

# DFID Management Response & Recommendations Action Plan

**Evaluation Report Title:****African Risk Capacity (ARC): First Formative Evaluation (2017)****Response to Evaluation Report (overarching narrative)**

DFID warmly welcomes this excellent first formative evaluation of African Risk Capacity (ARC). It offers rich insights from within ARC, its members, the wider development community and insurance industry. The report sets out clearly the progress ARC has made in its first four years, as well as the challenges it has faced and areas for it to address to ensure that it meets its objectives. DFID accepts the recommendations and is working with ARC, its donors and members to address them. These are largely consistent with the findings of DFID's last annual review of the programme in 2017 and validate the actions of the ongoing Performance Improvement Plan. The evaluation has been valuable in providing additional independent insights and evidence, particularly those from consultations with beneficiary countries themselves.

This management response provides DFID's view of progress so far and priority actions needed. The conclusions of this evaluation will inform DFID's Annual Reviews of ARC in March 2018, monitoring of the ongoing Performance Improvement Plan and regular formal and informal discussions with ARC. The recommended actions will be implemented as detailed in this response. We see all the recommendations as important, but plan to place highest priority on strengthening the technical underpinning of the programme, through working with ARC to validate and improve ARV and strengthen the processes around this, including capacity building. With these fundamentals in place, ARC will be able to expand, including through potential access to premium financing support for countries. We will also complement these through the new Centre for Global Disaster Protection programme, which will invest in impartial analytics and advisory services for governments that will complement the ARC capacity building, and provide cutting-edge science, innovation, training and research that ARC clients can benefit from.

ARC has engaged proactively and openly with the evaluation, and has welcomed its findings. ARC's management has also provided a detailed management response that sets out how each recommendation will be addressed.

**Background:**

ARC was established in 2014 to enable African governments to insure themselves against natural disasters such as drought and respond promptly to save lives and livelihoods. It is the first insurance pool in Africa, and the first in the world that links payouts to pre-approved contingency plans. It reduces the costs of insurance for members by insuring them as a group (risk pool) as it is unlikely that the same hazard will occur in all of them at the same time. ARC currently provides drought insurance to five countries, and plans to expand to more countries and hazards (for example, tropical cyclone and floods) in coming years. If this happens, the risk pool will become more diverse, reducing insurance costs further.

ARC has paid out over \$34m to four countries since its establishment. After poor rains in late 2014, ARC paid out to Senegal (\$16.5m), Mauritania (\$6.5m) and Niger (\$3.5m), providing food to 1.3m people across the three countries, as well as fodder for nearly 600,000 livestock (thereby protecting livelihoods). Malawi received a payout of \$8.1m in January 2017 after a drought and harvest failure in 2016 and used it for emergency cash transfers (through WFP) and to replenish the national strategic grain reserve.

DFID provides grant support to ARC Agency for its capacity building and quality assurance activities. Other donors include Canada, France, Sweden, Switzerland, Germany, USA and the Rockefeller Foundation. DFID and Germany have also invested Development Capital (repayable in 2034) in ARC Insurance Company Ltd (ARC Ltd) to enable it to retain some of the insured risks internally, with reinsurance purchased to cover the remaining risks. As an investor, the UK and Germany are Class C members of ARC Ltd. African countries buying insurance are Class A members of ARC Ltd.

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### African Risk Capacity (ARC): First Formative Evaluation

Recommendations	Accepted or Rejected	If “Accepted”, Action plan for Implementation or if “Rejected”, Reason for Rejection
<p><b>A key problem area is the lack of growth in the risk pool. Without an increase in the number of countries taking out policies, ARC’s business model will fail.</b></p> <p><b>Priority Area 1: Stimulating the risk pool via fundamental changes to ARC’s approach</b></p> <ul style="list-style-type: none"> <li>• Consider the implications of premium financing and use it to shift to insuring more infrequent events as part of an overall risk management package</li> <li>• Improve communications</li> <li>• Improve coordination with external organisations</li> <li>• Review AfricaRiskView (ARV) and improve ARV’s transparency</li> </ul>	<p style="text-align: center;">Partially accept</p> <p style="text-align: center;">Accept</p> <p style="text-align: center;">Accept</p> <p style="text-align: center;">Accept</p>	<p><b>Consider the implications of premium financing and use it to shift to insuring more infrequent events as part of an overall risk management package:</b> 35 countries have now signed the ARC Treaty of Establishment, but the ARC risk pool (countries actually buying insurance policies) has not expanded at the same rate. The reasons for the slow take-up of insurance are unclear, but it appears that many countries are struggling to pay their premiums. There are also other risk financing instruments available that could be seen as competing with ARC.</p> <p>ARC has put a great deal of effort into developing partnerships to help members and potential members cover the costs of their insurance. ARC Agency is funded by donors which reduces overall costs to African countries. The African Development Bank (AfDB) and some bilateral donors are also considering direct financial support towards the costs of premiums. Shifting to insurance only for more infrequent events could potentially reduce costs to countries, but would only be useful if alternative arrangements were in place to provide emergency funds for events below the point at which insurance would be triggered. It could actually be counterproductive if moderate events happened that were not covered, and/or insurance then only triggered every 10 or so years so countries rarely received any payouts to demonstrate to them the value of coverage. This element of the recommendation is therefore partially accepted at this stage, subject to further examination.</p> <p><i>Action Plan:</i> Continue to work with countries to understand their disaster risk financing needs, including through the new Centre for Global Disaster Protection, and examine the reasons why interested countries have not joined the insurance pool. Tailor additional support to these needs.</p> <p><b>Improve communications:</b> ARC already shares details of its methodology, policies, contingency plans and lessons learnt online, but there is scope to improve the timeliness of communications (for example, prompt publication of process and financial audits of payouts) as well as their strategic communications (including around payouts). Communications should be practical/technical (evaluations, cost benefit analysis etc) as well as development/human impact to appeal to citizens of insured countries and also donors.</p> <p><i>Action Plan:</i> ARC is already taking action to improve its communications and outreach, including through the recruitment of a joint Communications Officer for ARC Agency and ARC Ltd. They will, in</p>

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		<p>consultation with ARC, members and donors, develop and implement a strategic communications plan. DFID as part of the donor group will set clear expectations on proactive communication.</p> <p><b>Improve co-ordination with external organisations:</b> ARC invests considerable energy in developing its relationships with African regional and global development partners, but there remains scope to take this further. ARC has a lot to gain and to offer, and this would help ensure its activities are well co-ordinated with others and that it is an integral part of the African development community. An important area that ARC has made a commitment to strengthen is its partnerships in-country and internationally with NGOs and women’s groups, which in turn should strengthen country planning, beneficiary targeting, monitoring and accountability. <i>Action Plan:</i> Support and encourage ARC’s efforts to improve its co-ordination with organisations such as the AfDB, African Union, NGOs and women’s groups.</p> <p><b>Review AfricaRiskView (ARV) and improve ARV’s transparency:</b> The accuracy and transparency of ARV underpins ARC’s entire insurance programme and is fundamental to its success. A DFID-funded review of ARV is currently underway as part of the Performance Improvement Plan (PIP) that donors have agreed with ARC. The results of the review will inform next steps. ARC already has an ongoing programme of research and development/technical development for ARV, as well as a series of improvements underway based on lessons learnt in its end of season reviews of ARV. <i>Action Plan:</i> DFID will ensure that a continuous programme of research and development of ARV is a priority for ARC, along with further strengthening in the quality assurance of country customisations. Other follow up will be agreed based on the ongoing review of ARV, and will be set out in annually updated plans to be published on the ARC website. DFID will continue to work with ARC to ensure that ARV is the best it can be, with rigorous testing and scrutiny.</p>
<p><b>Improving the effectiveness of ARC’s capacity building programme should therefore be a second priority</b></p> <p><b>Priority Area 2: Improving the capacity building offering</b></p> <ul style="list-style-type: none"> <li>• Redesign capacity building approach</li> <li>• Consider the capacity of political stakeholders and their coordination with technical experts</li> </ul>	<p>Accept</p> <p>Accept</p>	<p><b>Redesign capacity building approach:</b> ARC’s extensive capacity building programme sets it apart from other risk pools. Risk financing is still a relatively new area for most African countries, and capacity building is crucial if ARC is to be able to achieve its objectives of strengthening a country’s disaster risk financing strategy and implementation, as well as ensuring an effective insurance programme that meets country needs (ie with robust country customisations). The evaluation gives valuable insights into what is working well and not so well in ARC’s capacity building programme. We fully endorse the report’s recommendations on introducing online training, employing specialist trainers to work alongside country engagement managers in capacity building, extending the duration of support to</p>

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<ul style="list-style-type: none"> <li>Accept longer timeframes for capacity building</li> </ul>	<p>Accept</p>	<p>countries, strengthening peer to peer learning and (related to a recommendation above) strengthening partnerships with external organisations (such as AfDB, World Bank and the Centre for Global Disaster Protection) to enable more co-ordinated approaches to countries. As ARC builds up more evidence of what works well or not (eg from the process and financial audits of country responses, this formative evaluation, case studies and other monitoring), this information should be widely shared with and between members, as well as with the development community to inform improvements for other risk pools and risk financing arrangements.</p> <p><i>Action Plan:</i> Follow up on the evaluation’s recommendations with ARC with the aim to review the capacity building approach in 2018 and introduce additional approaches where appropriate. Ensure adequate resources are set aside for capacity building in 2018 and in subsequent work programmes and budgets.</p> <p><b>Consider the capacity of political stakeholders and their coordination with technical experts:</b> High level political engagement in countries is vital, not just with Ministers but also Parliamentarians and other interested groups. ARC already makes considerable effort to engage with Governments and Ministers, but has not been as active with Parliamentarians to date (a gap as it is the Parliamentarians who need to understand risk financing requirements to be willing to consider budget allocations for premiums and other costs).</p> <p><i>Action Plan:</i> Encourage ARC to expand its engagement with Parliamentarians as well as to ensure that Ministers and others are well informed on the technical as well as conceptual aspects of risk financing and insurance, as well as the delivery of responses.</p> <p><b>Accept longer timeframes for capacity building:</b> In the first four years of ARC, it has become obvious that countries need more support and for a longer time than had initially been anticipated. Donors are sympathetic to this, and ARC should factor in this additional support to its budgets and planning.</p> <p><i>Action Plan:</i> As a donor group, ensure ARC is adequately resourced to be able to provide the level of support that countries require. Ensure that ARC regularly solicits and acts on client feedback to ensure that it is providing the services that members require.</p>
<p><b>Improving the organisational effectiveness of ARC Agency</b></p>		<p><b>Review the MOU between ARC Agency and ARC Ltd to discuss the scope, missions and interaction between the two agencies:</b> ARC is a relatively new organisation, settling into its structures. DFID agrees with the recommendation that the relationships between ARC Agency and Ltd should be reviewed as there have been some tensions and inefficiencies between their respective roles. In</p>

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<p><b>Priority Area 3: Improving the organisational effectiveness within ARC Agency and ARC Ltd.</b></p> <ul style="list-style-type: none"> <li>• Review the MOU between ARC Agency and ARC Ltd to discuss the scope, missions and interaction between the two agencies</li> <li>• Review and strengthen standard operating procedures and decision-making processes in critical areas</li> <li>• Review and tighten deadline policies for premium payments</li> <li>• Review staffing requirements to ensure capacity for high-level political engagement</li> </ul>	<p style="text-align: center;">Accept</p> <p style="text-align: center;">Accept</p> <p style="text-align: center;">Accept</p> <p style="text-align: center;">Accept</p>	<p>addition to the organisation review in this formative evaluation, ARC also commissioned an Operational and Governance Review in 2017. The report will be discussed by the ARC Joint Boards meeting in February to consider the way forward. In the meantime (based on initial findings and this evaluation), considerable progress has been made on improving working relationships between ARC Agency and Ltd, including the creation of joint country and management teams and combining ARC Agency Governing Board and ARC Ltd Boards of Directors meetings to harmonise oversight and direction.</p> <p><i>Action Plan:</i> Donor and members to consider the Operational and Governance Review, the formative evaluation and the ARC Boards’ proposals for strengthening ARC structures and the working relationship between them to help ARC evolve into a leaner, stronger and more efficient institution with a clear mandate, governance structures, planning and staffing.</p> <p><b>Review and strengthen standard operating procedures (SOPs) and decision-making processes in critical areas:</b> This is an integral part of the operational, management and governance procedures review and improvements outlined above. Particular attention is needed on client engagement and handling - how a country is supported by the capacity building programme, when it is ready to move forward at each stage and, if it decides to buy insurance, how the country engagement lead within ARC moves from ARC Agency to ARC Ltd over time. A major development since the evaluation report is the move towards closer working between ARC Agency and ARC Ltd (outlined above).</p> <p><i>Action Plan:</i> Evaluation recommendations to be considered alongside recommendations from the Operational and Governance Review and as part of the ARC/donor/member discussions of 2018 work programme and budget. The aim is for a coherent, streamlined structure with clear lines of responsibility, accountability and objectives.</p> <p><b>Review and tighten deadline policies for premium payments:</b> Delays in receiving premium payments have been a recurrent problem for ARC Ltd. Members need several months of notice to approve and release payments, but this is not always possible as policy parameters are updated after every insured season to reflect lessons learnt, evolving needs etc. ARC Ltd seeks to be as flexible as possible to enable as many countries as want to can buy insurance. They have arranged “resets” within their reinsurance contracts to avoid unnecessary costs from the changes in final coverage requirements. Reinsurers have been very accommodating of these changes so far, but such flexibility cannot be taken for granted. ARC Ltd has already arranged a members meeting in February to discuss the premium payment policy and reinforce the deadlines involved (with automatic changes to coverage if deadlines are missed).</p>
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<p><b>We recommend that ARC engages in a full strategic review to consider the findings of this formative evaluation</b></p>		<p>ARC has commissioned an Operational and Governance Review alongside this evaluation, and is in the process of reviewing both reports. Some changes are already underway (for example, a closer working relationship between ARC Agency and Ltd), and others will be included in the draft work programme and budget for 2018. This will be discussed by the Boards in February, ARC Agency members in March and ARC Ltd members in April 2018.</p> <p><i>Action Plan:</i> DFID to engage with this review and planning process, helping to ensure that ARC has a coherent, streamlined structure with clear lines of responsibility, accountability and objectives.</p>