, <i>‘micro-managing’</i> and <i>‘frustrating’</i>. <i>“Tense, frustration, division, personal clashes over the last year. Not been a united team. Think this has had an impact on ability to engage countries.”</i> – There are different cultural and working styles and some evidence of resistance to leaders that have caused tension. – Had a team retreat that was supposed to be on team-building but it was actually used as a forum to air differences.
Need to strengthen specific skills	5	<ul style="list-style-type: none"> – Suggestion that staff could use more knowledge of insurance; – Staff are not trained trainers; need more capacity on how to train others (e.g. for country capacity-building programme) – Management capacity of technical team is low and could use strengthening – ARC overall poor at communications (internal and external)
Not enough senior, politically savvy people	3	<ul style="list-style-type: none"> – <i>“Agency’s biggest challenge is having enough senior level people who can grab the attention of Ministries of Finance, Environment, and Agriculture...Has to be an element of technical skills but politically savvy. They need to feel you are at the same level”</i> – <i>“Donors don’t want to pay for a giant secretariat. But that attracts junior people.”</i> – <i>“If you’re non-African you need 200% more effort to engage than an African. The African won’t necessarily succeed either, but personal relations matter and your capabilities to navigate.”</i>
Not the right ‘fit’ or skills	4	<ul style="list-style-type: none"> – <i>“[we have] very specific positions ... need specific skills in software and models and food insecurity, but it is also a representative role so need softer skills as well. Diplomatic skills. Very broad skills set needed.”</i> – <i>“... hard to find the right people. Some are very scrappy, terrible with systems, process etc. Then there are super-efficient people brought in to get systems in place but there’s no bridge between the two.”</i> – <i>“Need people who are willing to take a risk, have vibrancy.”</i>
Over-reliance on Head of R&D with regards to technical issues	3	<ul style="list-style-type: none"> – Only head of R&D has the knowledge to sign-off on customisation reports; – <i>“If she [head of R&D] leaves, we are in trouble” [note: as of October 2017, this person did leave; however, ARC Agency did hire a deputy head prior to her departure.]</i>

Staff too scattered	3	<ul style="list-style-type: none"> – Should all be ‘under one roof’ in Africa – Need African staff working in all parts of the programme – right now the technical ARV side is mostly Western Staff – Trying to mitigate the issue with the Head of R&D in New York – hired a deputy head to sit in Johannesburg.
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In early 2017, there was no formal employee induction programme nor any type of formal staff training programme¹⁰. Most learning is experiential and happens as one is learning their job. As of early 2017, a new human resources staff member was investigating staff training options. All those interviewed agree that some type of training programme would be very beneficial. There appears to be funding or a provision for on-going staff development, however it does not appear many know of or take advantage of the opportunity. As one employee indicated: “*nobody has the time.*”

Like other organisations transitioning from a start-up to a more mature company, there is a recognition that ARC Agency needs to establish more guidelines and processes: “[We] need to move away from the idea that someone works 14 hrs a day to make ARC work. [We] need to move away from reliance on ‘superstars’.”

Recommendations from staff on how to alleviate ARC staff capacity challenges are numerous:

- **Be more strategic on engagement with countries.** This recommendation came from many people in different forms but all related to the issue of how to prioritise engagement with a country and when to stop or limit engagement.
- **Provide more opportunities for training.** For example, people requested specific training in relationship management, how to sell a product, and how to deliver training.
- **Improve the internal exchange of ideas/cross-dialogue.** For example, better communication between what different CEMs and technical specialists are doing.
- **Consider how to better work with ARC Limited.** For example, how Agency CEMs would in the future work in-cooperation with client relationship managers on the Limited side of the business.

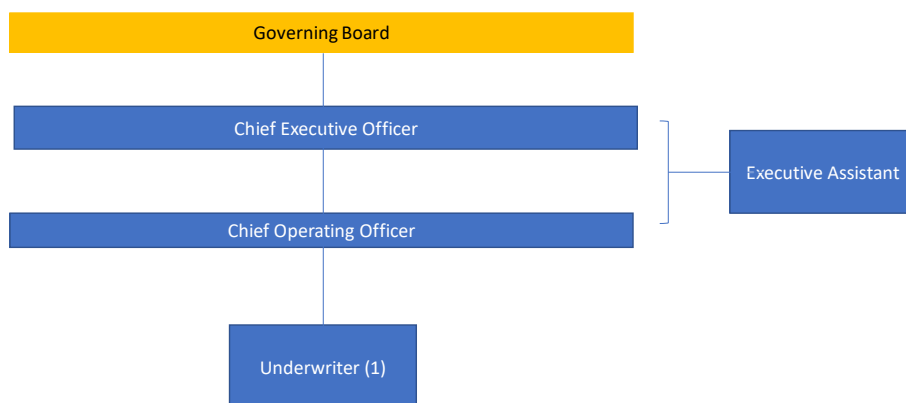
3.2 ARC Limited

ARC Limited, a mutual insurance facility, is the financial affiliate of ARC. Membership includes countries who take out an insurance policy and capital contributors from the donor community such as DFID and KfW.

ARC Limited is a small organisation also located in Johannesburg comprising of a Chief Executive Officer (CEO), Chief Operating Officer, one fulltime Underwriter, and an Executive Assistant and a few additional contractors when needed (see Figure 3). All back-office functions are outsourced in Bermuda which is where the company is registered.

Figure 3: ARC Limited organigram

¹⁰ Reviewer comments note that as of the end of 2017 there is now an induction process in place. This theme will be revisited in the second formative evaluation



Currently the organisation is lean and only large enough to cover the existing transactional need. There was a plan to increase the staff to 10 in 2018; but this plan was put on hold due to the limited size of the risk pool (See section 4.2.1). When ARC was first conceived, the vision was for ARC Agency at some future point to hand-over the country relationships to ARC Limited. The original idea was that ARC Agency, through their capacity building programme, would create robust in-country internal processes around disaster risk management, contingency planning, and risk financing. At which point, the country engagement piece simply becomes helping with the insurance contract and could be handed over to ARC Limited. In this future, ARC Limited would then build out a series of engagement managers to take over these relationships. However, given the challenges with building these country capacities (see Section 5.3), how these future relationships will look remains unclear.

The organisation also faces a few challenges arising from their operations being based in South Africa. First, complex employment law (e.g. tax registrations, bank accounts, rules and regulations, etc.) makes it difficult and slow to increase staff numbers. Since South Africa has not signed the ARC Treaty, the organisation has no special status or recognition. To adapt, they use a hybrid model with part contractors and part full-time employment.

3.3 Cooperation between ARC Agency and ARC Limited

When asked in early 2017 about the relationship between ARC Agency and ARC Limited, the responses were generally positive. Both sides indicated collaborative working relations with regular interactions such as weekly management calls and daily email/call contact. While there are limited formal relationships between the two agencies, they sometimes produce joint documentation (e.g. ARC Growth Strategy) or jointly participate in different conferences and events.

Towards the end of formal data collection for this phase of the evaluation, there were some indications that the relationship between the two organisations faced some signs of strain¹¹.

Some of the key challenges appears to be around communications and joint coordination. Examples include:

- In 2016, the Board of ARC Limited noted the need to improve governance and coordination between the two staffs of the organisations. They suggested the creation of joint workplans

¹¹ Note: The evaluation team decided that the issues are sufficiently relevant to the evaluation to warrant a mention. However, since these issues were raised after the formal data collection period had ended, we recognise they need more vetting and they will be flagged for more scrutiny and follow-up in the next formative evaluation. Furthermore, reviewers note there have since been significant improvements in these relationships.

to make sure that the work that takes place on the ARC Agency side to engage countries links to work around designing the insurance policies. A proposal for joint work planning was presented to the ARC Limited Board that same year but never made the agenda for the ARC Agency Board. The value of such planning (or lack of) became clear during the subsequent issues with the Malawi policy (see main report **Error! Reference source not found.**). This episode underscored the need to better define a process on how a country (or ARC Agency) could challenge the conclusions of ARV and how (or under what circumstances) one can make adjustments to an existing policy. From this experience, one donor insisted on a separate review of organisational operations, cooperation, and planning which is taking place parallel to this evaluation. The findings from this separate review are expected to help better define the relationship between the two organisations. While there is an existing MOU between the two organisations, it is not clear how well it is being followed.

- There appear to be some disagreement on the level of direct engagement ARC Limited should have with Member countries and at what entry points. For example, should ARC Limited be able to follow-up directly with countries on missed premium payments? Similarly, should the model change so that ARC Limited have their own relationship management staff that work in-country on the policy issues alongside ARC Agency staff?

Some of those interviewed have questioned the feasibility of continuing with two separate but equal organisations, suggesting that ARC Agency and ARC Limited should merge with one subordinate to the other.

4 Country Engagement

Key Message: While ARC is building a presence across Africa, the ARC insurance risk pool is shrinking rather than growing, raising concerns about the long-term viability of the organisation. The challenges with engagement and building the risk pool suggest the business model and/or Theory of Change need to be revisited.

- At the time of writing, the ARC Agency has 32 signatories, 4 ratifications and MOUs with 17 countries. 16 countries have either started or completed the initial capacity building process and 14 have CPs in place.
- Country engagement is uneven and takes a long time. ARC Agency has found that getting countries to sign and ratify the ARC Treaty, sign an MOU, complete the capacity building programme, and sign a policy, often takes many years rather than months of active engagement. Even those countries with policies require ongoing engagement to adjust ARV and take out successive policies year-on-year. These challenges raise questions on where ARC Agency should spend their time and how long they should work with a country before moving on.
- As of September 2017, the ARC insurance risk pool was shrinking rather than growing. ARC Agency acknowledges that it takes intensive, on-going political engagement to ensure countries sign a policy and secure budget allocations for premium payment, year-on-year.
- Possible reasons for the shrinking risk pool are numerous and include: (i) political will to budget for premiums year-on-year with uncertain pay-outs; (ii) changes in political leadership; (iii) state dependence on humanitarian assistance; (iv) competing products;
- ARC Group views towards premium payment support have evolved. Once considered counter-productive to sustainability, today it is viewed as necessary for ARC's survival.

4.1 Overview of the engagement process

Country engagement is the process by which ARC interacts with a country from the introduction of the organisation, to active engagement and capacity building, and then to the uptake of ARC insurance products and beyond. To date, the role of country engagement predominantly falls to ARC Agency where the CEMs are responsible for much of the day-to-day interface with countries. From a high-level, engagement generally includes the following steps which are depicted diagrammatically in Figure 4.

The process varies significantly by country based on several factors such as country understanding and use of the concepts of Early Warning (EW), Disaster Risk Management (DRM), Contingency Planning (CP), risk transfer and insurance; the political climate; and ARC strategic interests. As such, the engagement process is not linear and sometimes one step precedes another (e.g. capacity building work could begin prior to signing an MOU or there are stops and reboots to the process (see 4.3)).

Box 1: Example of country engagement as a non-linear process

A good example of a non-linear engagement process comes from Mozambique. ARC Agency has been engaging with Mozambique nearly since programme inception; but has not yet been successful in getting an

insurance contract signed. One member of the ARC Agency staff indicated that Mozambique could easily be a 4-5 year on-boarding programme: “*The country first wanted to compare ARV with other tools. ARC’s response has been very happy to work along with their process so that it will end up being embedded in their programmes... For the last year all we’ve done is technical. They wouldn’t initiate any political discussion until they fully understood how it would work. You have to understand the country, see their level of interest. [it’s]taken a long time to get here, but better in the long term*”. The staff member goes on to say that despite this elongated process, Mozambique has demonstrated commitment via their participation in the ARC Conference of Parties (COP) meetings: Mozambique brings seven people and pays for half of them.

Scoping mission: Prior to an initial visit, the responsible CEM researches and creates a *Country Briefing* document that describes in detail the country context. The document includes information on current and historical vulnerability, weather risk concerns, a review of the country’s Disaster Risk Management Financing (DRMF) space, existing political structures and related potential in-country stakeholders, and initial estimates on potential for participation in the risk pool. If the country is a viable candidate for ARC products, the Agency formally requests a scoping mission to share with key in-country stakeholders more information about ARC’s products and services¹². If ARC receives a positive response to the mission request, the CEM along with a few other ARC staff (e.g. ARV technical specialist and CP officer – the team varies depending on availability) conduct a scoping mission where they travel to the country and have bilateral meetings with relevant stakeholders from the various government ministries and other in-country DRM actors. Following the mission, the CEM updates the country brief.

Sign an MOU: If the scoping mission is a success and there is sufficient interest to proceed, ARC Agency engages in a political process with senior government officials to get the country to sign the ARC Treaty (if not already done) as well as a Memorandum of Understanding (MOU), where both the country and ARC Agency commit time and resources to the capacity building programme. ARC Agency has found that getting to this point (Treaty and MOU signatures) often takes many months, or even years, of active engagement. There are many reasons for this extended engagement, including: (i) countries want to better understand the product (e.g. what their premiums are likely to be) before they officially commit; (ii) the political situation in countries is volatile or changing, so the process stalls for a time; (iii) countries have so little capacity around DRM and risk finance that it simply takes much longer to build the necessary base layer of understanding.

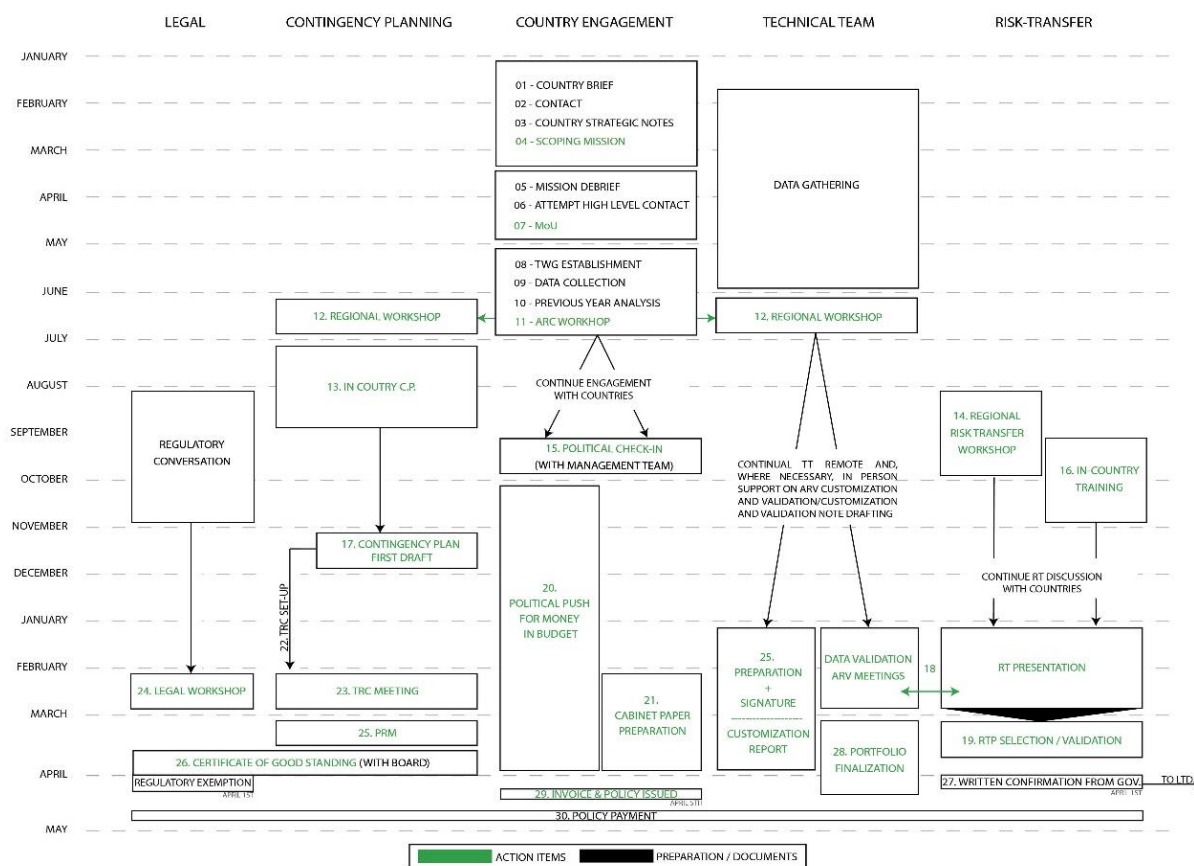
Conduct capacity building via Technical Working Groups: Once an MOU is signed, the country assigns a Government Coordinator (GC), usually from the Ministry where ARC activities will sit (e.g. Ministry of Finance, Disaster Risk, or Agriculture) to oversee all country ARC activities and be the liaison with the ARC CEM. The GC’s salary for the first two years is paid by ARC, although ARC is an added activity to the employee’s portfolio of work. With the assistance of the GC, the country puts together a technical working group (TWG) for each of the three work streams: ARV customisation, Contingency Planning, Risk Transfer. While it is the responsibility of the government to assign staff to each of these TWGs, ARC does provide a Terms of Reference (TOR) for the focal point of each group. The TWGs consist of in-country professionals either within government or partner organisations who are experts in key areas such as rainfall, drought index, vulnerability profiling, contingency planning and finance for risk transfer parameters. The TWGs are responsible for completing the capacity building programme which includes multiple workshops and culminates in the approval of a contingency plan, the signed-off customisation of ARV, and the agreed upon risk transfer decisions which determines the premium amount. The capacity building programme was designed to be done within a year but ARC has found that it often takes much longer to get countries through the process.

¹² Sometimes the requests for a mission come directly from the country

Facilitate the signing of insurance policies and premium payment: A key role of engagement is to translate the capacity building programme into the selling of ARC insurance policies. ARC Agency has discovered that it takes intensive, on-going political engagement to ensure countries sign a policy and secure budget allocations for premium payment. The challenge of getting countries to pay their premiums and take out a policy every year are detailed in the next section.

Provide ongoing support and TA: While the technical assistance was originally envisioned to last for just one year, the CEMs note that even after countries have completed the programme and taken out an initial policy, ARC continues to provide technical assistance and support to the country TWGs. Furthermore, each year it takes ongoing political engagement by ARC to get a successive policy signed and premiums paid.

Figure 4: ARC Agency in-country engagement



Source: ARC Agency internal Standard Operating Procedures, June 2015

4.2 Status of ARC engagement

To date, as noted above in section 4.1 and elaborated below, the process of ARC Agency engagement is not linear. At any given time, engagement with a country can stall or be reinstated (see Box 1). For this reason, methodically tracking ARC’s efforts pose a challenge. Table 5 shows the status of ARC Agency’s country engagement related to several critical steps. The first is signature and ratification of the ARC Treaty. As of the September 2017, 32 countries had signed the ARC treaty of which four countries had ratified (Mali, Mauritania, Senegal, The Gambia). The second step is signing an MOU. The MOU is important in that it allows for the commitment of resources on both sides for capacity-building. While this step generally comes after treaty

signature, it sometimes will happen prior to signature as the country wants to learn more about ARC before making a definitive commitment. Currently 17 countries have signed an MOU.

The third step is participating in the capacity building programme. Since the process of capacity-building can start and stop, for the purposes of tracking, the below table indicates where a country has completed the formal ARC capacity-building programme and where the programme is ongoing. An empty box indicates the formal process has yet to begin. Currently, 14 countries have completed the formal capacity-building process and two countries are engaging in the formal capacity-building programme.

The final step for tracking purposes is having a Board-approved contingency plan in place¹³. For the purposes of tracking, the checkbox indicates that the country has at some point had a Certificate of Good Standing in place: this indicates that they had a Board-approved contingency plan¹⁴. Currently, 14 countries have at some point been issued a Certificate of Good Standing.

Table 5: ARC signatory countries

Country	Treaty Signed	Signed MOU	Capacity - building program status	CP in place	Country	Treaty Signed	Signed MOU	Capacity -building program status	CP in place
Benin	√				Malawi	√	√	√	√
Burkina Faso	√	√	√	√	Mali	Ratified	√	√	√
Burundi	√				Mauritania	Ratified	√	√	√
Central African Republic	√				Mozambique	√	√	√	√
Chad	√	√	√	√	Niger	√	√	√	√
Comoros	√	√	ongoing		Nigeria	√			
Djibouti	√				Republic of Congo	√			
Ethiopia		√			Rwanda	√			
Gabon	√				Sahrawi Arab Democratic Republic	√			
Ghana	√	√	√	√	Sao Tome and Principe	√			
Guinea Bissau	√				Senegal	Ratified	√	√	√
Guinea	√				Sierra Leone	√			
Ivory Coast	√	√	√	√	Swaziland			ongoing	
Kenya	√	√	√	√	The Gambia	Ratified	√	√	√
Lesotho		√			Togo	√			
Liberia	√				Zambia	√			
Libya	√				Zimbabwe	√	√	√	√
Madagascar	√	√	√	√					

Source: Authors

¹³ We acknowledge that configuration of ARV is also a critical process but since this must be adjusted every year and to date there is no approval process around ARV configuration, we have left this off the tracking table but will consider adding next year.

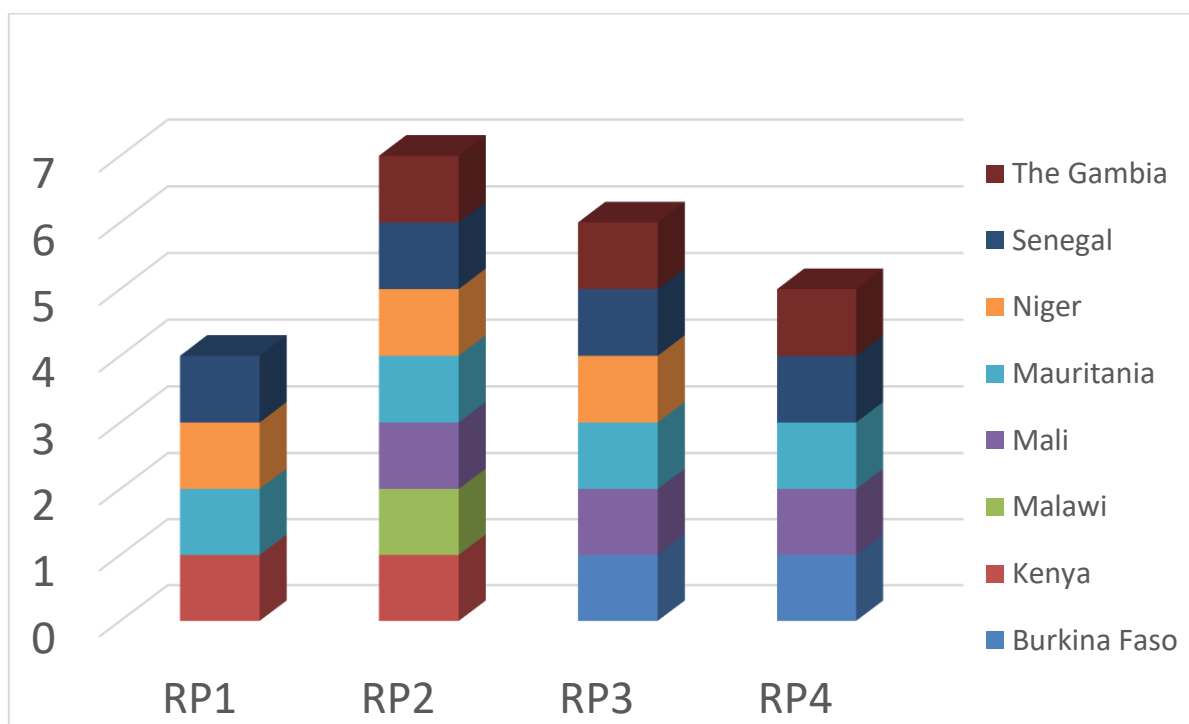
¹⁴ The CPs must be reviewed and recertified every two years, but for the purposes of tracking we want to know how many countries make it through for a first time.

4.2.1 Status of the ARC risk pool

A critical issue for the sustainability of ARC is growing the risk pool or, in other words, increasing the number of insurance policies taken out by countries. As of September 2017, the ARC insurance risk pool was shrinking rather than growing. Figure 5 shows the evolution of the risk pool since ARC inception. From a high of seven countries in year two of the programme, the risk pool has since dropped to five countries in year four. It should also be noted that as of September 2017, while five countries have signed a policy for the year four risk pool, only two countries have paid their premium in full and the deadline for payment is past due.

In looking at this figure, two countries, Senegal and Mauritania, have been part of the risk pool for all four years. Interestingly, these two countries received an insurance pay out in Year 1. In contrast, Kenya paid for the first two years large premiums (for multiple seasons and multiple geographic areas) without a payment and subsequently dropped out in year 3 (see **Error! Reference source not found.** for more details). This experience raises the question of how important a quick pay-out is to the political negotiations involved with budgeting for insurance on a yearly basis and what the answer means vis-à-vis ARC sustainability. In the next few years it will be interesting to see whether countries like Mali and Burkina Faso continue to join the risk pool.

Figure 5: Evolution of the ARC insurance risk pool



4.3 Key challenges to country engagement

There are several challenges related to engagement that emerged from interviews with ARC staff and others. These are discussed below.

- **How to address the plethora of issues that delay or prevent the uptake of insurance?**
ARC staff list many reasons that can delay uptake of an insurance policy:

- i. **Securing premium payment (either due to financial or political reasons).** Countries find it politically challenging, in the face of tight budgets, to allocate money for a premium for an uncertain future pay out. At the beginning of the evaluation process those interviewed for the organisational review were generally against finding outside donor funding for premium payments. This sentiment has markedly changed over the course of the evaluation where now most see securing this funding as critical to the sustainability of ARC. One staff member noted that with CCRIF, the Caribbean weather insurance mechanism, countries received subsidies for premium payment that ratcheted down in size over time, until countries could build payments into their budgets. They indicated: “[We] were reluctant to go the premium financing way as we saw it as lack of ownership. But we are seeing good ownership [and still] real challenges at [the] parliamentary and fiscal level. It takes several years to build foundations. [We] need to hold hands with countries and then let them go.” In the future, should AfDB or another donor be willing to offer premium financing (see section 10.2), this dynamic may once again shift.
 - ii. **Changes in political leadership.** If there is a change in government, ARC often has to re-educate policy makers on the value proposition of ARC, especially when there are multiple demands on already stretched national budgets. In such circumstances, a premium payment for insurance with an uncertain pay-out is rarely seen as a priority (for more details see Country Case Study Annex).
 - iii. **Humanitarian support.** Governments often do not prioritise insurance as they assume the humanitarian community will come in to support any significant disaster.
 - iv. **Not engaging the right members in government.** Several ARC staff members made the comment that the Ministry of Finance, who ultimately approves a budgetary payment for insurance, was often not actively engaged in the capacity building process. So, when it comes to signing a policy and paying the premium, the critical decision-makers are not fully on board.
 - v. **Changes in TWG staff.** Often, the people coming to successive trainings are not the same people and therefore need to be re-engaged from the beginning. This issue emerges for multiple reasons such as the Chief wanting to attend the international trainings but subsequently delegating the work to someone in the office who has not gone through the training. Or, in certain countries, government workers frequently shift roles and responsibilities due to staff rotation policies.
- **Bespoke or standardised processes?** A tension exists between the need for standardisation/ formalisation of ARC processes (via more reviews of individual work and the documentation of operational processes) and the recognition that the process of engagement is necessarily bespoke for any given country. Several staff members indicated that there was a need to maintain flexible work plans to accommodate different engagement experiences. As one interviewee noted, “*very much [of our] thinking is out of the box...if we move to standardise too much and become too rigid we will lose the relationships and the ability to remain relevant.*”
 - **Where to spend ARC time?** Given the lengthy and uneven engagement process, there is much internal discussion on how much time to dedicate to countries who, after many years, have yet to take out an insurance policy. CEMs note that it would be much easier to hire someone in-country to do all the work, but the objective is to facilitate country leadership for reasons of ownership and sustainability. With ongoing pressure to grow the risk pool, a few staff members noted the need to take a measured approach: “*ARC has made some very ambitious goals and will be important to move towards those goals in a measured, sustainable way.*” The implication here is that unless you take the time to get the political buy-in and

embed understanding within government, countries may take out a policy one year but then they will not remain. Most of those interviewed indicated that ARC must remain flexible as to when to stop engagement or re-engage after a break. To address this issue, ARC Agency developed a Growth Strategy that guides the institution on where to spend its limited time.

- **How to sustain renewals?** As mentioned earlier, getting countries to continuously take out insurance policies year-on-year is a challenge. As one staff member indicated: “[It is] very easy to try to get a country on board, harder to get them to stay. We knew this [and] have discussed ‘how do you get them to stay?’ To date, beyond securing premium assistance, ARC has no good answer for this question.

5 Country Capacity Building Programme

Key message: ARC has a reasonably well-defined capacity building programme and there are some positive signs that Member State capacity around issues related to EW, DRM, and risk financing is improving. However, the current programme is in need of strengthening in light of lessons learned to date.

- ARC Agency has a reasonably well-articulated set of SOPs that guide their country capacity building programme.
- The contingency planning process of design and review has gone through multiple iterations which have led to positive adaptations and improvements, as evidenced by reports from the Technical Review Committee (TRC) and Peer Review Mechanism (PRM);
- Given recent issues with ARV customisation, ARC Agency is now considering implementing an 'expert' review process similar to that done for the CP process;
- There are evolving discussions around some of the ARC Agency programming. For example, (i) value and role of the Government Coordinators; (ii) value of regional workshops; (iii) how to make training products more individually customised (e.g. online, self-paced modules).
- There is general agreement among those interviewed that technical understanding around DRM and risk finance has improved in Member Countries going through the capacity building process. For example, those interviewed point to the following: (i) increasing sophistication in the discussions around ARV configuration; (ii) broader utilisation of ARC contingency plans; (iii) improving continental awareness of ARC, DRM and risk finance issues.
- There is also general agreement that building technical capacity and institutional memory into government on topics such as EW, DRM and risk finance simply takes a long time and the process continues well after the official capacity building programme has ended.

5.1 Overview of country capacity

ARCs formal capacity building programme has several distinct components that are discussed below. Currently the programme focuses on three work streams: contingency planning, ARV customization, and risk transfer. All these components are articulated in Standard Operational Procedures followed by ARC Agency staff¹⁵.

- **Contingency Planning.** The objective of the CP work stream is to develop an operational plan for how the funds will be used in the event of a pay-out. CPs focus on feasible interventions that a country can quickly mobilise in the event of a disaster. One of ARC's objectives is to have countries leverage existing programmes (such as a social cash transfer) that can be scaled up in the event of a disaster. However, this linkage is often very difficult to implement. As such, the selected interventions tend to be more traditional humanitarian response activities (e.g. food distribution), run in cooperation with donor partners or NGOs rather than exclusively by government. The initial workshop on CP starts by introducing the concept and asking how a country might link to existing DRM plans. The CP outline follows a

¹⁵ These SOPs were cursorily reviewed and the team noted that some of these procedures may be outdated based on evolving processes (e.g. many of the SOPs we reviewed date from 2015) and need revisiting.

standard format that includes budgets, interventions, sources of materials, stakeholders, etc. Once completed, the CP is independently reviewed by a group of experts called the Technical Review Committee (TRC) who make recommendations to the ARC Agency Board on which plans to approve or what changes/additions should be made prior to approval. A sub-committee of the Board called the Peer Review Mechanism (PRM) reviews the recommendations of the TRC and makes a final set of recommendations to the full Board. Only after the CP is approved by the Board is the country issued what is called a Certificate of Good Standing which makes them eligible to take out insurance. Existing plans must be re-certified by the Board every two years. In the event of a pay-out, the country must then submit what is called a Final Implementation Plan (FIP) which is a tailored version of the CP, based on the size of the payout, the area of drought, and the final set of interventions the country plans to implement. The CP process of design and review has gone through multiple iterations which have led to positive adaptations and improvements, as evidenced by reports from the TRC and PRM.

- ARV Customisation.** AfricaRiskView (ARV) is the proprietary software that ARC developed to provide an objective trigger and payout calculation for a drought-related weather disaster. ARV customisation for drought is a complex process that involves understanding and data collection for different components (e.g. key crops, vulnerability levels, livelihood profiles, etc.)¹⁶. Every country must review and configure all parts of the system but some parameters are more difficult to understand or find accurate information on than others. Interestingly, some staff noted that it is often the more straight-forward parameters that take more time as TWG members understand them and have something to contribute. As such, one indicator for ARC that countries are progressing with respect to technical capacity is the deepening of discussions around the more complex parameters of ARV. At the end of the customisation process, the TWG completes a Customisation Note which explains how ARV was configured for the given country along with explanations of why certain decisions were made. This report must be signed off by government before an insurance policy can be issued. Given recent issues with customisation, ARC is now considering implementing an ‘expert’ review similar to that done for the CP process (See Country Case Study Annex for more details).

Once ARV is customised, the ARC technical team continues to follow-up with the country throughout the season to ensure ARV output matches physical government ground-truthing assessments and other information shared by the TWG. Post-season, the technical team does a validation process, seeking to explain any discrepancies between ARV and other sources of drought information (e.g. vulnerability assessments, FEWSNET or other early warning data, etc.) ARC staff note that often it can be quite easy to explain differences which usually have to do with various assumptions. The process is valuable in that it leads to future tweaks to the ARV configuration and more accurate matching between ARV and ground-truthing assessments.

- Risk Transfer.** The risk transfer work stream focuses on the financing aspect – on the different types of instruments available for managing a portfolio of risk (of which insurance is one). It addresses how transferring different levels of risk translate into different premium amounts. It also tries to get countries to work politically from the beginning to budget for these premiums. These conversations are generally held with people from the Ministry of Finance such as insurance regulators and budget directors, who want to understand the financial sustainability. ARC Limited takes an active role in these conversations, discussing the various options about six months prior to countries finishing the capacity building programme. One

¹⁶ The customisation for flood and cyclones is apparently much less involved as more of the elements are internal to the model.

staff member noted that as countries engage more deeply with ARC, “*they become more interested in learning about the financial side of the insurance transaction*”.

As noted earlier, this capacity building programme, initially envisioned to take a single year, often takes multiple years. Even those countries who take out insurance, still often need assistance when thinking about how to assess and update ARV configuration, CP documents, and risk transfer parameters.

Currently ARC does not have a formal process to assess a country’s capacity with regards to concepts such as early warning, disaster risk management and risk finance. That said, the CEMs indicate that is fairly simple to gauge the technical level of the in-country TWGs during the first set of technical workshops. It is during these workshops that the ARC team decides on the appropriate strategy for capacity building. Currently there is a standard set of training tools used with each country. While the training tools do not change, the amount of time spent on each concept will vary depending on the capacity of the TWG. There is discussion within ARC Agency about tailoring the tools for different capacity levels but to date this has not happened.

While ARC Agency advises on the type of expertise needed for the TWG team and provides a Terms of Reference for each role, it is the government who ultimately selects the in-country team. ARC staff note that there are different skillsets needed for the TWGs. Where in some countries one can have a purely technical TWG, in others, where navigating the politics are important, a more politically savvy TWG may be needed. For example, in The Gambia, early on ARC realised that for success the ARC Government Coordinator (GC) needed to be able to mobilise political support and that technical expertise was less important. As such, ARC needed to be very involved in the technical parts of the training. The next year however they decided to split the GC role between two people – one technical, one political. This solution worked. Here again the staff note the importance of being flexible.

5.2 Effectiveness of the capacity building model

People within ARC have different opinions on how well the capacity building model works, but most note that it really varies by country. Given that this training component is very labour-intensive and associated costs are not charged to the country, there is concern over its sustainability. Overall, there is general agreement among ARC staff that technical understanding around DRM and risk finance has improved. ARC pointed to several examples:

- **Increasing sophistication of discussions.** ARC staff noted that in experienced countries (those who have taken out insurance over multiple risk pools), ARC sees greater discussion around some of the more complex components of ARV. Indeed, in some countries, such as Senegal, ARC staff claim that the TWG are making decisions about ARV configuration without ARC technical support.
- **Broader utilisation of contingency planning.** One ARC staff member indicated that they have seen experienced countries using the contingency plans they have developed with ARC, regardless of whether or not they purchase an insurance policy.
- **Improving continental awareness of ARC, DRM, and risk finance issues.** ARC staff also see improvement in overall continental awareness about ARC, DRM and risk financing issues. They explain that when engaging new countries, ARC and risk finance are now already known, so the dialogue is transitioning more quickly to more technical issues.

ARC has raised discussions around changing a few key components of the model based on learning from the past several years. These discussions are highlighted below.

- Value of embedded Government Coordinators.** ARC staff have mixed views on how well using an embedded GC works as opposed to hiring ARC staff in each country. One view is that utilising an embedded GC does not work well and that these individuals see the role as a way to generate extra cash rather than fully accepting the responsibilities that come with it. The alternative view is that the embedded GC is a critical part of the ARC sustainability model: *“[it is] better to have someone in country do a less good job than have an ARC staffer do it as it’s [more] sustainable.”* However, the model has changed in that they now pay the GC salary in full for the first two years and then continue with two years of half-payment. There have also been some discussions around having some type of small milestone ‘bonus’ payments to incentivise the GC to do more work.
- Value of regional workshops.** In the past, ARC would hold annual regional technical workshops (e.g. West Africa, East Africa, Southern Africa) where the technical focal points of each working group would come together for a shared learning experience. The intent was to create inter-country connections especially between people from countries with existing insurance policies and those from new countries who are just starting their capacity-building programme. However, in early 2017, ARC was considering moving away from this model on the grounds that it had not really worked. The reasons cited for the lack of success with regional workshops include: (i) Sometimes the countries are so far apart in terms of capacity that the knowledge transfer just can’t happen; (ii) the person attending the international workshop is the head of the department but not the person who will do the day-to-day work; (iii) lack of attendance of key focal points due to competing priorities. That said, most of those interviewed still saw value in regional workshops under specific circumstances. For instance, regional workshops in the Francophone countries of West Africa, who have many regional ties, seemed to work well. They argue that the determination to hold a regional workshop should be made year-on-year, based on different circumstances such as: (i) if several countries within the region joined at the same time; (ii) the need for a political rather than technical workshop that engages finance ministers on leadership issues. Indeed, given that in July 2017 a regional Lessons Learned workshop was held in Burkina Faso, clearly the role of such workshops is still evolving.

5.3 Key challenges with the capacity-building model

The overall assessment from our interviews on the country engagement process is that building technical capacity and institutional memory into government on topics such as EW, DRM and risk finance simply takes a long time. Indeed, this assessment is supported by the capacity building literature¹⁷.

Despite signs of progress noted above, CEMs indicated that they often remain heavily engaged in technical assistance even after a country takes out a policy. When initially conceived, ARC envisioned a process whereby once an insurance policy was taken out the relationship would transfer to an ARC Limited client manager who would oversee policy renewals. Both ARC Agency and ARC Limited agree that they are a long way from achieving this vision. The reasons cited for continued high engagement in technical capacity are:

- Institutionalising ARC concepts is a slow process.** CEMs note that the technical knowledge is not yet institutionalised or embedded within governments. As a result, if people in these key

¹⁷ http://www.ifrc.org/Global/Documents/Secretariat/Research/version-2/Literature_Review_v2_2015.pdf

positions leave, ARC must begin again. One interviewee noted “[it is] not uncommon for the CEMs to go to a meeting and have 10 new faces each time.”

- **Less understanding among decision-makers.** While ARC might see improvements in the knowledge and understanding of the technical teams, there is still limited understanding on the political side (e.g. Minister of Finance) which is critical when it comes to budgeting and financing the premiums¹⁸.

The following are staff suggestions on how one might improve the capacity-building programme:

- One interviewee suggested they might try some type of screening of TWG members around their capacity to work with excel spreadsheets and other basic concepts.
- One interviewee suggested developing a technology-based learning tool where people can learn and work at their own pace. For example, create a web-based learning platform on how to customize ARV, perhaps modelled on the Khan Academy¹⁹. At a minimum, this person suggested beginning with a set of YouTube videos how to do various things.

In reviewing the SOPs, we note that the organisation could benefit by turning these procedures into full-fledged training manuals for staff. The SOPs fall short if the person does not know how to complete the task. For example, in the CEM SOP, one task indicates:

“As part of the Country Engagement Strategy, CEM should map out a clear political structure of the country through which ARC decision making would follow and ensure that all relevant officials in the hierarchy are thoroughly briefed and regularly updated.” - ARC CEM SOP, dated 2015_05_07

A manual that provides an example of how this political mapping is done, and what a decision-tree map around this topic looks like, will go a long way to standardise processes and ensure that everyone is using the same techniques.

¹⁸ For example, in one country the Finance Minister asked if the ARC policy also covered motor accidents.

¹⁹ The Khan Academy is a free online learning tool for different topics for all ranges. See <https://www.khanacademy.org/>

6 ARC Models and Insurance

Key message: ARC is managing several products that are either active or under design including models for drought, cyclones, floods, and outbreaks and epidemics along with several financial mechanisms intended to help grow the risk pool. ARV, the signature drought model is complicated to configure, requires detailed input data, and is sensitive to changes in data. There is a tangible tension between the need to grow by expanding into new areas and focusing to make sure core products function correctly.

- There is a general consensus among those interviewed that the ARV model works well. The primary challenges of the model are more limitations due to its complexity and input data requirements. These include: (i) impossible to accommodate all the requests for customisation and still maintain a functioning product; (ii) ARV naturally will produce results that vary from other models who use different input data; (iii) quality of the input data is important; (iv) challenges with disaggregation of vulnerability data (as due to drought);
- ARV is sensitive to changes in configuration, as exposed by the Malawi incident where the input of data controversially prevented a pay-out from triggering. One criticism leveraged consistently against ARC is that ARV is a 'black box' and that it is not clear how its algorithms operate;
- There are several other products currently under design and testing including for: (i) cyclone; (ii) flood; (iii) outbreaks and epidemics. ARC Agency is also working on financing mechanisms. The Extreme Climate Facility (XCF) would provide current policy holders with access to additional funds in the event of a payout. Replica Coverage allows humanitarian agencies to match coverage of current policy holders.
- There is some concern that ARC Agency, by addressing all these products simultaneously, is losing its focus. However, the counter argument is that a broad product offering is needed to capture Member State interest and expand and diversify the insurance risk pool. This is a common problem with start-up organisations and points to the need to revisit the business plan/theory of change;
- ARC Agency is also actively engaging higher income African countries who do not fit the typical ARC profile. These countries may already have insurance products that adequately cover citizens or perhaps have the financial mechanisms to respond to weather disaster without needing additional insurance. ARC is trying to find ways to leverage its products to serve these outliers. Addressing this market again raises questions as to whether the Theory of Change still holds. For example, does a focus on these markets stray too far from the key goal – protecting the most vulnerable?
- To date, reinsurance markets are still very interested in the ARC products and see them as a means to access Africa and diversify their risk pools;
- ARC Limited has been overly flexible on deadlines for premium payment. In the past they have purchased reinsurance for countries that do not meet their payment deadlines. This practice is not sustainable and is a large disincentive to timely premium payment. Furthermore, it exposes the organisation to business and reputational risks. ARC Limited has recently implemented a new structure for reinsurance that allows a quarterly review to adjust premiums so that payments reflects overall risk.

This section briefly describes the models in use or under development that form the basis of an insurance policy.

6.1 Africa RiskView

Africa *RiskView* (ARV) models drought and is the core product of the ARC Agency. It ‘*combines existing operational rainfall-based early warning data on agricultural drought in Africa with data on vulnerable populations to form a standardised approach for estimating food insecurity response costs across the continent.*’²⁰ These data are considered critical to establish and manage a parametric risk pool and trigger early disbursements.

The configuration process for ARV is complicated and involves the collection and consideration of substantial input data on crops and vulnerability. One criticism leveraged consistently against ARC is that ARV is a ‘black box’ and that it is not clear how its algorithms operate (see Global Review appendix). The model is also sensitive to changes, as exposed by the experience in Malawi (see Country Case Study appendix).

Overall ARC staff believe that the model works well. They argue that the primary challenges of the model are more limitations due to complexity of the model and input data requirements. These are detailed below:

- **ARV cannot accommodate all requests for customisation.** A limitation of ARV is that it cannot accommodate all the requests for customisation or the model would be too complicated to maintain²¹. During the process of ARV configuration, countries make many requests to modify the ARV software. These requests are prioritised first based on the potential to significantly affect/improve model outcomes. A second priority level are those requests that more than one country makes. One ARC staff member commented that often software tweaks are requested by political people rather than technocrats and the request has more to do with perception than an actual technical benefit. In such cases it is unlikely the change will be made. Here ARC risks alienating the political elite they need to court to ensure policies get signed and premiums paid, so a balance needs to be made and clearly communicated.
- **Different models yield different results.** There exist other models that track weather risk. Since different models use different assumptions, there is the potential for ARV to yield different results, which are sometimes difficult to explain to non-technical people. Part of ARC's role is to create consensus between different in-country groups. They are working to this effect by developing partnerships and collaborations with those working with competing models.
- **The model is only as good as the input data.** If the input data is not right, the model will yield unexpected results. Indeed, recent work with the World Bank who are currently conducting sensitivity analysis on the ARV model shows that one change in the data can make significant changes to the model outcomes. To mitigate this risk, ARC is discussing creating a review panel for customisation similar to what is done for contingency planning. Also, ARC plans to implement a quality control check list for configuration.
- **Reliability of historical data in the midst of rapid climate change.** ARC believes they need to constantly be vigilant about how well 33 years of historical data on drought predicts

²⁰ From the ARC website: <http://www.africanriskcapacity.org/2016/10/31/africa-riskview-introduction/>, accessed Aug 2017

²¹ Some of features requested go beyond the scope and purpose of ARV

future drought in a time of rapid climate change²². ARC notes that some countries are experiencing greater severity of weather risk over last 5 years. As such, ARC must proactively manage this data to ensure the model yields realistic results. Another issue is the compounding effect of two to three years of consecutive drought and how well ARV models such a scenario.

- **ARV design lacks institutional memory.** In early 2017, several staff members acknowledged that ARC is vulnerable right now because only one person (the Head of R&D) truly understood the complexity of ARV. Indeed, by October 2017 this person had left the company. That said, ARC has made improvements to mitigate this issue and there are now others within the organisation who have a deeper knowledge of the product. The operational risk is further mitigated in that ARC Agency hired a deputy head prior to the departure and is currently hiring a replacement Director. One suggestion to further mitigate this risk is to create an international advisory panel for ARV. There is also an outstanding question around the ownership of the Intellectual Property (IP) rights for ARV– a few of those interviewed indicated that they were unclear who actually owns ARV. Indeed, prior to publication, we were not able to confirm who owned the IP. Finally, there have been calls from the broader public to make ARV open-source. It is unclear whether or not ARC will do so in the future.
- **Disaggregation of vulnerability data.** One staff member indicated that the vulnerability data was subject to interpretation. This person argued that in certain countries vulnerability figures have dramatically increased but not necessarily due to drought. As such it is too easy to attribute increased vulnerability to a drought, however minor, rather than to other chronic issues (e.g. food insecurity assessments come out as much higher than the vulnerability data in ARV). It is a difficult discussion to have with Member States as it questions whether or not people are really vulnerable. As such there is a need to further disaggregate the underlying cause of food insecurity. Many agencies are trying to do this by linking long-term trends to political issues, humanitarian issues, land degradation, etc. ARC is working with different partners to build understanding of why different tools are needed for different situations.

6.2 Other models and financing products

As of October 2017, the drought product was the only insurance product available for purchase. To date, the tropical cyclone model is still undergoing testing and will not likely be available for purchase for risk pool five. The flood model is currently being piloted in Ghana, the Gambia, and Cote D'Ivoire and is expected to be externally vetted in early 2018. If successful, countries might possibly be able to take out a flood policy in 2018. Countries have also requested an insurance product for locust outbreaks, but this product is not currently under development. In addition, ARC is working on developing an Outbreak and Epidemic (O&E) model. For this product, ARC is currently establishing a coordination team in two pilot countries - Guinea and Uganda. It is too early to predict when an insurance product for O&E may be available for purchase. Interestingly for this product, ARC Agency plans to outsource both the model design and the contingency planning process, perhaps in acknowledgement that such a health product involves a different set of skills. This raises the question of what makes the most sense from a business practice for ARC to keep in-house versus outsourcing.

Finally, ARC Agency is also working on several financing mechanisms, including the Extreme Climate Facility (XCF) and Replica Coverage. All these products are described in Table 6. Note:

²² The ARV product uses historical rainfall estimate datasets that go back to 1983.

the XCF, Replica Coverage, Outbreaks and Epidemics (O&E), and Locust products are outside the scope of this evaluation.

Table 6: ARC Agency models and financing products

Weather Risk Model	Description	Status
Tropical cyclones	Model is an adaptation from the one used in the Caribbean. It is a more continental model and therefore does not have nearly as much country customisation.	Still undergoing testing; some have noted limited demand for this product in Africa. Not expected to be ready for RP V
Flood model	ARC describes as new and ground-breaking. Works with satellite imagery to convert where floods occur on a regular basis. It involves complicated algorithms where the input data is far removed from the final outputs. Requires a lot of ground truthing and historical records of flood which often do not exist. Customisation mostly done at the continental level. One challenge is that it mostly works for rural flooding (rivers) and countries are interested in an urban flood product.	Currently being piloted in Ghana, the Gambia and Cote D'Ivoire. Expected to be externally reviewed in early 2018. If all goes well could be available for purchase in 2018.
Locust	Requested by some countries	Not currently being investigated
Epidemic and Outbreak (O&E)	Model for disease outbreaks – requested by countries after the 2014 Ebola outbreak. The model design and contingency planning process are both being outsourced.	ARC Agency announced the launch of this product in September 2017. <u>Note:</u> outside the agreed scope of this evaluation
Extreme Climate Facility (XCF)	A financial mechanism that will provide current policy holders with additional funds should extreme weather events in their region increase in magnitude and/or frequency, as reflected by an objective index.	Under development, expected in 2018 <u>Note:</u> outside the agreed scope of this evaluation
Replica Coverage	A financial mechanism that allows UN agencies and other humanitarian actors to match ARC country insurance policies.	Actively working to rollout this coverage. <u>Note:</u> outside the agreed scope of this evaluation

There is some concern that ARC Agency, by addressing all these products simultaneously, is losing its focus. However, the counter argument is that a broad product offering is needed to capture Member State interest and expand and diversify the insurance risk pool. Finding this balance between depth and breadth will be a key challenge for ARC.

One additional interesting development is the effort ARC is making to engage higher-income African countries who do not fit the typical ARC profile. These countries may already have insurance products that adequately cover citizens or perhaps have the financial mechanisms to respond to weather disaster without needing additional insurance. ARC is trying to find ways to leverage its products to serve these countries. Some examples are listed below:

- **Using a sovereign-level ARC payout to support insurance pools made up of small-holder farmers.** Countries like South Africa, Botswana and Namibia have the budget capacity to deal with weather disaster and do not need response financing. In addition, their governments overall have a greater understanding of DRM and risk finance. As such, they do not need the same intensive capacity building programme that other countries go through. Rather, they are interested in finding ways to better manage their entire portfolio of risk. In this sense, as they develop and improve their own insurance offerings for

smallholder farmers, they want to understand whether ARC insurance might potentially act as a form of reinsurance for these programmes or cover the relatively smaller number of farmers who cannot afford insurance.

- **Using an ARC pay-out to protect farmers producing cash crops in countries that are less prone to drought.** ARC was initially envisioned to support highly vulnerable subsistence farmers in drought-prone areas. However, Côte D'Ivoire, a middle-income country that has never needed outside humanitarian assistance for drought, is interested in ARC. Rather than interventions that look at food assistance or emergency relief, in their contingency plan they want to provide seed distribution and agricultural inputs to cocoa farmers. Cocoa, a cash crop, is very sensitive to drought and in the event of a large-scale drought, the economy could be severely impacted. In effect they want ARC insurance to cover this lost income.

These opportunities raise several questions related to the Theory of Change. For example, is a sovereign-level insurance the right model (as opposed to micro-level insurance)? And does this stray too far from the ARC Theory of Change key impact – that of protecting the most vulnerable? Should ARC turn this opportunity down if it presents a viable way to grow the risk pool? Interestingly, one of the ARC employees indicated that the ARC Treaty does not specify that ARC needs to focus on the most vulnerable people. Here ARC is aware of the danger of mission creep and the need to continuously revisit the question of “what is ARC’s mandate?”

6.3 Reinsurance

ARC Agency works to get countries through the capacity building programme and to the point where they sign an insurance policy. At the same time, ARC Limited markets the expected risk pool to various reinsurers. The risk pool is defined as the countries who have signed an insurance policy. So as ARC Limited shops around, they are in constant contact with ARC Agency to determine which countries are expected to sign policies and which have paid premiums.

In the past, May 1st was the date that ARC Limited purchased reinsurance for the risk pool, which includes all countries that have signed a policy. Deadlines for premium payment however fall at the mid-point of the country’s sowing season (defined in ARV) which varies by country across regions. Once the policies are signed, ARC Agency must continually follow-up with countries to make premium payments (usually in several instalments). If countries do not pay their premiums by the mid-point of the growing season, ARC Limited can rescind the policy and get a refund from the reinsurers. In 2017, ARC plans to offer two sets of reinsurance policies, in May and October, to accommodate countries that have different or multiple growing seasons.

Since ARC is trying to grow the risk pool, they have been flexible with the dates for collecting premiums. We asked what would happen if a country signs a policy, does not pay the full premium, the reinsurance remains in place, and a drought occurs. Those interviewed indicated that if the amount goes beyond the reinsurance deductible, ARC would collect the reinsurance and pay the county, deducting the cost of the premium²³. Clearly this practice is a large disincentive for countries paying the premium. ARC indicated that such a moral hazard has yet to happen and that countries have not, to their knowledge, tried to manipulate the system.

ARC Limited has recently implemented a new structure for reinsurance that allows a quarterly review to adjust premiums so that payments reflect overall risk.

²³ Like any insurance policy ARC Limited has a deductible. If the amount of a country pay-out is below the reinsurance deductible, ARC will simply just pay the country what is due.

To date those interviewed identified several challenges to growing and reinsuring the risk pool:

- **Maintaining interest of reinsurers.** While currently there is a lot of capital in the market, the reinsurance capacity could go away should the costs go up dramatically. However, ARC argues that pooling risk will always be cheaper than individual countries coming to the market.
- **Shrinking and undiversified risk pool.** The risk pool is shrinking as opposed to growing and the pool is not diversified (e.g. all countries are from West Africa). As one interviewee put it “[ARC] can’t continue to rely on just 6 or 7 countries in the risk pool and rely on the ARC Board brow-beating countries into joining...this is how we are doing business.” Related to this is the idea of country fatigue or countries asking why they should continue to participate if they are not getting a payout. The argument is that this type of insurance is better suited for a twenty-year drought but ARC is marketing for the 1 in 5 year drought to gain political traction, as, with a 1 in 20 years approach, people will lose interest in the insurance. The more frequent the expected payout, the more costly it will be.
- **Global shift to nationalism.** With changes in government in the U.K. and U.S., funding sources are under pressure. Movements in aid markets and slower economies could have a real impact on the success of ARC if there is not enough time for the programme to become sustainable. Such global economic shifts ‘intensify the trade-offs for the countries,’ making ARC Agency’s education component even more of a priority.
- **Managing the public/private partnership.** ARC is a public/private partnership whose capital must be repaid over a 20 year period. The total committed capital is US\$200 million but ARC has only received US\$90 million. ARC would like to have the additional funds to manage and invest to help finance the administrative costs. ARC would also like the loan to be more concessional (40-year payback rather than 20 years) to account for the time it takes to change behaviours. Their argument is that if you are repaying your loans now, you have no space to try anything new.

7 ARC Resourcing

Key message: ARC Agency resources are limited given the scope of their mandate. While donor funding has been growing, there remains a larger question of ARC Agency sustainability in the future.

- While there is a general consensus among interviewees for this workstream that ARC Agency resources are limited given the scope of their mandate, in the past a larger issue has been around cash flow. The issue stems primarily from the funding cycles of donors;
- In addition to donor support, the ARC Group has discussed several other potential funding sources for ARC Agency: (i) ARC Limited pay a brokerage fee to ARC Agency; (ii) charge countries membership fees for ARC Agency services; and/or (iii) find a way to monetise ARC Agency vulnerability and drought data. All these options come with opportunities and issues that are under ongoing discussion; (LTC_02)

Conducting an in-depth assessment of the ARC Group finances and value for money measures was outside the scope of this evaluation. That said, we gathered information on staff perceptions of budgets and finances and where they saw the most challenges.

While many of those we interviewed indicated that ARC resources were limited when compared to the workload, to date, a greater issue relates to cash flow. Examples of issues with cash flow were plentiful. For instance, one employee indicated that in the past they would sometimes have to lay people off and then rehire once the funding came in or were unable to hire due to cash flow issues. In another example a staff member indicated that in 2016 they had a budget of \$9M but only spent \$6.5 million largely due to the cash not being available when needed.

Cash flow issues stem primarily from the funding cycles of donors and the length of time it takes to negotiate contracts. ARC Agency believes it will have less of an issue in 2017 as the Canadian government has committed a large amount of un-earmarked funding.

Another issue raised around resourcing related to the WFP administrative contract. WFP takes a seven percent fee from any contributions to ARC Agency. That fee is in addition to billing them periodically for certain specialised tasks (e.g. recruitment). As a result, there is an incentive for donors to contribute to ARC Limited as opposed to ARC Agency.

7.1.1 Donor funding

Currently ARC Agency is supported predominantly by donors. Most of the funding is for general operations and not earmarked to any given task. Current donors are listed in Table 7.

Table 7: ARC agency donors

Donor	Description
Swiss Development Cooperation (SDC)	Regular donor who provides small amounts of non-earmarked funding.
Swedish International Development Cooperation Agency (SIDA)	Regular donor who provides small amounts of non-earmarked funding. Was more involved in the start-up

	stage.
DFID	For the ARC Agency
KfW	For the ARC Agency and an addition USD 3 million for XCF
USAID	Provides funding for capacity building in countries, but flexibility within that. Money comes through Feed the Future programme. Last tranche of money (expected 2016) was not deployed for almost year beyond the expected date due to internal issues. USAID wanted a modified anti-corruption clause and there were issues filing the correct paperwork.
Canadian International Development Agency (CIDA)	First tranche received in 2017. All un-earmarked funding
AFD (French)	Money related to climate change. Un-earmarked
AfDB	Un-earmarked ARC Agency funds

Source: Adopted from the ARC Growth Strategy

7.1.2 Other potential revenue streams

The ARC joint board is committed to finding alternatives to donor funding to be sustainable long-term. There is broad recognition amongst those interviewed that what ARC offers is much more than simply insurance. Indeed, approximately one third of the budget is allocated to services via capacity building that ARC provides to member countries. As such, there is active discussion on how to get countries to pay for these services – either via brokerage fee on premiums or possibly membership fees. However, given that getting and keeping countries in the risk pool is a priority, it becomes a fine balance: “[We] are trying to introduce things slowly so it's not a 'cliff'. It is a zero-sum game. [There is] no more money than the premiums, if we pass costs on, then [we] may not be competitive.”

ARC has identified four key revenue streams that they will explore over the next several years to determine what is feasible.

- 1. Donor support.**
- 2. Brokerage fee on the premiums.** While ARC Agency prefers this method, ARC Limited raises concerns about what this would do to premium prices. They feel that until risk pool reaches a critical mass – at which point premiums should presumably go down - it will be difficult to charge a brokerage fee.
- 3. Innovative finance.** L4D (licensing for development) is another possibility. The Board is interested in monetising ARC's information (e.g. ARV vulnerability and drought profiles). However, there are confidentiality issues as many countries only provide ARC with data on the condition that it is not shared. As of October 2017, we understand that Willis has some type of license with ARC that allows them to use ARV and its data with private clients; but to date there has been no uptake. It is not clear how the privacy issues were resolved.
- 4. Membership fees.** This type of fee would help capture costs for countries that use ARC services for multiple years but never take out a policy. According to the ARC Treaty, it is the responsibility of the COP to set fees. The Board would like ARC to propose to the COP a small membership fee payable until a country takes out an insurance policy. The concern of ARC is that such fees would prevent countries from ratifying the treaty²⁴.

²⁴ Being a signatory to the ARC Treaty is different to ratification. Ratification requires the approval of parliament. While ARC currently has 34 signatories, only three countries have ratified the treaty with two more in the process. To become

Each of these options come with risks and challenges that will need to be evaluated and discussed.

recognized by the international community (and thus international laws) ARC needs 10 countries to ratify the treaty. Currently the way the treaty is written is that after 10 ratifications, countries who have signed have two years to ratify before losing all ARC benefits.

8 Monitoring and Evaluation

Key message: In-house Monitoring and Evaluation (M&E) capacity was only addressed in early 2017, despite previous attempts. Since these processes are just now taking shape, we will evaluate progress on M&E activities and the effectiveness of these activities in the next formative evaluation.

- In 2017 ARC Agency hired a full-time M&E officer to oversee and direct future M&E activities. An M&E plan was approved in July and is now being implemented. The plan supports the 2016-2020 ARC Strategic Plan. It outlines the key M&E activities planned to support the program cycle (country engagement through to payout) and the logical model.
- There are several proposed improvements to M&E: (i) increased guidance and support to countries around M&E during the capacity building programme; (ii) standard indicators per intervention type; and (iii) focus on gender mainstreaming via use of gender responsive indicators.

As part of the donor funding agreements, ARC Agency has a working logframe which includes impact, outcome, and output indicators and targets. In addition, countries, as part of their contingency plans, lay out indicators and measures for tracking payout progress. Yet, in the past there was not much evidence of ongoing M&E activities. However, in 2017 ARC Agency hired a full-time M&E officer to oversee and direct future M&E activities. Since the M&E plan was only recently approved and just now taking shape, below we discuss the vision for M&E and the progress made thus far towards these goals.

8.1 ARC Agency M&E plan

The ARC Monitoring and Evaluation Plan (M&E Plan), finished in July 2017, supports the 2016-2020 ARC Strategic Plan. It outlines the key M&E activities planned to support the programme cycle (country engagement through to payout) and the logical model. The logical model is presented below in Figure 6. This logical model largely fits into the broader Theory of Change developed for ARC Group as the basis for this evaluation.

Figure 6: ARC Agency logical model

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		
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 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 3: Increased scale and sustainability in ARC operation and insurance coverage
1.1 Africa RiskView platform improved for better performance and to include new hazards/products	2.1 Africa RiskView platform is continually disseminated through the provision of training and technical support to Member States	3.1 ARC achieves operational and administrative independence and the governance and operational structures of ARC Agency and ARC Ltd are aligned
1.2 Contingency Planning Standards and Guidelines remain relevant to their purpose	2.2 Robust Contingency Plans are developed in collaboration with Member States through the provision of training and technical support	3.2 A strategy for sustainability of the organization is identified and developed
1.3 Research and technical partnerships established with regional, continental and international initiatives and knowledge exchanged with African research institutions	2.3 Contingency Plans are reviewed & approved by the Technical Review Committee and Peer Review Mechanism in an efficient manner	3.3 ARC Ltd insurance pool continues to grow
1.4 Extreme climate facility (XCF) proof of concept, including Extreme Climate Index (ECI), and adaptation plan (AP) methodology developed	2.4 In-depth & comprehensive training provided on disaster risk tools and the selection of risk transfer parameters to policy makers and technical experts in ARC Member States	3.4 A growth strategy is implemented by embedding ARC's activities and processes in the countries' disaster management systems
	2.5 Policy dialogue is carried out in order to enable countries to make informed decisions on disaster risk financing	3.5 ARC has standard administrative and operational procedures
		3.6 ARC Ltd performs as a financially robust and sustainable entity with strong governance

One of the planned improvements is to include M&E as part of the country capacity programme. The goal would be to provide training on DRM M&E, help identify country key performance indicators, and identify resources needed to conduct M&E during a payout.

A second focus is to ensure M&E approaches are gender sensitive. The M&E plan discusses how gender will be address at several levels. First, within operations, the M&E system will track and report on gender-mainstreaming within ARC. Second, the system will report on gender-sensitive outcomes within country engagement. This reporting will relate to gender within the TWGs and policy dialogue as well as gender disaggregated data as part of the country performance indicators. Finally, as part of a payout, the system should track how different vulnerable groups, including women, are impacted and benefit from the payout.

8.2 Monitoring tools

The plan lays out several tools to be used for programme monitoring. These are described in more detail below.

- **Operational dashboards.** Each department (e.g. Finance, Communications, HR, etc.) will have an operational dashboard which will include performance metrics to assess and track progress in the delivery and quality of services. These dashboards are currently under development.
- **Indicator Performance Tracking Table (IPTT):** Tracks logframe impact, outcome, and output results. This monitoring system, currently in Excel, sets targets and tracks current year quarterly progress along with annual year on year progress to develop timeline data for analysis and review. This table has been developed and indicator targets identified. The targets vary depending on whether or not Member States are able secure premium financing.

- **Scorecards:** The quarterly data from the IPTT will be translated into departmental scorecards as a tool to easily report to management on progress. It is at this point unclear how each indicator in the IPTT will link to a specific department.
- **Satisfaction Survey:** An annual survey will be sent to Member States to evaluate satisfaction in their interaction with ARC and of the capacity building services provided by ARC. This survey is planned for this year.
- **Performance Monitoring Plan (PMP):** The M&E team will work closely with countries to clearly lay out indicators by intervention to be tracked on a monthly basis during a payout and response. Here the plan proposes standard monitoring indicators by intervention type to be tracked by any country implementing the intervention. These standards are to be introduced into the CP process and design of the CPs and FIPs.

8.3 Evaluation tools

The M&E Plan also describes several types of evaluations that will be carried out, either by ARC Agency or outside evaluators.

- **Payout process evaluation:** To be conducted by external consultants in all the countries that receive insurance payouts from ARC, focusing on the operation, implementation, and delivery of a country's approved Final Implementation Plan (FIP). It also provides insights into the satisfaction of the beneficiaries. The data will primarily be used to improve future FIP design. Report findings are to be published along with responses by ARC Agency management, Member States, and implementing partners.
- **Institutional evaluations:** The M&E department, in collaboration with the other ARC departments and key partners will plan, design and manage this set of formative and summative evaluations of the current ARC 2016-2020 strategy. The evaluations themselves will be conducted by external consultants. The formative evaluation will be used for ARC management to make the adjustments for the remaining period in implementation of the strategy. While the summative evaluation will be used to determine to what extent the expected results of the ARC Strategy as defined by the logframe have been achieved. The evaluation report along with a formal management response will be made public. The OPM evaluation sits under this area of the M&E plan.
- **Special Studies:** ARC will design a learning agenda to be carried out using special studies aimed at contributing to the global knowledge in the area of disaster risk insurance. These studies will be implemented dependent on funding and interest.

One of the challenges for ARC in evaluation is how to best measure the impact of ARC insurance on vulnerable households in the event of a payout. The evolving nature of the uptake of the product year-on-year and the inability to predict when and where a climate-related disaster will take shape, challenges the development of baselines and control groups.

Since these processes are just now taking shape, we will evaluate progress on M&E activities and the effectiveness of these activities in the next formative evaluation.

9 Governance

Key message: Overall those interviewed felt that the Boards of the two organisations were effective in helping guide decision-making and direction although tensions appear to have emerged in recent months. While overall the two Boards communicate, some feel this is largely due to the relationship between the two Chairs rather than due to well established processes and procedures, and the different make-up and perspectives of the two Boards can act as a barrier to joint working..

- Overall, those interviewed felt the ARC Agency Board is effective and works well. Currently Board members all come from government and the public sector. Some thought the Board could be improved by including members who have commercial experience;
- Similarly, those interviewed felt that ARC Limited board is effective and efficient addressing challenges;
- One issue of tension is the distinct gap in board perspectives. While the Agency Board is comprised of government officials who focus on development and social issues, the Limited Board is made up of insurance and finance experts, focusing on financial sustainability. These different perspectives can come into conflict as the organisations face shared challenges as evidenced by the issues in Malawi where there were disagreements on the best course of action for resolving the ARV issue.

ARC Agency and ARC Limited have separate governance structures, which are described in more detail in this section.

9.1 ARC Agency board

The ARC Agency is governed by a Board that includes seven voting members plus the Director General who is non-voting. Board members have three-year rolling terms and can serve up to two terms for a total of six years. The chairperson of the AU Commission appoints two board members who are to be experts in insurance, DRM, or climate change. These appointments are done in conjunction with WFP. The COP elects the other five board members on a regional basis. Only countries with active insurance policies can put forward a candidate. There is also a spot for one more board member that can be used for a special close partnership, but this additional seat must be endorsed by the COP.

The ARC Agency Board meets in person twice a year in addition to at least one annual joint Board (Agency and Limited) meeting. The ARC Agency Board takes decisions by consensus and never actually calls out a vote. The exception is when there is a decision that needs to be taken electronically. The Board maintains two important committees, Peer Review and Finance and Audit. The members of these committees tend to be more engaged as they are tasked with additional responsibilities.

- **Peer Review Committee:** responsible for reviewing the contingency plans and the recommendations made by the Technical Review Committee (TRC), ultimately making the final recommendation to the Board on which contingency plans to approve.
- **Finance and Audit committee:** responsible for the review of the budget, operational work plan and audit results.

Overall, those interviewed think highly of the Agency Board and believes that it is effective: ‘*The Board coalesces our ideas and decisions.*’ One staff member provided an example of how the Board helped guide ARC in creating some boundaries. In this case it was around the customisation of the ARV product. Every client wants something in the system tweaked; but customising the software for each county pushes up cost and maintenance of the system. The Board gave specific guidance indicating that if the customisation required a change to the ARV software code, ARC should tell the country no; “*that was a helpful red line,*” indicated the staff member.

Some of those interviewed indicated that it would be good to have a few more Board members with experience on the commercial side of the business. Currently, all members come from government. Others indicated that ‘effectiveness’ really depended on the member, with some being more engaged than others. For example, there is a great deal of respect among ARC Agency for the current chairperson. Indeed, there is some concern over what will happen when she leaves, as she is a dynamic and engaging figure. Her role extends beyond the boardroom to help at the strategic level with engaging senior members of government. For instance, she was seen as instrumental in getting Senegal to ratify the ARC Treaty. Other Board members also advocate for ARC but mostly in their own country of origin.

Board members we interviewed thought the Board had been very active in guiding and representing the organisation. For example, when the issue in Malawi arose, it was the Board that pushed ARC to review the model.

9.2 ARC Limited Board

Membership to ARC Limited includes every country who takes out an insurance policy. In addition, DFID and KfW, as large donors, also have membership but with slightly different rights. All members get one vote on the operating budget, appoint a Board of Directors, and approve the auditors. Members also receive the financials and are allowed to comment on any changes to the company by-laws and the business plan.

The ARC Limited Board has seven members who have a background in insurance or finance. The board meets 4-5 times a year, twice in person and the rest via phone or skype. The level of engagement depends on the member. There are several key active committees:

- **Risk and Underwriting sub-committee:** Active in purchasing reinsurance and more recently in the decision-making process around exceptions to policies (e.g. Malawi)
- **Finance and Investment sub-committee:** Dealing with investment portfolio and budgets

The Board has evolved to include more African Directors, which is viewed as a positive shift.

Again, those interviewed see the Board as very responsive and active. For example, during the Malawi crisis in late 2016, ARC Limited called a Board meeting on 24-hours’ notice. Board Members appear to appreciate ARC as an innovative development initiative and are thus actively engaged.

9.3 Relationship between the two boards

When asked about the dynamic between the ARC Agency and ARC Limited Boards, one person indicated: “*[it’s] a work in progress.*” While there are regular joint board meetings, there is no formal process whereby the boards take joint decisions. Furthermore, there is a distinct gap in

board perspectives in that the Agency Board is comprised of government officials who focus on development and social issues while the Limited Board is made up of insurance and finance experts, focusing on financial sustainability.

While overall the two Boards communicate, some feel this is largely due to the relationship between the two Chairs rather than due to well established processes and procedures. In mid-2017 there were signs of growing tensions between the two Boards, paralleling the tensions between the two organisations (see section 3.3).

10 Outreach and Communications

Key message: There is growing recognition by many of those interviewed that the ARC Group needs to better manage both its internal and external communications.

- ARC Agency is focused on building strategic partnerships of different kinds that can help: (i) improve the functioning of the ARV model; (ii) educate about ARC products and services; and (iii) grow the risk pool. To this end they are signing MOUs with various organisations such as the African Development Bank (AfDB);
- Several of those interviewed believe that ARC is not effectively leveraging its relationship with the African Union who could help coordinate messaging to countries.
- ARC's relationship with donors is strained and reached a peak in mid-2017 when a key donor placed ARC Agency under a Performance Improvement Plan (PIP). There are issues on both sides; ARC Agency feels the donors impose overly burdensome requirements while donors feel they are not apprised of key issues in a timely manner. Recently, there have been signs of improvement in these relationships.
- Several of those interviewed believed donors support programmes that directly conflict with ARC objectives or undermine their model. These include: (i) provision of contingency funds for disasters; (ii) direct product competition (e.g. World Bank Cat DDOs); and (iii) disconnected local in-country programming.
- ARC Agency has been challenged in how to respond to negative press by NGOs and other organisations.

When we began this evaluation in early 2017, overall those interviewed believed they were quite effective in explaining what they do to Member States and other stakeholders. One prevalent theme was that insurance and the ARV product sells itself with countries always wanting to learn more. However, due to some high-profile criticism later in the year (see section 10.5), there is now a more measured assessment of ARC's outreach and communications coming from interviewees. Those interviewed or re-interviewed later in the year all indicated that ARC needs to be better in its internal and external communications²⁵.

This section briefly outlines ARC Agency's outreach activities beyond Member States currently going through the country engagement and capacity-building process.

10.1 Strategic partners

Given limited staff time, ARC Agency is trying to be strategic about the relationship it builds with other organisations. There are several reasons ARC Agency staff cite for working with partners. These include:

- **To improve the ARV model.** ARV is based on the Water Requirements Satisfaction Index (WRSI); however, there are many other indices one can use to model drought. Therefore,

²⁵ Note: reviewer comments on the main report indicate that relations between ARC and donors and other stakeholders have recently improved. These positive changes are not fully reflected in the report as they came after close of data collection. This theme will be revisited in the next formative evaluation.

it is important to work with other agencies to understand the differences between model results. Once an MOU is signed, ARC can grant licenses for software use.

- **To educate others about ARC products.** Getting others to use and understand their products allows people to make an informed decision about what ARC provides.
- **Increase the risk pool.** There is hope that these partner relationships will also help promote ARC, leading to increased uptake of ARC products and services.

To this end, the organisation is focusing on partners that have a long-term institutional benefit. Table 8 provides a snapshot of the organisations that ARC Agency is current courting or with whom it has an existing relationship.

Table 8: ARC Agency strategic partners

Agency	Relationship	Status
African Development Bank (AfDB)	ARC Agency is working with AfDB to investigate the possibility of supporting countries with premium financing.	Signed MOU
The Inter-African Conference of Insurance Markets (CIMA)	CIMA is a community organisation of the insurance sector. ARC Agency is working with them to promote insurance education across West Africa.	Signed MOU
South African Development Community (SADC)	SADC is an inter-governmental organisation focused on development, peace and security, and the economic growth of Southern Africa. ARC is hoping to work with them in the education and promotion of DRM and risk finance, including ARC insurance.	Looking to formalise a partnership
Intergovernmental Authority on Development (IGAD)	IGAD is an inter-governmental organization focused on development, peace and security, and the economic growth of East Africa. ARC is hoping to work with them in the education and promotion of DRM and risk finance, including ARC insurance.	Looking formalise a partnership
AGRIMET	AgriMet is an agricultural weather information system. ARC wants to partner to help improve ARV model.	Looking formalise a partnership
University of South Africa	TBD	Looking formalise a partnership
FEWSNET	USAID's famine early warning system network (FEWSNET) provides information and analysis on food security. ARC wants to partner to improve the ARV model.	Looking for a partnership

When we asked ARC Agency staff about the perceptions of these organisations of ARC, the answers were mixed. For example, one person described another AU organisation that did not understand that ARC was part of the AU. This organisation believed ARC to be a private sector company. Staff noted that it was necessary to engage more with the AU to help coordinate messaging to countries. However, one person interviewed noted that the AU was not playing the role they should in ARC in relation to political leadership. According to this source, the AU is supposed to be pushing countries to consider ARC programmes.

10.2 Relationship with donors

The relationship between ARC and its key donors is mixed and currently somewhat strained. While there are clear tensions, outlined below, there is also some recognition within ARC that donors are valuable partners. Indeed, as one staff member indicated: “[It’s not] realistic to say ARC is currently African owned,” given that in its current state ARC is highly dependent on donors for survival.”

10.2.1 ARC reporting

Several of those interviewed indicated that, in the past, different donors required different reporting at different times, putting an undue burden on ARC Agency staff. Recently, ARC established a common donor reporting format that has helped ease some of these tensions. This tension goes beyond reporting and in some ways, is more stylistic. One donor makes what ARC perceives as large additional requests for information in addition to frequent requests to review and comment on documents prior to key meetings. ARC Agency wants more independence to operate, noting that donors have no official role within the governance structure of the ARC Agency. Indeed, according to ARC Agency, this structure was deliberate in that ARC was conceived as an African Union institution.

To help mitigate this tension, in 2015, ARC created a Development Partners Consultative Group which meets annually and holds joint conference calls every two months. This in some ways has created other issues. First, according to ARC, it creates more requests for calls and feedback which several ARC staff have in the past purposefully avoided. Second, the group is chaired by the ARC Agency Director General but attended by what ARC perceives as more junior representatives of donor agencies, creating a mismatch in seniority.

On the reverse side, donors struggle with the lack of, or delay in, communications from ARC. They cite several examples including (i) delayed notification of the potential early termination of the WFP contract for administrative services; (ii) late notification on the issues in Malawi; (iii) long delays in sharing the country payout process audits; and (iv) late communication of issues with premium payments. The issues reached a peak in mid- 2017 as donors placed ARC under a Performance Improvement Plan (PIP) whereby ARC must meet several steps and goals. The PIP is ambitious and the evaluation team expresses some concern that ARC can meet all these obligations and still focus on day-to-day operations.

In contrast, the relationship between ARC Limited and donors appears to run more smoothly. This is largely due to the fact that key donors are part of the ARC Limited membership so they get much more input on ARC Limited operations (e.g. policy development, selection of Board members, etc).

10.2.2 Conflicting donor priorities

Another interesting dynamic that emerged from our interviews was a real or perceived conflict of interest between what ARC is trying to achieve and other donor activities within member countries. Those interviewed cited several examples:

- **Provision of contingency funds for disaster.** In addition to heavily supporting ARC, some donors have set aside funding that certain countries (e.g. Ethiopia and Kenya) can access in the event of a crisis. Some interviewees felt that such funds act as a disincentive for countries to take out insurance and thus indirectly compete with ARC. ARC argues that donors should be more proactive in encouraging insurance and other financial tools.

- **Local programming not linked larger initiatives.** ARC would like to see locally conceived programmes that use donor funding linked to larger initiative that donors are supporting, such as ARC so as to build a more cohesive strategy.
- **Direct competition.** There is a feeling by some (but not all) ARC staff that the World Bank, who offers various forms of insurance, is directly competing with ARC and in some cases purposefully undermining ARC. The most cited example came from Madagascar where the government understood the World Bank to be offering an insurance product (for free) thus destabilising ARC's relationship with the government. In the end this product never materialised so the government is re-engaging with ARC. Some staff also reported countries telling them that the World Bank was criticising ARC. In contrast, other staff thought that there was some healthy competition between the agencies and it was ARC's job was to differentiate their product. ARC Limited is in conversations with the World Bank to see how they might work together in the future.

10.3 Non-member states

When asked how ARC engages with non-member states, the responses indicated that most outreach and potential leads happen at AU meetings such as the Conference of Parties. The strategy of where to engage is focused on countries where ARC products make most sense (e.g. countries with drought, flood, cyclone risk) or those countries deemed politically important in that they are regionally influential (e.g. South Africa, Nigeria).

Another outlet for outreach to non-member states is via the annual World Bank meetings.

10.4 International capital markets

Outreach to the international capital markets is primarily managed by ARC Limited. Each year Willis, the re-insurance broker, holds a working lunch. These business relationships tend to be highly personal and amicable. To date, despite declines in the risk pool, the reinsurance markets appear to remain very interested in the ARC product: *"[They] see it as great way to diversify their portfolios and get into the Africa market using a tool they understand."* All of the first four risk pools were oversubscribed and ARC got even better pricing in the second year.

10.5 Other stakeholders in disaster risk management and relief

ARC Agency has been challenged in how to respond to negative press by NGOs and other organisations. For example, ARC Agency was slow to engage with NGOs after a report published by Action Aid surfaced on Malawi²⁶. A later meeting with several NGOs in London to discuss an array of topics, is perhaps the first step toward mitigating some of these challenges. In any event, subsequent interviews with ARC Staff and others indicate that a priority for the Agency is to establish better internal and external communications and related processes.

²⁶ See: <http://www.actionaid.org/publications/wrong-model-resilience-how-g7-backed-drought-insurance-failed-malawi-and-what-we-must-l> , last accessed October 2017

11 Conclusions and Recommendations

The ARC Group is transitioning from a start-up to a more mature organisation. Like many organisations in this situation, it is experiencing common growing pains related to the need to standardise operations and processes, to find better organisational focus, and to move towards long-run financial sustainability. At the same time, there are also some bespoke issues that the organisation must overcome for ARC to right its path. The issues include clarifying the scope and mission of the ARC Agency, reconsidering the relationship and governance structures between ARC Agency and ARC Limited, and improving overall internal and external communications. How the organisation addresses these challenges will be critical to both its longer-term sustainability and as a driver for positive change around how African countries manage and finance risks associated with weather-related disasters.

To this effect, there are several steps that we recommend ARC consider so as to facilitate this transition:

- Consider a management retreat including Board members to work through the implications of this review and to critically analyse ARC's current strategy and business plan in light of lessons learned to date. A suggested list of topics/questions to discuss include:
 - Revisit the MOU between ARC Agency and ARC Limited to discuss the scope, mission, and interaction between the two agencies, including their governance structures;
 - Discuss questions such as: are we spreading ourselves too thin? Is there value in focusing on just a few products, perfecting them and then adding on; or does the current market demand we continue to rapidly diversify? If the latter, how can we best manage this process both operationally and financially? Given the challenges of political traction within countries vis-à-vis the role of insurance, are we offering the right set of products and services to address the longer-term goals of the organisation(s)? For example, will our products and services in their current design help AU countries to grow in spite of shocks and stresses through effective risk management and financing system?
- Develop a comprehensive communications plan that outlines types of communications and channels of communications and defines processes for the escalation and approval of communications;
- Reflect on ARC's relationship with donors and consider what steps might be taken to rebuild this important partnership.
- Revise and strengthen SOPs and processes of decision-making around key components of ARC programming. Some suggestions include:
 - Country engagement: design an operational process that allows for the assessment and update of the short and long-term growth plan on a regular basis;
 - FIP approvals: Strengthen the processes around submitting and approving FIPs;
 - Staff training: Expand of the SOPs into training manuals to assist new staff in learning their jobs.

- Discuss and weigh the implications of moving the ARV product to an open source platform where it might benefit from broader set of technical experts and reduce the perception of the tool as a 'black box;'
- Consider reviewing and strengthening the capacity-building programme. Some possible suggestions might include:
 - Design and pilot a set of interactive training materials that include built-in testing using real scenarios to make the training more hands-on. Consider ways of rewarding success. For instance, successful pass rates of different modules by TWG members could possibly be linked to various rewards at either the country, regional, or COP-level;
 - Revisit the role of the Government Coordinator. Perhaps facilitate a workshop session (either at the country or regional level) on how to best strengthen this position, leveraging insights from existing Member States' experiences;
 - Develop a more robust country engagement strategy to help focus ARC engagement to make it financially sustainable. Such a plan could include a more detailed definition of different thresholds of engagement in different areas that include guidelines of when to put engagement on hold and when to forge ahead. These discussions could then be part of the regular management meetings;
- Establish regular (e.g. annual) workshops where ARC Agency and ARC Limited come together to discuss lessons learned and strategise how those lessons will get fed back into programming. This exercise could be part of the regular M&E processes around the reporting of log-frame metrics.